

**MORGAN COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

WHITE & ASSOCIATES, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone (859) 624-3926 Fax (859) 625-0227

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1-3
MANAGEMENT DISCUSSION AND ANALYSIS	4-11
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet-Governmental Funds	14
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	19
Statement of Fund Net Position – Proprietary Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Position – Fiduciary Funds	23
Statement of Changes in Net Position – Fiduciary Funds	24
Notes to the Financial Statements	25-48
REQUIRED SUPPLEMENTAL INFORMATION	
Schedule of the District’s Proportionate Share of the Net Pension Liability	49
Schedule of Contributions	50
Notes to Required Supplementary Information	51
SUPPLEMENTAL INFORMATION	
Combining Statements – Non-Major Funds and Other:	
Combining Balance Sheet – Nonmajor Governmental Funds	52

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds	53
Combining Balance Sheet of Fiduciary Fund – School Activity Funds.....	54
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds.....	55
Statement of Revenues, Expenses, and Changes in Fund Balance - Morgan County High School.....	56
Notes to the Schedule of Expenditures of Federal Awards.....	57
Schedule of Expenditures of Federal Awards.....	58-59
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	60-61
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133.....	62-63
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	64
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	65



INDEPENDENT AUDITOR'S REPORT

To the Morgan County Board of Education and
State Committee for School District Audits
West Liberty, 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 Morgan County School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note P to the financial statements, in 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is 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 additional supplementary information 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 additional supplementary information 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 November 13, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

Morgan County Public School District
West Liberty, Kentucky
Management's Discussion and Analysis (MD & A)
Year Ended June 2015

As management of the Morgan County Public School District (District), we offer readers of the District's 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 beginning fund balance for fund 1 for the District was \$1,952,243 which includes Site Based CWFD in the amount of \$10,140, restricted sick leave in the amount of \$105,236 and committed sick leave of \$21,487. The CWFD amount was re-budgeted in the per pupil accounts for designated schools. The ending fund balance for fund 1 was \$10,909,654, which includes committed Site Based CWFD in the amount of \$10,863 and will be budgeted appropriately for FY 2016. The FY15 fund balance also included \$ 92,231 for committed sick leave liability. General Fund currently has \$1,575,000 invested in CD's.
- The General Fund had \$27,384,772 in revenue, including beginning balance and inter-fund transfers, which primarily consisted of the state program (SEEK), property, utility, motor vehicle taxes, Universal Service Fund reimbursement and insurance funds from tornado settlement. There was \$16,720,772 in General Fund expenditures including \$305,291 in inter-fund transfers which involved KETS and KISTA debt service. Also included within this amount is \$92,231 budgeted for sick leave with an actual of \$34,574 paid out and long term sick leave liability reflected in the notes to the financial statements. On-behalf payments of \$3,483,601 are included in both revenue and expenditures.
- The general fund portion of diesel /gasoline fuel for the district decreased by \$12,977 from last year due decreasing rates for fuel. General fund absorbed fuel cost (0699-fuel reimbursement code) in the amount of \$82,383 for athletic and academic trips. The cost for fuel would be considerably higher if PTO's, school activity accounts and Fund 2 grants did not continue supporting this cost.
- The board also supplements various other areas including health nurses/supplies \$263,216; Speech Therapy \$37,023; Physical Therapy \$18,339; Occupational Therapy \$23,140; Gifted and Talented \$8,763; Technology \$13,236; Band \$3,470; Athletics (MCHS/MCMS) \$23,602; Academics Teams (MCMS/MCHS) \$2,696; Vocational \$3,144; Textbooks \$26,529 and Competition Based/District/Regional/National \$17,528. The combined total of all of these programs was \$196,980 less than budget of \$637,666.
- General fund salaries, including on-behalf payments and benefits, totaled \$13,574,731. This was \$189,907 more than the original budgeted amount. This overage was due to increase of on-behalf recorded payments brought about by the implementation of GASB 68. On-behalf payments ended up totaling \$511,886 more than budgeted.
- The overall utilities reflected an increase of \$61,334 in the district from last year. The two biggest contributing factors for the increase was the cost of a full year's utilities for Wrigley Elementary and an increase in the billing rate from the electric company.

MANAGEMENT'S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

- The Kentucky Retirement Systems notified the district of a decrease in the employer contribution for CERS (classified staff) from 18.89 percent for FY14 to 17.67 percent for FY15 resulting in \$13,971 less in CERS contributions than FY15. Kentucky Teachers' Retirement (certified staff) employer contributions continue to increase. Per law, KTRS employer contributions will increase in increments until it reaches 3% by FY 2016 (FY 2012--.5%; FY 2013--1.0%, FY 2014--1.5%, FY 2015--2.25%, FY 2016--3.0%). These increases resulted in an additional \$52,747 in KTRS employer contributions compared to the previous year.
- 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. KISTA payments increased by \$21,832 due to the purchase of 4 new buses the previous year. The notes to the financial statements reflect liability for KISTA bus leases per paying agents for the district. The paying agent for buses is Huntington National Bank.
- During the FY 15, the district made their first payments totaling \$139,675 to the Kentucky School Boards Insurance Trust due to the dissolving of KSBIT. During the next six years, the district will continue to budget for the remaining payments which total \$338,333.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Morgan County School District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-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.

District-Wide Financial Statements - The district-wide financial statements are designed to provide readers with a broad overview of the Morgan County School District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Morgan County School 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 Morgan County School District is improving or deteriorating.

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

The district-wide financial statements outline functions of the Morgan County School 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. Capital assets and related debt is also supported by taxes and intergovernmental revenues.

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

MANAGEMENT'S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on pages 12-24 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 district-wide and fund financial statements. The notes to the financial statements can be found on pages 25-47 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Morgan County School District, assets plus deferred outflows exceeded liabilities by approximately \$24,207,207 million as of June 30, 2015. The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

2015 District-Wide Governmental Net position compared to 2014 as follows:

SCHEDULE SEE NEXT PAGE

MANAGEMENT'S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

**Table 1
Net Position (in Millions)**

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2014	2015	2014	2015	2014	2015	2014-2015
Assets:							
Current and Other Assets	4.39	13.11	0.19	0.23	4.57	13.34	192%
Capital Assets	<u>35.19</u>	<u>34.05</u>	<u>0.45</u>	<u>0.42</u>	<u>35.64</u>	<u>34.47</u>	-3%
Total Assets	<u>39.58</u>	<u>47.16</u>	<u>0.64</u>	<u>0.65</u>	<u>40.22</u>	<u>47.81</u>	19%
Loss for the difference							
in reacquisition and carrying							
value of refunding debt	<u>0.92</u>	<u>1.02</u>	<u>0.00</u>	<u>0.02</u>	<u>0.92</u>	<u>1.04</u>	
	<u>0.92</u>	<u>1.02</u>	<u>0.00</u>	<u>0.02</u>	<u>0.92</u>	<u>1.04</u>	
Liabilities:							
Current Liabilities	2.13	1.64	0.01	0	2.14	1.64	-24%
Noncurrent Liabilities	<u>19.44</u>	<u>22.40</u>	<u>0.00</u>	<u>0.16</u>	<u>19.44</u>	<u>22.56</u>	16%
Total Liabilities	<u>21.57</u>	<u>24.03</u>	<u>0.01</u>	<u>0.16</u>	<u>21.58</u>	<u>24.19</u>	12%
Deferred Inflows							
Net difference between projected							
& actual earnings pension plan	<u>0.00</u>	<u>0.43</u>	<u>0.00</u>	<u>0.02</u>	<u>0.0</u>	<u>0.44</u>	
	<u>0.00</u>	<u>0.43</u>	<u>0.00</u>	<u>0.02</u>	<u>0.0</u>	<u>0.44</u>	
Net Position:							
Invested in Capital Assets							
Net of Debt	14.47	15.23	0.45	0.42	14.92	15.64	5%
Restricted	2.34	2.02	0.17	0.07	2.51	2.09	-17%
Unrestricted Net Position	<u>2.12</u>	<u>6.47</u>	<u>0.00</u>	<u>0</u>	<u>2.12</u>	<u>6.47</u>	205%
Total Net Position	<u>19.93</u>	<u>23.72</u>	<u>0.63</u>	<u>0.49</u>	<u>19.55</u>	<u>24.21</u>	24%

GOVERNMENTAL ACTIVITIES

Ending net position were \$24.21 million for the District. This was an increase of \$4.66 million from 2014.

SEE SCHEDULE NEXT PAGE

MANAGEMENT'S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2014-2015
	2014	2015	2014	2015	2014	2015	
	Revenues:						
Charges for services	\$ 0	\$ 0.06	\$ 0.25	\$ 0.21	\$ 0.25	\$ 0.28	11%
Operating grants and contributions	2.47	2.44	1.18	1.30	3.65	3.74	3%
Capital grants and contributions	-	1.63	-	-	-	1.63	100%
General revenues	17.62	26.70	0.00	0.0	17.62	26.70	52%
Total revenue	20.09	30.84	1.43	1.52	21.52	32.36	50%
Expenses:							
Instruction	9.76	11.60	-	-	9.76	11.60	19%
Student	0.98	1.07	-	-	0.98	1.07	9%
Instructional staff	0.83	0.85	-	-	0.83	0.85	3%
District administration	0.49	0.68	-	-	0.49	0.68	37%
School administration	1.07	1.10	-	-	1.07	1.10	3%
Business	0.49	0.54	-	-	0.49	0.54	11%
Plant operation & maintenance	2.17	2.20	-	-	2.17	2.20	1%
Student transportation	1.81	1.58	-	-	1.81	1.58	-13%
Land Improvements	-	-	-	-	-	-	0%
Facilities acquisition and construction	5.81	-	-	-	5.81	-	100%
Community services operations	0.32	0.31	-	-	0.32	0.31	-1%
Amortization	-	0.05	-	-	-	0.05	100%
Depreciation	-	1.34	-	0.06	-	1.4	100%
Interest on long-term debt	-	0.50	-	-	-	0.50	100%
Debt service	-	-	-	-	-	-	0%
Food Service Operations	-	-	1.28	1.44	1.28	1.44	12%
Extraordinary Item	-	-	-	-	-	-	0%
Total Expenses	\$ 23.74	\$ 21.82	\$ 1.28	\$ 1.5	\$ 25.02	\$ 23.032	-7%
Change in net position	\$ (3.65)	9.03	0.14	0.02	\$ (3.50)	\$ 9.04	358%

CAPITAL ASSETS

At the end of fiscal 2015, the District had \$50,969,382 invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$ 187,995 over last year.

SEE SCHEDULE NEXT PAGE

MANAGEMENT’S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

Capital Assets at Year-End
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	1,089,020	1,089,020	-	-	1,089,020	1,089,020
Land and Improvements	776,189	828,190	-	-	776,189	828,190
Buildings & Improvements	40,887,169	40,924,020	-	-	40,887,169	40,924,020
Technology Equipment	1,214,484	1,237,353	6,063	6,063	1,220,547	1,243,416
Vehicles	3,330,494	3,347,994	18,800	18,800	3,349,294	3,366,794
General Equipment	3,439,779	3,446,123	1,055,511	1,082,241	4,495,290	4,528,363
Construction In Progress	44,252	96,682	-	-	44,252	96,682

DEBT

Capital lease and general obligation debt decreased \$1.38 million from FY 2014.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2014	2015
Capital Lease Obligations	\$ 1.70	\$ 1.18
General Obligation Bonds	<u>19.32</u>	<u>18.16</u>
Total Obligations	\$ <u>20.72</u>	\$ <u>19.34</u>

THE DISTRICT’S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$10,909,655, which is more than last year’s fund balance of \$1,964,177. This increase was mainly due to the insurance settlement dealing with the 2012 tornado. The unassigned portion of the fund balance at the end of fiscal year 2015 is \$10,806,561, compared to \$1,815,379 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2015:

MANAGEMENT'S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

*Note This chart does not include beginning balances.

REVENUE	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	21	310	320	360	400	51
Local Revenue Sources	3,034,837	53,594	32,496		205,909			214,441
State Revenue Sources	13,399,236	766,656		187,634	496,781		949,638	124,602
Federal Revenue Sources	55,543	1,619,451	285					1,176,188
Other	8,699,488		-					
Transfers	370,150	45,031				479,080	932,812	
TOTALS	25,559,254	2,484,732	32,781	187,634	702,690	479,080	1,882,450	1,515,231
EXPENDITURES	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	21	310	320	360	400	51
Instruction	8,605,378	1,757,165	10,108					
Student Support Services	997,990	55,384						
Instructional Staff Support Services	605,437	261,224	13,891					
District Admin Support	674,104	11,959						
School Admin Support	1,106,863							
Business Support Services	535,397							
Plant Operation & Management	2,305,577	59,790						
Student Transportation	1,565,981	10,450	1,605					
Food Service Operations								1,499,032
Community Services	18,755	291,961						
Debt Service							1,882,450	
Site Improvement						14,204		
Building Acquisitions & Construction						7,729		
Building Improvements						38,227		
Other-Facilities						1,182		
Transfers	305,291	36,800		265,354	919,628	300,000		
TOTALS	16,720,773	2,484,733	25,604	265,354	919,628	361,342	1,882,450	1,499,032
Excess / (Deficit)	8,838,481	(1)	7,177	(77,720)	(216,938)	117,738	-	16,199

MANAGEMENT'S DISCUSSION & ANALYSIS (M D & A) (CONTINUED)

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2015, net of Interfund transfers and "On-Behalf" payments were \$23,531,022.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenue being \$497,221.42 more than budget or approximately 2.1 percent.
- General fund budget expenditures to actual varied line item to line item with the actual expenditures being 9,618,671 less than budgeted.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum of 2%. Per PSD/CSD data submitted to Kentucky Department of Education certified staff increased 2 and classified 7 from last year. SEEK is the district's major source of revenue.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- Declining ADA which results in less SEEK funds.
- Declining federal funds.
- Continued insufficient funding of the state transportation formula.

Questions regarding this report should be directed to the Finance Officer, Addison Whitt or Superintendent, Deatrah Barnett at (606) 743-8002 or by mail at Morgan County Board of Education, 212 University Drive, West Liberty, Kentucky 41472.

Morgan County School District
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 11,125,911	\$ 182,895	\$ 11,308,805
Investments	1,575,000		1,575,000
Receivables (net)	404,492	23,344	427,836
Inventories		24,866	24,866
Capital assets:			
Land, improvements, and construction in progress	1,185,702		1,185,702
Other capital assets, net of depreciation	32,868,430	418,554	33,286,983
Total capital assets	34,054,132	418,554	34,472,685
Total assets	47,159,534	649,658	47,809,192
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	507,448	16,133	523,581
Deferred savings from refunding bonds	512,875		512,875
Total deferred outflows of resources	1,020,323	16,133	1,036,456
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	48,179,857	665,791	48,845,648
LIABILITIES			
Accounts payable and accrued expenses	35,634	216	35,850
Accrued interest payable	80,730		80,730
Unearned revenue	118,960		118,960
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,099,000		1,099,000
KSBIT payable	83,287		83,287
Capital lease obligations	217,813		217,813
Total due within 1 year	1,400,100	-	1,400,100
Due in more than 1 year:			
Bond obligations	17,065,000		17,065,000
Capital lease obligations	959,179		959,179
Net pension liability	3,816,267	161,733	3,978,000
KSBIT payable	255,046		255,046
Sick leave	301,575		301,575
Total due in more than 1 year	22,397,067	161,733	22,558,800
Total liabilities	24,032,491	161,949	24,194,441
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	425,948	18,052	444,000
NET POSITION			
Net Investment in capital assets	15,226,014	418,554	15,644,568
Restricted			
Capital projects	2,021,575		2,021,575
Food services		67,236	67,236
Other purposes	122,672		122,672
Unrestricted	6,351,156		6,351,156
Total net position	23,721,417	485,790	24,207,207
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 48,179,857	\$ 665,791	\$ 48,845,648

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 11,598,328	\$ -	\$ 1,450,604	\$ -	\$ (10,147,724)		\$ (10,147,724)
Support Services							
Student	1,065,499	32,496	127,088		(905,915)		(905,915)
Instructional Staff	854,637		101,937		(752,699)		(752,699)
District Administration	675,480		80,568		(594,912)		(594,912)
School Administration	1,103,007		131,562		(971,445)		(971,445)
Business	541,894		64,635		(477,259)		(477,259)
Plant Operation & Maintenance	2,195,180		259,873	684,415	(1,250,891)		(1,250,891)
Student Transportation	1,577,184	28,408	188,120		(1,360,657)		(1,360,657)
Food Service Operations		838			838		838
Community Services Operations	314,801		37,548		(277,253)		(277,253)
Loss on retirement of capital assets	19,323				(19,323)		(19,323)
Amortization	53,373				(53,373)		(53,373)
Depreciation	1,340,382				(1,340,382)		(1,340,382)
Interest on long-term debt	497,177			949,638	452,461		452,461
Total governmental activities	<u>21,836,264</u>	<u>61,742</u>	<u>2,441,936</u>	<u>1,634,053</u>	<u>(17,698,533)</u>		<u>(17,698,533)</u>
Business-type activities:							
Food service operations	1,437,604	214,355	1,300,790			\$ 77,541	77,541
Depreciation	61,451					(61,451)	(61,451)
Total business-type activities	<u>1,499,055</u>	<u>214,355</u>	<u>1,300,790</u>	<u>-</u>	<u>-</u>	<u>16,090</u>	<u>16,090</u>
Total primary government	\$ <u>23,335,319</u>	\$ <u>276,097</u>	\$ <u>3,742,726</u>	\$ <u>1,634,053</u>	<u>(17,698,533)</u>	<u>16,090</u>	<u>(17,682,443)</u>
General revenues:							
Taxes:							
Property taxes					1,576,323		1,576,323
Motor vehicle taxes					366,030		366,030
Unmined minerals tax					14,149		14,149
Utility taxes					649,385		649,385
State and formula grants					14,740,058		14,740,058
Unrestricted investment earnings					214,427	86	214,513
Sale of equipment					1,366		1,366
Other local					444,780		444,780
Total general revenues before extraordinary item					<u>18,006,517</u>	<u>86</u>	<u>18,006,603</u>
Extraordinary item					8,698,122		8,698,122
Total general revenues and extraordinary item					<u>26,704,639</u>	<u>86</u>	<u>26,704,725</u>
Change in net position					9,006,106	16,176	9,022,282
Net position - beginning					18,927,216	627,969	19,555,185
Prior period adjustment - 1						3,077	3,077
Prior period adjustment - 2					(3,809,162)	(161,432)	(3,970,594)
Prior period adjustment - 3					(478,008)		(478,008)
Prior period adjustment - 4					(353,582)		(353,582)
Prior period adjustment - 5					416,447		416,447
Prior period adjustment - 6					12,401		12,401
Restated net position - beginning					<u>14,715,312</u>	<u>469,614</u>	<u>15,184,926</u>
Net position - ending					\$ <u>23,721,417</u>	\$ <u>485,790</u>	\$ <u>24,207,207</u>

See the accompanying notes to the financial statements.

Morgan County School District
Balance Sheet
Governmental Funds
June 30, 2015

	Governmental Funds					
	General	Special Revenue	Construction	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 9,222,768	\$ -	\$ 1,960,260	\$ -	\$ 80,894	\$ 11,263,922
Investments	1,575,000					1,575,000
Receivables, net						
Taxes-current	73,472					73,472
Taxes-delinquent	21,881					21,881
Accounts	51,390	983				52,373
Intergovernmental-state		9,614				9,614
Intergovernmental-federal		247,151				247,151
Total assets	10,944,512	257,749	1,960,260	-	80,894	13,243,414
LIABILITIES						
Accounts payable	34,857	777				35,634
Cash shortage		138,012				138,012
Unearned revenue		118,960				118,960
Total liabilities	34,857	257,749	-	-	-	292,606
FUND BALANCE						
Restricted			1,960,260		61,315	2,021,575
Committed	103,094				19,579	122,672
Unassigned	10,806,561					10,806,561
Total fund balance	10,909,655	-	1,960,260	-	80,894	12,950,809
TOTAL LIABILITIES AND FUND BALANCE	\$ 10,944,512	\$ 257,749	\$ 1,960,260	\$ -	\$ 80,894	\$ 13,243,414

See the accompanying notes to the financial statements.

Morgan County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2015

Fund balances-total governmental funds	\$	12,950,809
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		34,054,132
<p>Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable</p>		
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus</p>		512,875
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Accrued interest payable		(80,730)
Bonds and capital leases payable		(19,340,992)
KSBIT payable		(338,333)
Sick leave liability		(301,575)
Net pension liability		(3,816,267)
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds</p>		
Deferred outflows of resources related to employer 2015 contributions to pensions		507,448
Deferred inflows of resources related to pensions		(425,948)
		(425,948)
Net position of governmental activities	\$	23,721,417

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 1,269,939	\$ -	\$ -	\$ -	\$ -	\$ 1,269,939
Motor vehicle	366,030					366,030
Unmined Minerals	14,149					14,149
Utilities	649,385					649,385
Franchise	306,384					306,384
Transportation	28,408					28,408
Earnings on investments	8,487	31			205,909	214,427
Food service	838					838
Student Activities					32,496	32,496
Other local revenue	391,217	53,563				444,780
Intergovernmental - state	13,399,236	766,656		949,638	684,415	15,799,945
Intergovernmental - federal	55,543	1,619,451			285	1,675,279
Total revenues	<u>16,489,615</u>	<u>2,439,702</u>	<u>-</u>	<u>949,638</u>	<u>923,105</u>	<u>20,802,060</u>
EXPENDITURES						
Instruction	8,605,378	1,757,165			10,108	10,372,651
Support Services						
Student	997,990	55,384			13,891	1,067,264
Instructional Staff	605,437	261,224				866,662
District Administration	674,104	11,959				686,063
School Administration	1,106,863					1,106,863
Business	535,397					535,397
Plant Operation & Maintenance	2,305,577	59,790				2,365,367
Student Transportation	1,565,981	10,450			1,605	1,578,035
Community Services Operations	18,755	291,961				310,716
Building Acquisitions & Construction			7,729			7,729
Site Improvement			14,204			14,204
Building Improvements			38,227			38,227
Other Facilities			1,182			1,182
Debt Service				1,882,450		1,882,450
Total expenditures	<u>16,415,482</u>	<u>2,447,933</u>	<u>61,341</u>	<u>1,882,450</u>	<u>25,604</u>	<u>20,832,809</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	74,132	(8,231)	(61,341)	(932,812)	897,502	(30,749)
OTHER FINANCING SOURCES (USES)						
Sale of equipment	1,366					1,366
Operating transfers in	370,150	45,031	479,080	932,812		1,827,073
Operating transfers (out)	(305,291)	(36,800)	(300,000)		(1,184,982)	(1,827,073)
Total other financing sources and (uses)	<u>66,225</u>	<u>8,231</u>	<u>179,080</u>	<u>932,812</u>	<u>(1,184,982)</u>	<u>1,366</u>
EXTRAORDINARY ITEM - INSURANCE RECOVERIES	8,698,122					8,698,122
NET CHANGE IN FUND BALANCE	8,838,480	-	117,740	-	(287,481)	8,668,739
FUND BALANCE - BEGINNING	1,952,243	-	1,961,452	-	355,973	4,269,669
PRIOR PERIOD ADJUSTMENT	118,932		(118,932)		12,401	12,401
RESTATED FUND BALANCE - BEGINNING	<u>2,071,175</u>	<u>-</u>	<u>1,842,520</u>	<u>-</u>	<u>368,375</u>	<u>4,282,070</u>
FUND BALANCE - ENDING	<u>\$ 10,909,655</u>	<u>\$ -</u>	<u>\$ 1,960,260</u>	<u>\$ -</u>	<u>\$ 80,894</u>	<u>\$ 12,950,809</u>

See the accompanying notes to the financial statements.

Morgan County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities**
Year ended June 30, 2015

Net change in fund balances-total governmental funds	\$	8,668,739
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		(433,053)
District pension contributions less costs of benefits earned net employee contributions		507,447
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.		(1,133,102)
The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.		(53,373)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.		1,379,622
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Accrued interest payable		5,651
Other		1
KSBIT payable		139,675
Noncurrent sick leave payable		(75,501)
		(75,501)
Change in net position of governmental activities	\$	<u>9,006,106</u>

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 1,090,000	\$ 1,200,000	\$ 1,269,939	\$ 69,939
Motor vehicle	325,000	325,000	366,030	41,030
Unmined minerals			14,149	14,149
Utilities	575,000	575,000	649,385	74,385
Franchise	150,000	150,000	306,384	156,384
Transportation			28,408	28,408
Earnings on investments	15,000	15,000	8,487	(6,513)
Food service			838	838
Other local revenue	295,408	295,408	391,217	95,809
Intergovernmental - state	12,901,933	12,811,326	13,399,236	587,910
Intergovernmental - federal	35,000	35,000	55,543	20,543
Total revenues	<u>15,387,341</u>	<u>15,406,734</u>	<u>16,489,615</u>	<u>1,082,881</u>
EXPENDITURES				
Instruction	8,585,083	8,575,852	8,605,378	(29,527)
Support Services				
Student	1,086,491	1,049,983	997,990	51,993
Instructional Staff	620,785	625,879	605,437	20,442
District Administration	559,235	767,530	674,104	93,426
School Administration	1,076,425	1,076,234	1,106,863	(30,629)
Business	507,678	507,842	535,397	(27,554)
Plant Operation & Maintenance	2,387,034	2,422,008	2,305,577	116,431
Student Transportation	1,610,559	1,609,518	1,565,981	43,537
Community Services Operations	18,355	18,355	18,755	(400)
Total expenditures	<u>16,451,646</u>	<u>16,653,201</u>	<u>16,415,482</u>	<u>237,719</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,064,305)	(1,246,468)	74,132	1,320,600
OTHER FINANCING SOURCES (USES)				
Loss compensation			1,366	1,366
Operating transfers in	70,150	370,150	370,150	-
Operating transfers out	(314,860)	(305,291)	(305,291)	-
Total other financing sources and (uses)	<u>(244,710)</u>	<u>64,859</u>	<u>66,225</u>	<u>1,366</u>
EXTRAORDINARY ITEM - INSURANCE RECOVERIES		8,737,040	8,698,122	(38,918)
NET CHANGE IN FUND BALANCE	(1,309,015)	7,555,432	8,838,480	1,283,048
FUND BALANCE - BEGINNING	1,825,520	1,825,520	1,952,243	126,723
PRIOR PERIOD ADJUSTMENT			118,932	118,932
RESTATED FUND BALANCE - BEGINNING	<u>1,825,520</u>	<u>1,825,520</u>	<u>2,071,175</u>	<u>245,655</u>
FUND BALANCE - ENDING	<u>\$ 516,505</u>	<u>\$ 9,380,952</u>	<u>\$ 10,909,655</u>	<u>\$ 1,528,703</u>

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Earnings on investments	\$	\$ 12	\$ 31	\$ 19
Other local revenue	28,050	31,125	53,563	22,438
Intergovernmental - state	708,793	787,475	766,656	(20,818)
Intergovernmental - federal	1,630,868	1,655,783	1,619,451	(36,332)
Total revenues	<u>2,367,710</u>	<u>2,474,395</u>	<u>2,439,702</u>	<u>(34,693)</u>
EXPENDITURES				
Instruction	1,718,514	1,796,277	1,757,165	39,112
Support Services				
Student	84,388	77,390	55,384	22,006
Instructional Staff	265,289	273,684	261,224	12,460
District Administration			11,959	(11,959)
Plant Operation & Maintenance	61,613	34,813	59,790	(24,977)
Student Transportation	18,259	18,655	10,450	8,205
Community Services Operations	274,248	291,807	291,961	(154)
Total expenditures	<u>2,422,310</u>	<u>2,492,626</u>	<u>2,447,933</u>	<u>44,693</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(54,600)	(18,231)	(8,231)	10,000
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	54,600	18,231	8,231	(10,000)
Total other financing sources and (uses)	<u>54,600</u>	<u>18,231</u>	<u>8,231</u>	<u>(10,000)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE - BEGINNING	-	-	-	-
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Fund Net Position
Proprietary Funds
June 30, 2015

	School Food Services	Other Enterprise Fund	Total Proprietary Funds
ASSETS			
Cash and cash equivalents	\$ 182,895	\$ -	\$ 182,895
Accounts receivable, net	23,344		23,344
Inventories	24,866		24,866
Capital assets:			
Other capital assets, net of depreciation	418,554		418,554
Total assets	649,658	-	649,658
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	16,133		16,133
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	665,791	-	665,791
LIABILITIES			
Accounts payable	216		216
Net pension liability	161,733		161,733
Total Liabilities	161,949	-	161,949
DEFERRED INFLOWS OF RESOURCES			
Pensions	18,052		18,052
NET POSITION			
Net Investment in capital assets	418,554	-	418,554
Restricted for:			
Food Service	67,236		67,236
Total net position	485,790	-	485,790
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 665,791	\$ -	\$ 665,791

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2015

	School Food Services	Other Enterprise Fund	Total Proprietary Funds
OPERATING REVENUES			
Lunchroom sales	\$ 214,355	\$ -	\$ 214,355
Total operating revenues	<u>214,355</u>	<u>-</u>	<u>214,355</u>
OPERATING EXPENSES			
Depreciation	61,451		61,451
Food service operations			
Employee services	665,709		665,709
Operational expenses	771,871	23	771,895
Total operating expenses	<u>1,499,032</u>	<u>23</u>	<u>1,499,055</u>
Operating income (loss)	(1,284,677)	(23)	(1,284,700)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	1,176,188		1,176,188
State grants	124,602		124,602
Earnings from investments	86		86
Total nonoperating revenues	<u>1,300,876</u>	<u>-</u>	<u>1,300,876</u>
CHANGE IN NET POSITION	16,199	(23)	16,176
NET POSITION, BEGINNING	631,023	23	631,046
PRIOR PERIOD ADJUSTMENT	(161,432)		(161,432)
RESTATED NET POSITION, BEGINNING	<u>469,591</u>	<u>23</u>	<u>469,614</u>
NET POSITION, ENDING	<u>\$ 485,790</u>	<u>\$ -</u>	<u>\$ 485,790</u>

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	School Food Services	Other Enterprise Fund	Total Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 214,355	\$ -	\$ 214,355
Payments to suppliers	(752,754)	(23)	(752,777)
Payments to employees	(665,709)	-	(665,709)
Net cash provided (used) by operating activities	(1,204,108)	(23)	(1,204,131)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES			
Purchase of capital assets	(26,730)	-	(26,730)
Net cash provided (used) by capital financing activities	(26,730)	-	(26,730)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Pensions	2,220	-	2,220
Intergovernmental revenue	1,300,790	-	1,300,790
Net cash provided (used) by noncapital financing activities	1,303,010	-	1,303,010
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	86	-	86
Net cash provided (used) by investing activities	86	-	86
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	72,258	(23)	72,235
CASH AND CASH EQUIVALENTS, BEGINNING	110,637	23	110,660
CASH AND CASH EQUIVALENTS, ENDING	\$ 182,895	\$ -	\$ 182,895
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (1,284,677)	\$ (23)	\$ (1,284,700)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	61,451	-	61,451
Changes in assets and liabilities:			
Receivables	22,128		22,128
Inventories	5,102		5,102
Accounts Payable	(8,113)		(8,113)
Net cash provided (used) by operating activities	\$ (1,204,108)	\$ (23)	\$ (1,204,131)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$98,837 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$112,034 provided by state government.

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	<u>School Activity Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Fiduciary Fund Total</u>
ASSETS			
Cash and cash equivalents	\$ 101,342	\$ -	\$ 101,342
Accounts receivable	570		570
	<u>101,912</u>	<u>-</u>	<u>101,912</u>
TOTAL ASSETS	<u>101,912</u>	<u>-</u>	<u>101,912</u>
LIABILITIES			
Accounts payable	1,401		1,401
Due to student groups	100,510	-	100,510
	<u>101,912</u>	<u>-</u>	<u>101,912</u>
TOTAL LIABILITIES	<u>101,912</u>	<u>-</u>	<u>101,912</u>
NET POSITION HELD IN TRUST	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2015

		<u>Private Purpose Trust Funds</u>
Additions		
Trust Activities	\$	-
Earnings from investments		
Total Additions		<u>-</u>
Deductions		
Community Services		<u>500</u>
Decrease in net position		(500)
Net position, Beginning		<u>500</u>
Net position, Ending	\$	<u><u>-</u></u>

See the accompanying notes to the financial statements.

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Morgan 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 the Morgan 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 relevant to the operation of the Morgan 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 District 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:

Blended Component Unit:

Morgan County Board Of Education Finance Corporation

The Board authorized establishment of the Morgan County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Morgan County Board of Education.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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 always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds 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 specified project periods as well as the state grant programs. Project accounting is employed to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) Special Revenue (District Activity) Fund

The Special Revenue (District Activity) Fund is a district activity fund at the school level. It includes revenues such as yearbook sales, picture sales, student fees, and donations.

(D) Capital Project Funds

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).

SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the district.

(E) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

The School 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Community Education Fund

The Community Education Fund accounts for services rendered to the public. The fund also accounts for the services printing and copying.

III. Fiduciary Fund Types

Agency Funds

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, 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. 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 nonexchange transactions must also be available before it can be recognized.

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

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

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 the 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The property tax rates (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.529 per \$100 valuation of real property, \$.529 per \$100 valuation for business personal property and \$.533 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.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the government activities column of the government-wide financial 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 five 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:

SEE SCHEDULE NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Description</u>	<u>Estimated Lives</u>
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
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund 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.

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

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, including the proprietary fund, inventories are stated at cost, on the first-in, first-out basis, using the accrual method of accounting.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end 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 expenditure/expense is reported in the year in which services are consumed.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District’s policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Operating and Non-Operating Revenues and Expenses

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

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

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after 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.

Pensions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Estimates

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

New Accounting Pronouncements

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

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District's cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited at two local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

<u>First National Bank of Grayson</u>	<u>Demand</u>	<u>Bank Balance</u>		<u>Total</u>
		<u>Time</u>		
FDIC	\$ 250,000	\$ -	\$	250,000
Securities pledged to district	<u>12,237,210</u>	<u>1,575,000</u>		<u>13,812,210</u>
Bank balance	<u>\$ 12,487,210</u>	<u>\$ 1,575,000</u>	<u>\$</u>	<u>14,062,210</u>
<u>Bank of the Mountains</u>				
FDIC	<u>\$ 3,369</u>	<u>\$ -</u>	<u>\$</u>	<u>3,369</u>
Bank Balance	<u>\$ 3,369</u>	<u>\$ -</u>	<u>\$</u>	<u>3,369</u>
	<u>Cash and</u>	<u>Book Balance</u>		
	<u>Cash Equivalents</u>	<u>Investments</u>		<u>Total</u>
Governmental Activities	\$ 11,125,911	\$ 1,575,000	\$	12,700,911
Business-type Activities	182,895	-		182,895
Agency funds ;				
School Activity Funds	<u>101,342</u>	<u>-</u>		<u>101,342</u>
Total carrying amount	<u>\$ 11,410,148</u>	<u>\$ 1,575,000</u>	<u>\$</u>	<u>12,985,148</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

NOTE C – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 1,089,020	\$ -	\$ -	\$ 1,089,020
Land improvements	776,190	52,000	-	828,190
Buildings	40,887,169	63,550	26,700	40,924,020
Technology equipment	1,214,484	22,868	-	1,237,353
Vehicles	3,330,494	17,500	-	3,347,994
General equipment	3,439,779	9,344	3,000	3,446,123
Construction in progress	<u>44,252</u>	<u>61,341</u>	<u>8,910</u>	<u>96,682</u>
Total at historical cost	\$ <u>50,781,388</u>	\$ <u>226,603</u>	\$ <u>38,610</u>	\$ <u>50,969,380</u>
Less: Accumulated depreciation				
Land improvements	\$ 79,104	\$ 41,409	\$ -	\$ 120,513
Buildings	9,531,488	871,828	16,287	10,387,029
Technology equipment	1,109,743	60,425	-	1,170,168
Vehicles	1,909,277	264,282	-	2,173,559
General equipment	<u>2,964,542</u>	<u>102,438</u>	<u>3,000</u>	<u>3,063,980</u>
Total accumulated depreciation	\$ <u>15,594,154</u>	\$ <u>1,340,382</u>	\$ <u>19,287</u>	\$ <u>16,915,249</u>
Governmental Activities				
Capital Assets-net	\$ <u>35,187,234</u>	\$ <u>(1,113,779)</u>	\$ <u>19,323</u>	\$ <u>34,054,132</u>
<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Technology equipment	\$ 6,063	\$ -	\$ -	\$ 6,063
Vehicles	18,800	-	-	18,800
General equipment	<u>1,055,511</u>	<u>26,730</u>	<u>-</u>	<u>1,082,241</u>
Total at historical cost	\$ <u>1,080,374</u>	\$ <u>26,730</u>	\$ <u>-</u>	\$ <u>1,107,104</u>
Less: Accumulated depreciation				
Technology equipment	\$ 5,770	\$ 293	\$ -	\$ 6,063
Vehicles	7,207	3,760	-	10,967
General equipment	<u>614,122</u>	<u>57,398</u>	<u>-</u>	<u>671,521</u>
Total accumulated depreciation	\$ <u>627,099</u>	\$ <u>61,451</u>	\$ <u>-</u>	\$ <u>688,550</u>
Business-Type Activities				
Capital Assets-net	\$ <u>453,275</u>	\$ <u>(34,721)</u>	\$ <u>-</u>	\$ <u>418,554</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE D – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Morgan County School District Finance Corporation aggregating \$18,164,000 and \$1,099,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Morgan County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014</u>			<u>2015</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2005	\$ 8,765,000	10/1/2025	3.8 - 4.0%	\$ 820,000	\$ -	\$ 385,000	\$ 435,000
2012	11,490,000	5/1/2032	2.9 - 3.5%	11,175,000		150,000	11,025,000
2013R	6,050,000	10/1/2025	1.5 - 2.2%	5,860,000		105,000	5,755,000
2013RA	1,169,000	9/1/2023	.70 - 2.4%	659,000		480,000	179,000
2013	\$ 840,000	2/1/2033	2.3 - 3.0%	805,000		35,000	770,000
Totals				<u>\$ 19,319,000</u>	<u>\$ -</u>	<u>\$ 1,155,000</u>	<u>\$ 18,164,000</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following 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 maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service, (principal and interest) are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended <u>June 30th</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>		
2016	\$ 425,125	\$ 673,875	\$ 254,978.89	\$ 191,164	\$ 1,099,000	\$ 446,142
2017	419,671	685,329	246,414	177,699	1,105,000	424,114
2018	429,619	695,381	238,297	169,380	1,125,000	407,676
2019	434,173	700,827	230,010	160,570	1,135,000	390,580
2020	448,055	716,945	221,544	150,906	1,165,000	372,450
2021-2025	2,419,263	3,750,737	915,951	540,848	6,170,000	1,456,799
2026-2030	2,924,643	1,600,357	525,888	199,076	4,525,000	724,964
2031-2035	1,316,884	523,116	69,549	28,701	1,840,000	98,250
	<u>\$ 8,817,433</u>	<u>\$ 9,346,567</u>	<u>\$ 2,702,631</u>	<u>\$ 1,618,344</u>	<u>\$ 18,164,000</u>	<u>\$ 4,320,975</u>

The following is an analysis of the leased property under capital lease by class:

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014</u>		<u>2015</u>	
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2006B	\$ 316,946	3/1/2017	3.5 - 3.875%	\$ 82,883		\$ 30,376	\$ 52,507
2008	153,110	3/1/2018	3.0 - 3.75%	61,793		16,001	45,792
2009	78,619	3/1/2019	2.0 - 3.9%	39,266		7,946	31,320
2011	335,529	3/1/2021	1.0 - 4.0%	230,623		32,332	198,291
2012	347,246	3/1/2022	2.0 - 2.625%	270,377		32,830	237,547
2012B	82,353	3/1/2022	.95 - 2.5%	324,784		7,803	316,981
2013	364,767	3/1/2023	2.0%	63,820		40,630	23,190
2014	272,578	3/1/2024	2.0 - 3.0%	272,578		29,503	243,075
2006	\$ 291,953	3/1/2016	3.3 - 4.0%	55,490		27,201	28,289
Totals				<u>\$ 1,401,614</u>	<u>\$ -</u>	<u>\$ 224,622</u>	<u>\$ 1,176,992</u>

The following is a schedule 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:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended June 30th	<u>Principal</u> <u>Local</u>	<u>Interest</u> <u>Local</u>	<u>Total</u>
2016	\$ 217,813	\$ 29,888	\$ 247,701
2017	186,701	24,020	210,721
2018	161,999	19,180	181,179
2019	150,773	15,197	165,970
2020	140,009	11,506	151,515
2021-2024	319,697	15,414	335,111
	<u>\$ 1,176,992</u>	<u>\$ 115,205</u>	<u>\$ 1,292,197</u>

NOTE E – OTHER LONG TERM OBLIGATIONS

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. The activity during fiscal year 2015 for accumulated sick leave is as follows:

	2014 Outstanding <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	2015 Outstanding <u>Balance</u>
Sick Leave	\$ 226,074	\$ 75,501	\$ -	\$ 301,575
Totals	<u>\$ 226,074</u>	<u>\$ 75,501</u>	<u>\$ -</u>	<u>\$ 301,575</u>

The District elected to take advantage of the 0% interest option repayment plan for the worker’s compensation and property and liability insurance deficit with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker’s compensation deficit during fiscal year 2015 with the remaining balance to be repaid over the next six years, and to pay 40% of the property and liability deficit during fiscal year 2015 with the remaining balance to be repaid over the next two years. The activity during fiscal year 2015 for the worker’s compensation and property and liability deficit are as follows:

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Insurance Fund	2014			2015
	Outstanding Balance	Additions	Retirements	Outstanding Balance
Worker's Compensation	\$ 343,520	\$ -	\$ 85,880	\$ 257,640
Property and Liability	134,488		53,795	80,693
Totals	<u>\$ 478,008</u>	<u>\$ -</u>	<u>\$ 139,675</u>	<u>\$ 338,333</u>

The minimum payments are as follows:

Fiscal Year Ended June 30,	Payment
2016	\$ 83,287
2017	83,287
2018	42,940
2019	42,940
2020	42,940
2021	<u>42,940</u>
Total	<u>\$ 338,333</u>

NOTE F – RETIREMENT PLANS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

General information about the Teachers’ Retirement System of the State of Kentucky (“KTRS”)

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

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

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

Medical Insurance Plan

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

District's proportionate share of CERS net pension liability	\$ 3,978,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district	<u>52,711,991</u>
	\$ <u>56,689,991</u>

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

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .122623% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$451,406 related to CERS and \$4,936,456 related to KTRS. The District also recognized revenue of \$4,936,456 for KTRS support

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	444,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>523,581</u>	<u>-</u>
	\$ <u>523,581</u>	\$ <u>444,000</u>

\$523,581 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
2016	\$ 104,716
2017	104,716
2018	104,716
2019	104,716
2020	<u>104,716</u>
	\$ <u>523,581</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

SEE SCHEDULE ON NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share			
of net pension liability	4,491,683	3,978,000	3,465,012
KTRS	4.23%	5.23%	6.23%
District's proportionate share			
of net pension liability	-	-	-

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

NOTE G – COMMITMENTS

The District has commitments of \$2,048,426 as of June 30, 2015 for future construction projects.

NOTE H - CONTINGENCIES

The District receives funding from Federal, State and Local governmental agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not 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 un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction the funds provided are being spent as intended and the grantors’ intent to continue their program.

NOTE I- LITIGATION

The District is currently not involved in pending litigation for which the expected award to the claimant if any is expected to not be covered by the District’s insurance carrier.

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

In the fiscal year 2015, the District received \$8,698,122 from insurance recoveries for tornado damage.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

NOTE L – DEFICIT FUND AND OPERATING BALANCES

The following funds had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>		<u>Reduction in Fund Balance/Net Position</u>
Capital Outlay	\$	(77,720)
FSPK		(216,938)
Other Proprietary Fund		(23)
Private Purpose Trust		(500)
School Activity Fund	\$	(7,356)

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Construction Fund	General Fund	Operations	\$ 300,000
Operating	Capital Outlay Fund	General Fund	Operations	70,150
Operating	General Fund	Special Revenue Fund	KETS	45,031
Debt Service	General Fund	Debt Service Fund	Debt Service	260,260
Debt Service	FSPK Fund	Debt Service Fund	Debt Service	672,552
Operating	Capital Outlay Fund	Construction Fund	Construction	195,204
Operating	FSPK Fund	Construction Fund	Construction	247,076
Operating	Special Revenue Fund	Construction Fund	Construction	\$ 36,800

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE O – ON-BEHALF PAYMENTS

For fiscal year 2015, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 1,242,173
Health Insurance	2,334,610
Life Insurance	4,130
Administrative Fee	28,402
HRA/Dental/Vision	97,038
Federal Reimbursement	(163,462)
Technology	52,744
SFCC Debt Service Payments	<u>949,638</u>
Total	<u>\$ 4,545,272</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE P – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$3,970,594 reduction in beginning net position on the Statement of Activities and an increase of \$531,406 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE Q – PRIOR PERIOD ADJUSTMENTS

Ending net position for fiscal year 2014 was overstated as described below:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	Total
Net Position July 1, 2014	\$ 18,927,216	\$ 627,969	\$ 19,555,185
Overstated Sick Leave - Prior Period Adjustment 1		3,077	3,077
Understated Net Pension Liability (GASB 68) - Prior Period Adjustment 2 - See Note P	(3,809,162)	(161,432)	(3,970,594)
Understated KSBIT Liability - Prior Period Adjustment 3	(478,008)		(478,008)
Understated Defeasance Costs - Prior Period Adjustment 4	(353,582)		(353,582)
Overstated Interest Accrual - Prior Period Adjustment 5	416,447		416,447
Addition of District Activity Fund Beginning Balance - Prior Period Adjustment 6	12,401		12,401
Restated Net Position July 1, 2014	<u>\$ 14,715,312</u>	<u>\$ 469,614</u>	<u>\$ 15,184,926</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Ending fund balance for fiscal year 2014 was understated as described below:

District Activity Fund Balance July 1, 2014	\$	-
Movement of District Activity Fund Beginning Balance from prior year School Activity Fund Balance		<u>12,401</u>
Restated District Activity Fund Balance July 1, 2014	\$	<u>12,401</u>

The beginning fiduciary fund balance in the supplementary schedules was reduced by \$12,401 due to the movement of district activity money to the district activity fund.

NOTE R – RESTRICTED FUNDS

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
FSPK	\$ 61,315	School Facilities Construction Commission Requirement
Construction Fund	1,960,260	Future Construction Projects
Food Service	\$ 67,236	Food Service Operations

NOTE R – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 13, 2015, the date of the audit report.

MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.12%
District's proportionate share of the net pension liability	\$ 3,978,000
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 3,978,000
District's covered-employee payroll	\$ 2,858,703
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	139.15%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.257%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	52,711,991
Total	\$ 52,711,991
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

**MORGAN COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS**

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 523,581	\$ 540,009
Contributions in relation to the contractually required contribution	523,581	\$ 540,009
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 2,907,110	\$ 2,858,703
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	18.01%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

See the accompanying notes to the required supplementary information.

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2015

Changes of benefit terms – None

Changes of assumptions – None

Morgan County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2015

	Other Governmental Fund Types			
	Capital Outlay	FSPK	District Activity	Total
Assets				
Cash and Cash Equivalents	\$ -	\$ 61,315	\$ 19,579	\$ 80,894
Total Assets	-	61,315	19,579	80,894
Liabilities				
Accounts Payable	-	-	-	-
Total Liabilities	-	-	-	-
Fund Balances				
Restricted		61,315		61,315
Committed	-	-	19,579	19,579
Total Fund Balances	\$ -	\$ 61,315	\$ 19,579	\$ 80,894

See accompanying notes to the financial statements.

Morgan County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
Year ended June 30, 2015

	Other Governmental Fund Types			
	Capital Outlay	FSPK	District Activity	Total
Revenues				
From Local Sources				
Earnings on investments	\$ -	\$ 205,909	\$ -	\$ 205,909
Student activities			32,496	32,496
Intergovernmental - State	187,634	496,781		684,415
Intergovernmental - Federal			285	285
Total Revenues	187,634	702,690	32,781	923,105
Expenditures				
Instruction			10,108	10,108
Support Services				
Instructional Staff			13,891	13,891
Student Transportation			1,605	1,605
Total Expenditures	-	-	25,604	25,604
Excess (Deficit) of Revenues Over Expenditures	187,634	702,690	7,178	897,502
Other Financing Sources (Uses)				
Transfers (Out)	(265,354)	(919,628)		(1,184,982)
Total Other Financing Sources (Uses)	(265,354)	(919,628)	-	(1,184,982)
Net Change in Fund Balances	(77,720)	(216,938)	7,178	(287,481)
Fund Balance - Beginning	77,720	278,253	-	355,973
Prior Period Adjustment			12,401	12,401
Restated Fund Balance - Beginning	77,720	278,253	12,401	368,375
Fund balance - Ending	\$ -	\$ 61,315	\$ 19,579	\$ 80,894

See accompanying notes to the financial statements.

Morgan County School District
Combining Balance Sheet of Fiduciary Fund - School Activity Funds
 June 30, 2015

	SCHOOL ACTIVITY FUNDS							
	MORGAN COUNTY HIGH SCHOOL	MORGAN COUNTY MIDDLE SCHOOL	EAST VALLEY ELEMENTARY	EZEL ELEMENTARY	MORGAN CENTRAL ELEMENTARY	WRIGLEY ELEMENTARY	PENSION, INV, PP TRUST	FIDUCIARY FUND TOTAL
ASSETS								
Cash and cash equivalents	\$ 63,046	\$ 22,557	\$ 3,141	\$ 3,305	\$ 5,379	\$ 3,914	\$ -	\$ 101,342
Accounts receivable	100	80	270	40	80			570
Total Assets	63,146	22,637	3,411	3,345	5,459	3,914	-	101,912
LIABILITIES								
Accounts payable	-	-	-		1,401			1,401
Total Liabilities	-	-	-	-	1,401	-	-	1,401
FUND BALANCE								
School activities	63,146	22,637	3,411	3,345	4,057	3,914	-	100,510
TOTAL LIABILITIES AND FUND BALANCE	\$ 63,146	\$ 22,637	\$ 3,411	\$ 3,345	\$ 5,459	\$ 3,914	\$ -	\$ 101,912

See accompanying notes to the financial statements.

Morgan County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance
School Activity Funds
Year ended June 30, 2015

	SCHOOL ACTIVITY FUNDS								FIDUCIARY FUND TOTAL
	MORGAN COUNTY HIGH SCHOOL	MORGAN COUNTY MIDDLE SCHOOL	EAST VALLEY ELEMENTARY	EZEL ELEMENTARY	MORGAN CENTRAL ELEMENTARY	WRIGLEY ELEMENTARY	PENSION, INV, PP TRUST		
Revenues									
Student revenues	\$ 193,289	\$ 83,388	\$ 25,310	\$ 16,064	\$ 40,266	\$ 33,368	\$ -	\$	391,685
Miscellaneous revenues							-		-
Earnings from investments							-		-
Total Revenues	<u>193,289</u>	<u>83,388</u>	<u>25,310</u>	<u>16,064</u>	<u>40,266</u>	<u>33,368</u>	<u>-</u>		<u>391,685</u>
Expenses									
Student activities	191,983	91,697	22,920	15,304	39,995	37,143	-		399,040
Community services							500		500
Total Expenses	<u>191,983</u>	<u>91,697</u>	<u>22,920</u>	<u>15,304</u>	<u>39,995</u>	<u>37,143</u>	<u>500</u>		<u>399,540</u>
Excess (Deficit) of Revenues Over Expenses	1,307	(8,309)	2,390	760	271	(3,774)	(500)		(7,856)
Fund balance July 1, 2014	65,022	34,159	1,021	7,089	5,286	7,689	500		120,767
Prior Period Adjustment	<u>(3,184)</u>	<u>(3,214)</u>		<u>(4,504)</u>	<u>(1,500)</u>				<u>(12,401)</u>
Restated Fund Balance July 1, 2014	<u>61,839</u>	<u>30,946</u>	<u>1,021</u>	<u>2,585</u>	<u>3,787</u>	<u>7,689</u>	<u>500</u>		<u>108,366</u>
Fund balance June 30, 2015	<u>\$ 63,146</u>	<u>\$ 22,637</u>	<u>\$ 3,411</u>	<u>\$ 3,345</u>	<u>\$ 4,057</u>	<u>\$ 3,914</u>	<u>\$ -</u>	<u>\$</u>	<u>\$ 100,510</u>

See the accompanying notes to the financial statements.

Morgan County School District
Statement of Revenues, Expenses and Changes in Fund Balance - Morgan County High School
Year ended June 30, 2015

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
OFFICE	\$ 101	\$ -	\$ -	\$ (101)	\$ -
DISTRICT-FUND 21	-	-	14	14	-
TEACHERS ACCOUNT	15	-	-	(15)	-
ADAMS	777	95	506	-	366
SCHOOL SUPPLY	5,223	5,815	7,385	1,789	5,442
LANCE TEACHERS	181	278	376	-	83
PEPSI TEACHERS	1,778	2,562	3,985	(22)	334
BOOKSTORE	-	-	-	-	-
ARTS CLUB	1,121	50	260	-	912
FBLA	52	522	550	-	24
FCA	315	-	-	-	315
SAAD CLUB	1,306	821	292	-	1,834
FFA	2,448	26,882	27,151	-	2,179
FCCLA	17	949	636	-	330
NATIONAL HONOR SOCIETY	3,668	5,407	5,232	-	3,843
SPANISH CLUB	446	-	-	-	446
TSA	236	2,892	2,848	-	279
STUDENT COUNCIL	3,413	1,141	333	(150)	4,070
BAND	1,084	8,984	9,941	-	127
WINTER GUARD	31	531	888	327	-
HOME EC	122	-	-	-	122
VO-AG	8	-	-	-	8
ATHLETICS	227	47,534	43,794	(494)	3,473
CHEERLEADERS	1,796	5,186	7,850	1,295	427
CROSS COUNTRY	2,675	106	834	736	2,683
TRACK	275	1,159	2,912	1,500	22
VOLLEYBALL	1,081	9,720	10,773	1,000	1,028
TENNIS	3,382	10,010	11,181	1,617	3,827
QUARTERBACK CLUB	1,039	10,398	5,537	-	5,900
FOOTBALL	-	-	3,005	3,005	-
SOFTBALL	694	1,035	1,122	750	1,357
BOYS GOLF	1,340	300	1,448	750	942
GIRLS GOLF	496	1,273	1,747	750	773
CLASS OF 2015	2,590	-	726	(1,864)	-
PROJECT PROM	604	215	720	-	99
CLASS OF 2017	3,077	1,666	1,185	-	3,559
CLASS OF 2018	2,618	-	-	-	2,618
CLASS OF 2016	2,192	9,699	7,164	37	4,764
GIRLS BASKETBALL	821	1,105	2,750	1,085	261
BOYS BASKETBALL	308	-	550	250	8
SCIENCE	-	489	471	-	18
SPACE SCIENCE	139	-	-	-	139
BASEBALL	1,336	8,561	10,026	1,000	870
CONCESSIONS/ATHLETICS	6,648	20,137	9,417	(12,117)	5,251
YEARBOOK	1,155	2,770	2,615	-	1,311
LIBRARY	-	-	-	-	-
AP ENGLISH III	204	5	-	-	210
INTERACT CLUB	2,033	2,488	3,120	-	1,402
ANTI-BULLY PROJECT	142	200	228	-	114
DRAMA CLUB	416	1,481	1,688	-	209
KEY CLUB	583	133	363	-	353
YOUTH SERVICE	486	689	362	-	813
SPRING CONCESSIONS	1,142	-	-	(1,142)	-
	\$ 61,839	\$ 193,289	\$ 191,983	\$ -	\$ 63,146

See accompanying notes to the financial statements.

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had food commodities totaling \$98,837.

Morgan County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	\$	N/A \$ 74,251
Fiscal Year 15		7760005 15		N/A 239,830
National School Lunch Program	10.555			
Fiscal Year 14		7750002 14		N/A 170,059
Fiscal Year 15		7750002 15		N/A 553,800
Summer Food Service Program For Children	10.559			
Fiscal Year 14		7690024 14		N/A 1,553
Summer Food Service Program For Children	10.559			
Fiscal Year 14		7740023 14		N/A 15,001
Child Nutrition Cluster Subtotal				<u>1,054,493</u>
Child and Adult Care	10.558			
Fiscal Year 14		7790021 14		N/A 10,306
Fiscal Year 15		7790021 15		N/A 30,283
Child and Adult Care				
Fiscal Year 14		7800016 14		N/A 744
Fiscal Year 15		7800016 15		N/A 2,290
				<u>43,623</u>
Passed Through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950		N/A 98,837
Total US Department of Agriculture				<u>1,196,953</u>
US Department of Education				
Passed Through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 13		3100002 13		878,209 76
Fiscal Year 14		3100002 14		834,026 142,210
Fiscal Year 14M		3100002 14		8,425 6,176
Fiscal Year 15		3100002 15		827,222 654,865
Fiscal Year 15M		3100002 15		8,356 3,292
				<u>806,619</u>
Title I - Neglected and Delinquent Children	84.013			
Fiscal Year 14		3134		14,110 630
Fiscal Year 15		313A		22,167 22,167
Fiscal Year 15T		313AT		4,446 3,668
				<u>26,465</u>
Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13		463,797 98
Fiscal Year 14		3810002 14		430,505 304,165
Fiscal Year 15		3810002 15		444,962 114,833
Special Education - Preschool Grants	84.173A			
Fiscal Year 13		3800002 13		23,123 205
Fiscal Year 14		3800002 14		22,821 22,135
Fiscal Year 15		3800002 15		22,821 21
Special Education Cluster				<u>441,456</u>
Vocation Education - Basic Grants to States	84.048			
Fiscal Year 14		4621132 14		15,109 1,370
Fiscal Year 14A		4621132 14		603 155
Fiscal Year 15		4621132 15		13,744 9,000
				<u>10,525</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11		37,655 9,631
Twenty-First Century Community Learning Centers	84.287			
Fiscal Year 13		3400002 13		67,500 26,916
Fiscal Year 13Z		3400002 13		54,000 18,362
Fiscal Year 14		3400002 14		60,000 45,439
				<u>90,718</u>
Rural Education	84.358B			
Fiscal Year 14		314002 14		37,181 30,196
Fiscal Year 15		314002 15		44,245 9,286
				<u>39,482</u>
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 14		3230002 14		189,958 27,608
Fiscal Year 15		3230002 15		189,886 141,383
				<u>168,991</u>
Passed through Kentucky Office of Vocational Rehabilitation				
Community Based Work Transition	84.002			
Fiscal Year 13		3713		13,303 244
Fiscal Year 14		3714		13,071 12,422
Fiscal Year 15		371A		13,071 2,590
				<u>15,256</u>

See the accompanying notes to the schedule of expenditures of federal awards.

Morgan County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
Passed through Morehad State University				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 14G		3794G	94,348	7,068
Total US Department of Education				<u>1,616,211</u>
Appalachian Regional Commission				
Passed through Morehad State University				
Appalachian Higher Education Network (KY AHED)	23.011			
Fiscal Year 15		688A	3,261	3,240
Total Appalachian Regional Commission				<u>3,240</u>
Total Expenditure of Federal Awards				\$ <u>2,816,404</u>

* Major program

**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**

To the Morgan County Board of Education and
State Committee for School District Audits
West Liberty, 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 *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Morgan County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morgan 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 Morgan County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Morgan 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 Morgan 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 the Morgan County School District, in a separate letter dated November 13, 2015.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

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.

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

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

To the Morgan County Board of Education and
State Committee for School District Audits
West Liberty, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Morgan 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 Morgan County School District's major federal programs for the year ended June 30, 2015. Morgan 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 Morgan 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*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan 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 Morgan County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Morgan 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 Morgan 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 Morgan 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 Morgan 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.

White & Associates, P.C.

Richmond, Kentucky
November 13, 2015

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

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title 1 [CFDA 84.010A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

MORGAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2015

There were no prior audit findings.