

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS

For the year ended June 30, 2015



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*  
865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

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**INDEPENDENT AUDITOR'S REPORT**



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Paintsville Independent School District  
Paintsville, 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 Paintsville Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Paintsville Independent School District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As described in Note U to the financial statements, in 2014, 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, budgetary comparison information, CERS schedules, and notes (CERS), on pages 3–6 and 39–43 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 Paintsville Independent School District's basic financial statements. The budget comparison, the CERS schedules, notes (CERS), the combining nonmajor fund financial statements, and school activity funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

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

*Wells & Company PSC*  
Certified Public Accountants  
Paintsville, Kentucky  
October 12, 2015

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT – PAINTSVILLE, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2015**

As management of the Paintsville Independent 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 ending cash balance for the District was \$1,683,750 in 2014 and \$993,200 in 2015. This is a decrease of \$690,550. Much of this difference can be explained by money spent for instruction.
- From 2015 to 2014, total General Fund revenue increased by 2%. Revenue from the state increased by 7% and interest on invested funds decreased by 61.4%.
- Among major funds, the General Fund had \$6.78 million in revenue, which primarily consisted of local property, utilities, and motor vehicle taxes, federal programs and state funding. There were \$6.94 million in expenditures.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulted in several economies due to changed management strategies.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District paid \$494,147 in principal payments during the current fiscal year.
- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The District is currently updating its local facilities plan.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities

of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 7 through 8 of this report.

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

The basic governmental fund financial statements can be found on pages 9 through 16 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 38 of this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

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

**Net Position for the period ending June 30, 2015 and 2014**

This is the thirteenth year that the District is following GASB 34 and comparing assets, liabilities and net position. 2015 Government Wide Net Position compared to 2014 are as follows:

|                                       | <u>2015</u>                | <u>2014</u>                |
|---------------------------------------|----------------------------|----------------------------|
| Current Assets                        | \$ 1,124,191               | \$ 1,910,075               |
| Noncurrent Assets                     | <u>14,535,975</u>          | <u>14,440,118</u>          |
| <b>Total assets</b>                   | <b><u>15,660,166</u></b>   | <b><u>16,350,193</u></b>   |
| <br>                                  |                            |                            |
| <b>Deferred Outflows of Resources</b> | <b><u>259,936</u></b>      | <b><u>212,426</u></b>      |
| <br>                                  |                            |                            |
| Current Liabilities                   | 592,868                    | 1,163,732                  |
| Noncurrent Liabilities                | <u>10,569,979</u>          | <u>10,889,525</u>          |
| <b>Total liabilities</b>              | <b><u>11,162,847</u></b>   | <b><u>12,053,257</u></b>   |
| <br>                                  |                            |                            |
| <b>Deferred Inflows of Resources</b>  | <b><u>153,000</u></b>      | <b><u>153,000</u></b>      |
| <br>                                  |                            |                            |
| <b>Net Position</b>                   |                            |                            |
| Net investment in capital assets      | 5,250,244                  | 4,710,518                  |
| Restricted                            | 4,968                      | 446,497                    |
| Unrestricted Fund Balance             | <u>(650,957)</u>           | <u>(800,653)</u>           |
| <b>Total net position</b>             | <b><u>\$ 4,604,255</u></b> | <b><u>\$ 4,356,362</u></b> |

There has been no significant change in the financial position of the District since the last audit.

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

|  | <u>2015</u>                | <u>2014</u>                  |
|--|----------------------------|------------------------------|
| <b>Revenues:</b>   |                            |                              |
| Local revenue sources  | \$ 2,814,350               | \$ 2,949,891                 |
| State revenue sources  | 4,905,149                  | 4,489,217                    |
| Federal sources  | 875,991                    | 1,036,855                    |
| Investments  | <u>8,172</u>               | <u>20,977</u>                |
| <b>Total revenues</b>  | <b><u>8,603,662</u></b>    | <b><u>8,496,940</u></b>      |
| <br>   |                            |                              |
| <b>Expenditures:</b>   |                            |                              |
| Instruction  | 5,174,971                  | 5,231,651                    |
| Student support services   | 263,822                    | 315,566                      |
| Instructional staff support  | 469,892                    | 507,221                      |
| District administration  | 350,948                    | 328,981                      |
| School administration  | 349,553                    | 366,559                      |
| Business support   | 227,511                    | 205,141                      |
| Plant operations and maintenance   | 829,170                    | 726,414                      |
| Student transportation   | 163,910                    | 194,482                      |
| Central office support   | -                          | -                            |
| Facilities acquisition and construction  | 218,572                    | 4,592,520                    |
| Community services activities  | 51,001                     | 51,897                       |
| Other  | <u>805,914</u>             | <u>702,858</u>               |
| <b>Total expenses</b>  | <b><u>8,905,264</u></b>    | <b><u>13,223,290</u></b>     |
| <br>   |                            |                              |
| <b>Excess (deficit) of revenue over expenditures</b>   | <b>(301,602)</b>           | <b>(4,726,350)</b>           |
| <br>   |                            |                              |
| <b>Other Financing Sources (Uses):</b>   |                            |                              |
| Proceeds from the sale of fixed assets   | -                          | -                            |
| Bond sale proceeds   | <u>-</u>                   | <u>-</u>                     |
| <b>Total other financing sources (uses)</b>  | <b><u>-</u></b>            | <b><u>-</u></b>              |
| <br>   |                            |                              |
| <b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b> | <b><u>\$ (301,602)</u></b> | <b><u>\$ (4,726,350)</u></b> |

## CAPITAL ASSETS

At the end of fiscal 2015, the District had \$14.55 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net increase (including additions and deductions) of \$.10 million over last year. This increase is primarily due to the buildings and improvements. Additionally, no buses were purchased in fiscal 2015.

### Capital Assets at Year-End (Net of Depreciation, in Millions)

|                          | Governmental<br>Activities |                | Business-type<br>Activities |               | Totals          |                 |
|--------------------------|----------------------------|----------------|-----------------------------|---------------|-----------------|-----------------|
|                          | <u>2015</u>                | <u>2014</u>    | <u>2015</u>                 | <u>2014</u>   | <u>2015</u>     | <u>2014</u>     |
| Land                     | \$ 3.85                    | \$ 3.85        | \$ -                        | \$ -          | \$ 3.85         | \$ 3.85         |
| Buildings & Improvements | 10.49                      | 3.31           | -                           | -             | 10.49           | 3.31            |
| Technology Equipment     | .07                        | .15            | .01                         | .01           | .08             | .16             |
| Vehicles                 | .10                        | .13            | -                           | -             | .10             | .13             |
| General Equipment        | .02                        | .03            | .01                         | .01           | .03             | .04             |
| Construction in Progress | -                          | <u>6.96</u>    | -                           | -             | -               | <u>6.96</u>     |
| Totals                   | <u>\$ 14.53</u>            | <u>\$14.43</u> | <u>\$ .02</u>               | <u>\$ .02</u> | <u>\$ 14.55</u> | <u>\$ 14.45</u> |

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

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

- The majority of revenue in 2015 was derived from state funding (57%) as compared with fiscal year 2014 (52%) with local revenue making up (33%) of total revenue in 2015 compared to (34%) in 2014.

#### Comments on Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2015, net of other financing sources, were \$6.78 million.
- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$13,461 more than budget.
- The total cost of all General Fund programs and services was \$6.94 million net of debt service.
- General Fund budget expenditures to actual had no material variances.

#### BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$921,835 in contingency (8%). The General Fund beginning cash balance for beginning the fiscal year was \$904,971.

Questions regarding this report should be directed to the Superintendent, Director of Financial Services or by mail at 305 Second Street, Paintsville, KY 41240.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

|   | Governmental<br>Activities | Business<br>Type<br>Activities | Total               |
|---|----------------------------|--------------------------------|---------------------|
| <b>Assets</b>   |                            |                                |                     |
| <b>Current Assets:</b>  |                            |                                |                     |
| Cash and cash equivalents   | \$ 881,585                 | \$ 45,733                      | \$ 927,318          |
| Inventory   | -                          | 15,568                         | 15,568              |
| Accounts receivable   |                            |                                |                     |
| Taxes - current   | 33,551                     | -                              | 33,551              |
| Taxes - delinquent  | 8,993                      | -                              | 8,993               |
| Accounts receivable   | 1,093                      | -                              | 1,093               |
| Intergovernmental - state   | 18,760                     | -                              | 18,760              |
| Intergovernmental - indirect federal  | 103,800                    | 15,108                         | 118,908             |
| <b>Total current assets</b>   | <b>1,047,782</b>           | <b>76,409</b>                  | <b>1,124,191</b>    |
| <b>Noncurrent Assets:</b>   |                            |                                |                     |
| Capital assets, net   | 14,529,707                 | 6,268                          | 14,535,975          |
| <b>Total noncurrent assets</b>  | <b>14,529,707</b>          | <b>6,268</b>                   | <b>14,535,975</b>   |
| <b>Total assets</b>   | <b>15,577,489</b>          | <b>82,677</b>                  | <b>15,660,166</b>   |
| <b>Deferred Outflows of Resources:</b>  |                            |                                |                     |
| District pension contributions subsequent to measurement date                           | 131,832                    | 32,583                         | 164,415             |
| Debt discount   | 95,521                     | -                              | 95,521              |
| <b>Total deferred outflows of resources</b>   | <b>227,353</b>             | <b>32,583</b>                  | <b>259,936</b>      |
| <b>Liabilities</b>  |                            |                                |                     |
| <b>Current Liabilities:</b>   |                            |                                |                     |
| Accounts payable  | 122,451                    | 3,901                          | 126,352             |
| Payroll liabilities   | 11,855                     | -                              | 11,855              |
| Unearned revenue  | 18,760                     | -                              | 18,760              |
| Current portion of bond obligations   | 353,917                    | -                              | 353,917             |
| Current portion of KSBIT assessment   | 27,994                     | -                              | 27,994              |
| Interest payable  | 53,990                     | -                              | 53,990              |
| <b>Total current liabilities</b>  | <b>588,967</b>             | <b>3,901</b>                   | <b>592,868</b>      |
| <b>Noncurrent Liabilities:</b>  |                            |                                |                     |
| Noncurrent portion of KSBIT assessment  | 75,420                     | -                              | 75,420              |
| Noncurrent portion of bond obligations  | 8,973,345                  | -                              | 8,973,345           |
| Noncurrent portion of accrued sick leave  | 147,214                    | -                              | 147,214             |
| Noncurrent portion of net pension liability   | 1,016,760                  | 357,240                        | 1,374,000           |
| <b>Total noncurrent liabilities</b>   | <b>10,212,739</b>          | <b>357,240</b>                 | <b>10,569,979</b>   |
| <b>Total liabilities</b>  | <b>10,801,706</b>          | <b>361,141</b>                 | <b>11,162,847</b>   |
| <b>Deferred Inflows of Resources:</b>   |                            |                                |                     |
| Difference between projected and actual investment earnings on pension plan investments | 113,220                    | 39,780                         | 153,000             |
| <b>Total deferred inflows of resources</b>  | <b>113,220</b>             | <b>39,780</b>                  | <b>153,000</b>      |
| <b>Net Position:</b>  |                            |                                |                     |
| Net investment in capital assets  | 5,243,976                  | 6,268                          | 5,250,244           |
| Restricted for:   |                            |                                |                     |
| Sick leave  | 147,214                    | -                              | 147,214             |
| FSPK-other  | 144,416                    | -                              | 144,416             |
| Debt service  | 5,267                      | -                              | 5,267               |
| Inventory   | -                          | 15,568                         | 15,568              |
| New assets  | -                          | (307,497)                      | (307,497)           |
| Unrestricted  | (650,957)                  | -                              | (650,957)           |
| <b>Total net position</b>   | <b>\$ 4,889,916</b>        | <b>\$ (285,661)</b>            | <b>\$ 4,604,255</b> |

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

|   | Expenses            | Charges for Services | Program Revenues                   |                                  | Net (Expense) Revenue and Changes in Net Position |                          | Total               |
|---|---------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
|   |                     |                      | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities                           | Business-Type Activities |                     |
| <b>FUNCTIONS/PROGRAMS</b>               |                     |                      |                                    |                                  |   |                          |                     |
| <b>Governmental Activities:</b>         |                     |                      |                                    |                                  |   |                          |                     |
| Instruction                             | \$ 5,187,829        | \$ 47,191            | \$ 752,627                         | \$ -                             | \$ (4,388,011)                                    | \$ -                     | \$ (4,388,011)      |
| Support services:                       |                     |                      |                                    |                                  |   |                          |                     |
| Student                                 | 263,914             | -                    | 18,990                             | -                                | (244,924)   | -                        | (244,924)           |
| Instructional staff                     | 470,227             | -                    | 148,024                            | -                                | (322,203)   | -                        | (322,203)           |
| District administrative                 | 429,790             | -                    | -                                  | -                                | (429,790)   | -                        | (429,790)           |
| School administrative                   | 350,398             | -                    | -                                  | -                                | (350,398)   | -                        | (350,398)           |
| Business                                | 227,511             | -                    | -                                  | -                                | (227,511)   | -                        | (227,511)           |
| Plant operation and maintenance         | 849,130             | -                    | -                                  | -                                | (849,130)   | -                        | (849,130)           |
| Student transportation                  | 181,990             | 2,540                | 2,000                              | -                                | (177,450)   | -                        | (177,450)           |
| Central office                          | -                   | -                    | -                                  | -                                | -   | -                        | -                   |
| Facilities acquisition and construction | -                   | -                    | -                                  | 575,264                          | 575,264   | -                        | 575,264             |
| Community service activities            | 51,001              | -                    | 51,001                             | -                                | -   | -                        | -                   |
| Interest on long-term debt              | 314,315             | -                    | -                                  | -                                | (314,315)   | -                        | (314,315)           |
| Other                                   | 2,500               | -                    | -                                  | -                                | (2,500)   | -                        | (2,500)             |
| <b>Total governmental activities</b>    | <b>8,328,605</b>    | <b>49,731</b>        | <b>972,642</b>                     | <b>575,264</b>                   | <b>(6,730,968)</b>                                | <b>-</b>                 | <b>(6,730,968)</b>  |
| <b>Business-Type Activities:</b>        |                     |                      |                                    |                                  |   |                          |                     |
| Food service                            | 580,392             | 194,249              | 358,539                            | -                                | -   | (27,604)                 | (27,604)            |
| <b>Total primary government</b>         | <b>\$ 8,908,997</b> | <b>\$ 243,980</b>    | <b>\$ 1,331,181</b>                | <b>\$ 575,264</b>                | <b>(6,730,968)</b>                                | <b>(27,604)</b>          | <b>(6,758,572)</b>  |
| <b>General Revenues:</b>                |                     |                      |                                    |                                  |   |                          |                     |
| Taxes:                                  |                     |                      |                                    |                                  |   |                          |                     |
| Property taxes                          |                     |                      |                                    |                                  | 2,158,375   | -                        | 2,158,375           |
| Motor vehicle taxes                     |                     |                      |                                    |                                  | 136,880   | -                        | 136,880             |
| Utility taxes                           |                     |                      |                                    |                                  | 446,094   | -                        | 446,094             |
| Investment earnings                     |                     |                      |                                    |                                  | 8,172   | 440                      | 8,612               |
| State and formula grants                |                     |                      |                                    |                                  | 4,233,234   | -                        | 4,233,234           |
| Miscellaneous                           |                     |                      |                                    |                                  | 23,270  | -                        | 23,270              |
| Changes in net position                 |                     |                      |                                    |                                  | 275,057   | (27,164)                 | 247,893             |
| Net position - beginning, restated      |                     |                      |                                    |                                  | 4,614,859   | (258,497)                | 4,356,362           |
| Net position - ending                   |                     |                      |                                    |                                  | <u>\$ 4,889,916</u>                               | <u>\$ (285,661)</u>      | <u>\$ 4,604,255</u> |

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

**FUND FINANCIAL STATEMENTS**

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2015

|  | General<br>Fund   | Special<br>Revenue | FSPK<br>Fund      | Other<br>Governmental<br>Fund | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------|-------------------|-------------------------------|--------------------------------|
| <b>Assets and Resources:</b>               |                   |                    |                   |                               |                                |
| Cash and cash equivalents                  | \$ 821,125        | \$ (89,223)        | \$ 144,416        | \$ 5,267                      | \$ 881,585                     |
| Accounts receivable                        |                   |                    |                   |                               |                                |
| Taxes - current                            | 33,551            | -                  | -                 | -                             | 33,551                         |
| Taxes - delinquent                         | 8,993             | -                  | -                 | -                             | 8,993                          |
| Accounts receivable                        | 1,093             | -                  | -                 | -                             | 1,093                          |
| Intergovernmental - state                  | -                 | 18,760             | -                 | -                             | 18,760                         |
| Intergovernmental - indirect federal       | -                 | 103,800            | -                 | -                             | 103,800                        |
| <b>Total assets and resources</b>          | <b>\$ 864,762</b> | <b>\$ 33,337</b>   | <b>\$ 144,416</b> | <b>\$ 5,267</b>               | <b>\$ 1,047,782</b>            |
| <b>Liabilities and Fund Balances:</b>      |                   |                    |                   |                               |                                |
| <b>Liabilities:</b>                        |                   |                    |                   |                               |                                |
| Accounts payable                           | \$ 107,874        | \$ 14,577          | \$ -              | \$ -                          | \$ 122,451                     |
| Payroll liabilities                        | 11,855            | -                  | -                 | -                             | 11,855                         |
| Unearned revenue                           | -                 | 18,760             | -                 | -                             | 18,760                         |
| <b>Total liabilities</b>                   | <b>119,729</b>    | <b>33,337</b>      | <b>-</b>          | <b>-</b>                      | <b>153,066</b>                 |
| <b>Fund Balances:</b>                      |                   |                    |                   |                               |                                |
| <b>Restricted For:</b>                     |                   |                    |                   |                               |                                |
| Capital projects                           | -                 | -                  | -                 | -                             | -                              |
| Sick leave payable                         | 147,214           | -                  | -                 | -                             | 147,214                        |
| FSPK-escrow current                        | -                 | -                  | 144,416           | -                             | 144,416                        |
| Debt service                               | -                 | -                  | -                 | 5,267                         | 5,267                          |
| <b>Unassigned:</b>                         |                   |                    |                   |                               |                                |
| Undesignated, reported in:                 |                   |                    |                   |                               |                                |
| General fund                               | 597,819           | -                  | -                 | -                             | 597,819                        |
| <b>Total fund balances</b>                 | <b>745,033</b>    | <b>-</b>           | <b>144,416</b>    | <b>5,267</b>                  | <b>894,716</b>                 |
| <b>Total liabilities and fund balances</b> | <b>\$ 864,762</b> | <b>\$ 33,337</b>   | <b>\$ 144,416</b> | <b>\$ 5,267</b>               | <b>\$ 1,047,782</b>            |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

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

June 30, 2015

|  |                     |
|--|---------------------|
| Total fund balance per fund financial statements   | \$ 894,716          |
| Amounts reported for governmental activities in the Statement of Net Position are different because:   |                     |
| 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.   | 14,529,707          |
| Debt discount is reported as part of deferred outflows of resources and is reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the Statement of Net Position.  | 95,521              |
| Pension contributions after measurement date are reported as a deferred outflows of resources.   | 131,832             |
| Net pension liability is not due and payable in the current period and, therefore, is not reported in governmental funds.  | (1,016,760)         |
| Net difference between projected and actual investment earnings on pension plan investments is reported as a deferred inflows of resources in the Statement of Net Position.   | (113,220)           |
| Certain liabilities (such as KSBIT assessment, bonds payable, capital lease payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the Statement of Net Position. | <u>(9,631,880)</u>  |
| Net position for governmental activities   | <u>\$ 4,889,916</u> |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

For the year ended June 30, 2015

|   | General<br>Fund   | Special<br>Revenue | FSPK<br>Fund      | Other<br>Governmental<br>Fund | Total<br>Governmental<br>Fund |
|---|-------------------|--------------------|-------------------|-------------------------------|-------------------------------|
| <b>Revenues:</b>  |                   |                    |                   |                               |                               |
| From local sources  |                   |                    |                   |                               |                               |
| Taxes   |                   |                    |                   |                               |                               |
| Property  | \$ 1,881,495      | \$ -               | \$ 276,880        | \$ -                          | \$ 2,158,375                  |
| Motor vehicle   | 136,880           | -                  | -                 | -                             | 136,880                       |
| Utilities   | 446,094           | -                  | -                 | -                             | 446,094                       |
| Tuition and fees  | 47,191            | -                  | -                 | -                             | 47,191                        |
| Earnings on investments   | 8,082             | -                  | -                 | 90                            | 8,172                         |
| Other local revenues  | 25,810            | -                  | -                 | -                             | 25,810                        |
| Intergovernmental – state   | 4,229,842         | 200,875            | 274,190           | 200,242                       | 4,905,149                     |
| Intergovernmental – indirect federal  | 3,392             | 771,767            | -                 | 100,832                       | 875,991                       |
| <b>Total revenues</b>   | <b>6,778,786</b>  | <b>972,642</b>     | <b>551,070</b>    | <b>301,164</b>                | <b>8,603,662</b>              |
| <b>Expenditures:</b>  |                   |                    |                   |                               |                               |
| Instruction   | 4,405,261         | 769,710            | -                 | -                             | 5,174,971                     |
| Support services:   |                   |                    |                   |                               |                               |
| Student   | 244,832           | 18,990             | -                 | -                             | 263,822                       |
| Instructional staff   | 321,868           | 148,024            | -                 | -                             | 469,892                       |
| District administrative   | 350,948           | -                  | -                 | -                             | 350,948                       |
| School administrative   | 349,553           | -                  | -                 | -                             | 349,553                       |
| Business  | 227,511           | -                  | -                 | -                             | 227,511                       |
| Plant operation and maintenance   | 829,170           | -                  | -                 | -                             | 829,170                       |
| Student transportation  | 161,910           | 2,000              | -                 | -                             | 163,910                       |
| Central office  | -                 | -                  | -                 | -                             | -                             |
| Facilities acquisition and construction   | -                 | -                  | -                 | 218,572                       | 218,572                       |
| Community services activities   | -                 | 51,001             | -                 | -                             | 51,001                        |
| Other   | 45,230            | -                  | -                 | 760,684                       | 805,914                       |
| <b>Total expenditures</b>   | <b>6,936,283</b>  | <b>989,725</b>     | <b>-</b>          | <b>979,256</b>                | <b>8,905,264</b>              |
| <b>Excess (deficit) of revenues over expenditures</b>   | <b>(157,497)</b>  | <b>(17,083)</b>    | <b>551,070</b>    | <b>(678,092)</b>              | <b>(301,602)</b>              |
| <b>Other Financing Sources (Uses):</b>  |                   |                    |                   |                               |                               |
| Bond proceeds   | -                 | -                  | -                 | -                             | -                             |
| Proceeds from the sale of fixed assets  | -                 | -                  | -                 | -                             | -                             |
| Operating transfers in  | -                 | 17,083             | -                 | 739,180                       | 756,263                       |
| Operating transfers out   | (19,583)          | -                  | (663,106)         | (73,574)                      | (756,263)                     |
| Non operating transfers in  | -                 | -                  | -                 | -                             | -                             |
| Non operating transfers out   | -                 | -                  | -                 | -                             | -                             |
| <b>Total other financing sources (uses)</b>   | <b>(19,583)</b>   | <b>17,083</b>      | <b>(663,106)</b>  | <b>665,606</b>                | <b>-</b>                      |
| <b>Excess (deficit) of revenue and other financing sources over expenditures and other financing uses</b> | <b>(177,080)</b>  | <b>-</b>           | <b>(112,036)</b>  | <b>(12,486)</b>               | <b>(301,602)</b>              |
| <b>Fund balance, July 1, 2014</b>   | <b>922,113</b>    | <b>-</b>           | <b>256,452</b>    | <b>17,753</b>                 | <b>1,196,318</b>              |
| <b>Fund balance, June 30, 2015</b>  | <b>\$ 745,033</b> | <b>\$ -</b>        | <b>\$ 144,416</b> | <b>\$ 5,267</b>               | <b>\$ 894,716</b>             |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2015

|  |                   |
|--|-------------------|
| Net change in total fund balances per fund financial statements  | \$ (301,602)      |
| Amounts reported for governmental activities in the Statement of Activities are different because:   |                   |
| 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 outlay exceeds depreciation for the year. | 99,493            |
| The issuance of long term debt (bonds and financial obligations) provides current financial resources to government funds, while 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.       | 494,147           |
| 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.   | <u>(16,981)</u>   |
| Change in net position of governmental activities  | <u>\$ 275,057</u> |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

**PROPRIETARY FUND**

June 30, 2015

|   | <u>Food<br/>Service<br/>Fund</u> |
|---|----------------------------------|
| <b>Assets</b>   |                                  |
| <b>Current Assets:</b>  |                                  |
| Cash and cash equivalents   | \$ 45,733                        |
| Inventory   | 15,568                           |
| Accounts receivable   |                                  |
| Intergovernmental – indirect federal  | <u>15,108</u>                    |
| <b>Total current assets</b>   | <b>76,409</b>                    |
| <b>Noncurrent Assets:</b>   |                                  |
| Capital assets  | 91,540                           |
| Less: accumulated depreciation  | <u>85,272</u>                    |
| <b>Total noncurrent assets</b>  | <b><u>6,268</u></b>              |
| <b>Total assets</b>   | <b><u>82,677</u></b>             |
| <b>Deferred Outflows of Resources:</b>  |                                  |
| District pension contributions subsequent to measurement date                           | <u>32,583</u>                    |
| <b>Total deferred outflows of resources</b>   | <b><u>32,583</u></b>             |
| <b>Liabilities</b>  |                                  |
| <b>Current Liabilities:</b>   |                                  |
| Accounts payable  | <u>3,901</u>                     |
| <b>Total current liabilities</b>  | <b>3,901</b>                     |
| <b>Noncurrent Liabilities:</b>  |                                  |
| Net pension liability   | <u>357,240</u>                   |
| <b>Total noncurrent liabilities</b>   | <b><u>357,240</u></b>            |
| <b>Total liabilities</b>  | <b><u>361,141</u></b>            |
| <b>Deferred Inflows of Resources:</b>   |                                  |
| Difference between projected and actual investment earnings on pension plan investments | <u>39,780</u>                    |
| <b>Total deferred inflows of resources</b>  | <b><u>39,780</u></b>             |
| <b>Net Position:</b>  |                                  |
| Net investment in capital assets  | 6,268                            |
| Restricted For:   |                                  |
| Inventory   | 15,568                           |
| New assets  | <u>(307,497)</u>                 |
| <b>Total net position</b>   | <b><u>\$ (285,661)</u></b>       |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

**PROPRIETARY FUND**

For the year ended June 30, 2015

|   | <u>Food<br/>Service<br/>Fund</u> |
|---|----------------------------------|
| <b>Operating Revenues:</b>                  |                                  |
| Lunchroom sales                             | \$ 194,249                       |
| <b>Total operating revenues</b>             | <b>194,249</b>                   |
| <b>Operating Expenses:</b>                  |                                  |
| Salaries and wages                          | 349,277                          |
| Materials and supplies                      | 225,841                          |
| Depreciation                                | 3,636                            |
| Other operating expenses                    | 1,638                            |
| <b>Total operating expenses</b>             | <b>580,392</b>                   |
| <b>Operating loss</b>                       | <b>(386,143)</b>                 |
| <b>Non-Operating Revenues (Expenses):</b>   |                                  |
| Federal grants                              | 230,366                          |
| Donated commodities                         | 25,775                           |
| State grants                                | 102,398                          |
| Interest income                             | 440                              |
| <b>Total non-operating revenues</b>         | <b>358,979</b>                   |
| <b>Change in net position</b>               | <b>(27,164)</b>                  |
| <b>Net Position, July 1, 2014, restated</b> | <b>(258,497)</b>                 |
| <b>Net Position, June 30, 2015</b>          | <b>\$ (285,661)</b>              |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUNDS**

For the year ended June 30, 2015

**Cash Flows from Operating Activities:**

|   |                  |
|---|------------------|
| Cash received from:   |                  |
| Lunchroom sales   | \$ 194,249       |
| Cash paid to/for:   |                  |
| Employees   | (250,901)        |
| Material and supplies                                       | (202,542)        |
| Other activities  | (1,638)          |
|   | <u>(260,832)</u> |
| <b>Net cash provided by (used for) operating activities</b> | <b>(260,832)</b> |

**Cash Flows from Noncapital Financing Activities:**

|   |                |
|---|----------------|
| Government grants   | <u>220,335</u> |
| <b>Net cash provided by noncapital and related financing activities</b> | <b>220,335</b> |

**Cash Flows from Capital and Related Financing Activities:**

|   |          |
|---|----------|
| Purchases of capital assets                                       | <u>-</u> |
| <b>Net cash used for capital and related financing activities</b> | <b>-</b> |

**Cash Flows from Investing Activities:**

|  |            |
|--|------------|
| Receipt of interest income                       | <u>440</u> |
| <b>Net cash provided by investing activities</b> | <b>440</b> |

Net (decrease) in cash and cash equivalents (40,057)

**Balances, beginning of year** 85,790

**Balances, end of year** \$ 45,733

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities:**

Operating income (loss) \$ (386,143)

**Adjustments to reconcile operating income to net cash provided (used) by operating activities:**

|  |              |
|--|--------------|
| Depreciation                                     | 3,636        |
| Donated commodities                              | 25,775       |
| On-behalf payments                               | 98,376       |
| Change in assets and liabilities                 |              |
| Inventory  | (121)        |
| Deferred outflows district pension contributions | (3,983)      |
| Accounts payable                                 | 1,628        |
|  | <u>1,628</u> |

**Net cash provided by (used for) operating activities** \$ (260,832)

**Schedule of non-cash transactions:**

|  |           |
|--|-----------|
| Donated commodities received from federal government | \$ 25,775 |
| On-behalf payments                                   | 98,376    |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**FIDUCIARY FUND**

June 30, 2015

|                           | <u>Agency<br/>Fund</u>  |
|---------------------------|-------------------------|
| <b>Assets:</b>            |                         |
| Cash and cash equivalents | \$ 65,882               |
| Accounts receivable       | <u>-</u>                |
| <b>Total assets</b>       | <b><u>\$ 65,882</u></b> |
| <b>Liabilities:</b>       |                         |
| Accounts payable          | \$ 213                  |
| Due to student groups     | <u>65,669</u>           |
| <b>Total liabilities</b>  | <b><u>\$ 65,882</u></b> |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

For the year ended June 30, 2015

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

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

Reporting Entity

The Paintsville Independent 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 Paintsville Independent Board of Education ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

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

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

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

Basis of Presentation

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

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

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

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

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

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

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

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

The District has the following funds:

**I. Governmental Fund Types**

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

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

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

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

(D) Debt Service Funds

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.

(E) The District Activity Fund is used to account for financial resources to be used for maintenance and up keep at each individual school. It is funded by monies collected at special events at the local school level and to be used for that particular school.

II. Proprietary Fund Type (Enterprise Fund)

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

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

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

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

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.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

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

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

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

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.887 per \$100 valuation for real property, \$.887 per \$100 valuation for business personal property and \$.727 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.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

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

Capital Assets

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

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

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

| <u>Description</u>         | <u>Governmental Activities<br/>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  |
| Rolling stock              | 15 years   |
| Other                      | 10 years   |

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

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

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

Budgetary Process

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

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

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

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

Prepaid Assets

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

Investments

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District only has one item that qualifies for reporting in this category. It is the difference between projected and actual investment earnings on pension plan investments.

Fund Balance Reserves

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

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

Non-spendable includes amounts that must be maintained intact legally or contractually.

Spendable include the following:

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

## PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2015

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

#### Net Position

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

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

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

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

#### Operating Revenues and Expenses

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

#### Contributions of Capital

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

## PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2015

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

##### Interfund Activity

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

##### 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 Employee's Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. 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.

##### Recently Issued and Adopted Accounting Pronouncements

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

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

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

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

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

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision usefulness of

## **PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

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

Statement No. 68 is effective for pension plan employers in fiscal years beginning after June 15, 2014, (that is, for years ended June 30, 2015, or later).

#### **NOTE B – ON-BEHALF PAYMENTS**

For the year ended June 30, 2015, on-behalf payments were made on behalf of the District for KTRS \$658,170, Health insurance \$898,617, Life insurance \$1,510, Administrative fee \$10,280, HRA/Dental/Vision \$31,063, Federal reimbursement (\$47,144), KEN services \$41,680, Munis financial management software and services \$1,991, McAfee virus protection software and services \$790, and SFCC debt service \$126,668. The overall total payments for on-behalf were \$1,723,625. In addition, \$100,832 was made from federal sources to satisfy a QZAB Bond payment. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the Statement of Activities. However, the on-behalf payments are not budgeted on the Budget to Actual Statements.

#### **NOTE C – ESTIMATES**

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

#### **NOTE D – CASH AND CASH EQUIVALENTS**

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

At June 30, 2015 the carrying amount of the District's deposits was \$993,200 and the bank balance was \$1,580,696. The entire bank balance throughout the year was covered by federal depository insurance or by collateral held by the District's agent in the District's name.

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

- a. Name of bank: Citizens National Bank

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE D – CASH AND CASH EQUIVALENTS - CONTINUED**

- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$3,500,000.

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

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

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

Breakdown per financial statements:

|                    |                   |
|--------------------|-------------------|
| Governmental funds | \$ 881,585        |
| Proprietary funds  | 45,733            |
| Agency funds       | <u>65,882</u>     |
|                    | <u>\$ 993,200</u> |

**NOTE E – INVESTMENTS**

The District had no investments at June 30, 2015.

**NOTE F – CAPITAL ASSETS**

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

| <b>Governmental Activities</b>                  | <u>Balance<br/>July 1, 2014</u> | <u>Additions</u>    | <u>Deductions</u>   | <u>Balance<br/>June 30, 2015</u> |
|---|---------------------------------|---------------------|---------------------|----------------------------------|
| Land  | \$ 3,665,000                    | \$ -                | \$ -                | \$ 3,665,000                     |
| Land improvements                               | 184,055                         | -                   | -                   | 184,055                          |
| Buildings and improvement                       | 11,387,374                      | 7,182,907           | -                   | 18,570,281                       |
| Technology equipment                            | 1,287,017                       | 6,980               | 45,310              | 1,248,687                        |
| General equipment                               | 192,050                         | -                   | 3,500               | 188,550                          |
| Vehicles  | 611,886                         | -                   | -                   | 611,886                          |
| Construction work in progress                   | <u>6,964,335</u>                | -                   | <u>6,964,335</u>    | <u>-</u>                         |
| Totals at historical cost                       | <u>24,291,717</u>               | <u>7,189,887</u>    | <u>7,013,145</u>    | <u>24,468,459</u>                |
| Less: accumulated depreciation                  |                                 |                     |                     |                                  |
| Buildings and improvements                      | 8,073,172                       | 5,066               | -                   | 8,078,238                        |
| Technology equipment                            | 1,141,800                       | 84,797              | 45,310              | 1,181,287                        |
| General equipment                               | 165,195                         | 7,776               | 3,500               | 169,471                          |
| Vehicles  | <u>481,336</u>                  | <u>28,420</u>       | <u>-</u>            | <u>509,756</u>                   |
| Total accumulated depreciation                  | <u>9,861,503</u>                | <u>126,059</u>      | <u>48,810</u>       | <u>9,938,752</u>                 |
| Governmental Activities<br>Capital Assets – Net | <u>\$ 14,430,214</u>            | <u>\$ 7,063,828</u> | <u>\$ 6,964,335</u> | <u>\$ 14,529,707</u>             |

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE F – CAPITAL ASSETS - CONTINUED**

| <b>Business-Type Activities</b> | <u>Balance<br/>July 1, 2014</u> | <u>Additions</u>  | <u>Deductions</u> | <u>Balance<br/>June 30, 2015</u> |
|---------------------------------|---------------------------------|-------------------|-------------------|----------------------------------|
| General equipment               | \$ 89,050                       | \$ -              | \$ -              | \$ 89,050                        |
| Technology equipment            | <u>2,490</u>                    | <u>-</u>          | <u>-</u>          | <u>2,490</u>                     |
| Totals at historical cost       | <u>91,540</u>                   | <u>-</u>          | <u>-</u>          | <u>91,540</u>                    |
| Less: accumulated depreciation  |                                 |                   |                   |                                  |
| General equipment               | 79,764                          | 3,398             | -                 | 83,162                           |
| Technology equipment            | <u>1,872</u>                    | <u>238</u>        | <u>-</u>          | <u>2,110</u>                     |
| Total accumulated depreciation  | <u>81,636</u>                   | <u>3,636</u>      | <u>-</u>          | <u>85,272</u>                    |
| Business-Type Activities        |                                 |                   |                   |                                  |
| Capital Assets – Net            | <u>\$ 9,904</u>                 | <u>\$ (3,636)</u> | <u>\$ -</u>       | <u>\$ 6,268</u>                  |

Depreciation expense has been charged to the following functions in the statement of activities.

|                                 |                  |
|---------------------------------|------------------|
| Instruction                     | \$ 70,270        |
| Student support                 | 92               |
| Instructional staff             | 335              |
| District administrative         | 16,477           |
| School administrative           | 845              |
| Plant operation and maintenance | 19,960           |
| Student transportation          | 18,080           |
| Food service                    | <u>3,636</u>     |
|                                 | <u>\$129,695</u> |

**NOTE G – BONDED DEBT AND LEASE OBLIGATIONS**

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

| <u>Issue Date</u> | <u>Amounts</u> | <u>Interest Rates</u> |
|-------------------|----------------|-----------------------|
| 2003 Refinancing  | \$ 375,000     | 1.50% - 3.600%        |
| 2008 Refinancing  | 425,000        | 2.60% - 3.400%        |
| 2010              | 2,585,000      | 1.00% - 4.000%        |
| 2010 Refinancing  | 1,525,000      | .60% - 2.500%         |
| 2012              | 4,155,000      | 1.20% - 2.375%        |

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

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

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED**

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

| <u>YEAR</u> | <u>PAINTSVILLE INDEPENDENT SCHOOL DISTRICT</u> |                    | <u>KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION</u> |                  | <u>TOTAL REQUIREMENTS FOR YEAR</u> |
|-------------|--|--------------------|---|------------------|------------------------------------|
|             | <u>PRINCIPAL</u>                               | <u>INTEREST</u>    | <u>PRINCIPAL</u>  | <u>INTEREST</u>  | <u>TOTAL</u>                       |
| 2015-2016   | \$ 280,196                                     | \$ 151,437         | \$ 84,804   | \$ 41,867        | \$ 558,304                         |
| 2016-2017   | 286,733  | 145,369            | 83,267  | 40,071           | 555,440                            |
| 2017-2018   | 292,077  | 139,320            | 77,923  | 38,309           | 547,629                            |
| 2018-2019   | 295,393  | 133,046            | 79,607  | 36,626           | 544,672                            |
| 2019-2020   | 303,497  | 126,121            | 81,503  | 34,728           | 545,849                            |
| 2020-2021   | 316,544  | 119,037            | 83,456  | 32,776           | 551,813                            |
| 2021-2022   | 324,399  | 111,386            | 85,601  | 30,631           | 552,017                            |
| 2022-2023   | 327,185  | 105,303            | 87,815  | 28,418           | 548,721                            |
| 2023-2024   | 329,596  | 97,133             | 90,404  | 25,827           | 542,960                            |
| 2024-2025   | 341,685  | 87,368             | 93,315  | 22,917           | 545,285                            |
| 2025-2026   | 353,597  | 77,140             | 96,403  | 19,829           | 546,969                            |
| 2026-2027   | 365,400  | 66,443             | 99,600  | 16,632           | 548,075                            |
| 2027-2028   | 377,092  | 55,478             | 102,908   | 13,325           | 548,803                            |
| 2028-2029   | 388,668  | 44,052             | 106,332   | 9,901            | 548,953                            |
| 2029-2030   | 400,124  | 32,369             | 109,876   | 6,356            | 548,725                            |
| 2030-2031   | 318,442  | 19,460             | 46,558  | 2,688            | 387,148                            |
| 2031-2032   | 327,323  | 11,791             | 47,677  | 1,567            | 388,358                            |
| 2032-2033   | <u>332,826</u>                                 | <u>3,952</u>       | <u>42,174</u>   | <u>500</u>       | <u>379,452</u>                     |
|             | <u>\$5,960,777</u>                             | <u>\$1,526,205</u> | <u>\$1,499,223</u>  | <u>\$402,968</u> | <u>\$9,389,173</u>                 |

On November 29, 2012, the District issued \$4,155,000 in School Building Revenue Bonds (series 2012) with an interest rate ranging from 1.20% to 2.375% to finance a new addition to Paintsville Elementary.

On September 2, 2010 the District refinanced the School Building Revenue Bonds, (series 2001) with a cumulative savings of \$128,823. The new 2010 bond series was issued for \$1,525,000 with an interest rate ranging from .60% to 2.50%. The proceeds were put in an escrow to call the series 2001 bond over a one year period.

On February 4, 2010, the District issued \$2,585,000 in School Building Revenue Bonds, (series 2010) with an interest rate ranging from 1.0% to 4.0% to finance a new cafeteria for Paintsville High School.

On June 19, 2008, the District issued revenue refunding bonds of \$425,000 with interest rates varying from 2.60% to 3.40% to advance refund the 1996 revenue bonds with interest rates ranging from 4.55% to 5.70%. The new issue will redeem the outstanding 1996 bonds maturing after August 1, 2008 in the principal amount of \$395,000 on August 1, 2008 at the redemption price of 102%. As a result, the 1996 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide Statement of Net Position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$30 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016 using the effective-interest method.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED**

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

| <u>AMOUNT<br/>OUTSTANDING<br/>6/30/14</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>AMOUNT<br/>OUTSTANDING<br/>6/30/15</u> | <u>AMOUNTS<br/>DUE WITHIN<br/>ONE YEAR</u> |
|---|------------------|-------------------|---|--|
| \$7,820,000                               | \$ -             | \$(360,000)       | \$7,460,000                               | \$265,000                                  |

**QUALIFIED ZONE ACADEMY BONDS**

The Paintsville Independent School District Finance Corporation issued \$2,719,298 of Qualified Zone Academy Bonds (QZAB), Series 2012, November 29, 2012 under a guaranteed investment contract whereby the Paintsville Independent School District will remit to the low bidder The Bank Of New York Mellon contributions to an escrow account \$2,045,096 over a twenty-three year period. The federal government will pay directly to the bank all of the annual interest expense leaving the board a small portion of interest due if the government fails to make payment. Funds from the escrow will be used to defease the entire bond upon maturity December 1, 2035. The minimum obligations of the funds at June 30, 2015 for the escrow and interest are as follows:

| <u>Year</u> | <u>Paintsville Independent<br/>School District</u> | <u>Federal Rebate</u> | <u>Total<br/>Requirements<br/>For Year</u> |
|-------------|--|-----------------------|--|
|             | <u>Escrow</u>                                      | <u>Interest</u>       | <u>Total</u>                               |
| 2015-2016   | \$ 88,917  | \$ 108,772            | \$ 197,689                                 |
| 2016-2017   | 88,917   | 108,772               | 197,689                                    |
| 2017-2018   | 88,917   | 108,772               | 197,689                                    |
| 2018-2019   | 88,917   | 108,772               | 197,689                                    |
| 2019-2020   | 88,917   | 108,772               | 197,689                                    |
| 2020-2021   | 88,917   | 108,772               | 197,689                                    |
| 2021-2022   | 88,917   | 108,772               | 197,689                                    |
| 2022-2023   | 88,917   | 108,772               | 197,689                                    |
| 2023-2024   | 88,917   | 108,772               | 197,689                                    |
| 2024-2025   | 88,917   | 108,772               | 197,689                                    |
| 2025-2026   | 88,917   | 108,772               | 197,689                                    |
| 2026-2027   | 88,917   | 108,772               | 197,689                                    |
| 2027-2028   | 88,917   | 108,772               | 197,689                                    |
| 2028-2029   | 88,917   | 108,772               | 197,689                                    |
| 2029-2030   | 88,917   | 108,772               | 197,689                                    |
| 2030-2031   | 88,917   | 108,772               | 197,689                                    |
| 2031-2032   | 88,918   | 108,772               | 197,690                                    |
| 2032-2033   | 88,918   | 108,772               | 197,690                                    |
| 2033-2034   | 88,918   | 108,772               | 197,690                                    |
| 2034-2035   | 88,918   | 108,771               | 197,689                                    |
| 2035-2036   | <u>88,918</u>                                      | <u>54,385</u>         | <u>143,303</u>                             |
|             | <u>\$1,867,262</u>                                 | <u>\$2,229,824</u>    | <u>\$4,097,086</u>                         |

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE G – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED**

During the year ended June 30, 2015 the District’s QZAB debt obligation to the escrow was as follows:

| <u>AMOUNT<br/>OUTSTANDING<br/>6/30/14</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>AMOUNT<br/>OUTSTANDING<br/>6/30/15</u> | <u>AMOUNTS<br/>DUE WITHIN<br/>ONE YEAR</u> |
|---|------------------|-------------------|---|--|
| \$1,956,179                               | \$ -             | \$88,917          | \$1,867,262                               | \$88,917                                   |

**NOTE H – CAPITAL LEASE PAYABLE**

The District had no capital lease payable as of June 30, 2015.

**NOTE I – COMMITMENTS UNDER NONCAPITALIZED LEASES**

The District had no commitments under noncapitalized leases at June 30, 2015.

**NOTE J – KSBIT PAYABLE**

The Kentucky School Board Insurance Trust (“KSBIT”) notified the District during 2013 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under novation method, the District’s liability would be \$148,644. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. The District has voted to finance this obligation over a six year period. The minimum obligations of the funds at June 30, 2015 for principal only are as follows:

| <u>FISCAL YEAR</u> | <u>AMOUNT</u>     |
|--------------------|-------------------|
| 2016               | \$ 27,994         |
| 2017               | 27,994            |
| 2018               | 11,857            |
| 2019               | 11,857            |
| 2020               | 11,856            |
| 2021               | 11,856            |
|                    | <u>\$ 103,414</u> |

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

| <u>AMOUNT<br/>OUTSTANDING<br/>6/30/14</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>AMOUNT<br/>OUTSTANDING<br/>6/30/15</u> | <u>AMOUNTS<br/>DUE WITHIN<br/>ONE YEAR</u> |
|---|------------------|-------------------|---|--|
| \$148,644                                 | \$ -             | \$45,230          | \$103,414                                 | \$27,994                                   |

**NOTE K – PENSION PLANS**

**KENTUCKY TEACHERS’ RETIREMENT**

The Paintsville Independent School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and

## PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

For the year ended June 30, 2015

#### NOTE K – PENSION PLANS - CONTINUED

disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Ky 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

*Funding Policy* – Contribution rates are established by KRS. Members are required to contribute 12.105% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. The local school districts pay employer matching on all employees who do not occupy federally funded positions. As part of the Shared Responsibility Plan, beginning July 1, 2010 each employer is required to pay the amount equal to the increase in employee contributions. Effective July 1, 2014, the current employer match is 2.25% of total gross non-federal salaries in the district and for individuals employed in federally funded positions the employer-matching rate is 15.355%

#### ***Medical Insurance Plan***

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

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

*Funding policy* – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Members contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 2.25% of members' salary for the 2014-2015 fiscal year.

The Paintsville Independent School District's total payroll for the year was \$5,260,636. The payroll for employees covered under KTRS was \$4,072,694. For the year ended June 30, 2015, the Commonwealth contributed \$632,005 to KTRS for the benefit of participating employees. The School district's contributions to KTRS for the year ending June 30, 2015 was \$138,772, which represents those employees covered by federal programs.

#### **COUNTY EMPLOYEES' RETIREMENT SYSTEM**

##### ***Plan Description***

Classified employees (substantially all full-time Board employees other than certified employees) are covered by the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE K – PENSION PLANS - CONTINUED**

pension plan administered by the Kentucky Retirement System. CERS provides for retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided at the discretion of the State legislature. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The County Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or at <http://www.kyret.ky.gov>.

***Benefits Provided***

The following is a description of the plan and its benefits and is provided for general information purposes only. Participants should refer to the appropriate statutes for more complete information.

**Retirement Benefit**

CERS is designed to provide three types of benefits: a monthly retirement benefit for life based on the employee's salary and service (the pension benefit), health insurance benefits after retirement, and disability/death benefits.

Monthly retirement benefits are based on a formula established by statute which is (final compensation x benefit factor x years of service credit). Participants hired before 8/1/04 have their monthly benefit calculated at the average of highest five years salary which must contain at least 48 months of service and includes lump-sum payments for compensatory time times 2.2% benefit factor times years of service credit. Participants hired after 8/1/04 but before 9/1/08 have a reduced benefit factor of 2.0%.

Participants hired after 9/1/08 have their monthly benefit calculated at the average of the five complete fiscal years immediately preceding retirement which must contain 60 months of service and does not include lump-sum payments for compensatory time. The benefit factor is 1.10% for 10 years or less of service, 1.30% for more than 10 years but no more than 20 years, 1.50% for greater than 20 years but no more than 26 years, 1.75% for greater than 26 years but no more than 30 years, and 2.00% for greater than 30 years.

At retirement, a retiree may choose to take a reduced monthly benefit in order to provide a monthly benefit to a beneficiary upon their death, either for a period certain or for the life of the beneficiary. The system also provides for a statutory 1.5% annual increase to monthly benefits after retirement, often referred to as the cost of living adjustment (COLA).

**Medical Insurance**

CERS also provides access to group rates on medical insurance for retired members, their spouse, and dependents. Coverage for retirees not eligible for Medicare is provided through the Kentucky Employees Health Plan the same health plan provided to state employees. Coverage for Medicare eligible retirees is provided through a plan administered by or contracted through the retirement systems which then coordinates with Medicare for delivery of health benefits.

As provided by state statute, CERS also subsidizes medical coverage for the retiree. In general, employees participating prior to 7/1/03 receive a percentage of the premium paid based upon service credit, while employees who begin participating after that date receive a set dollar amount for each year of service credit.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE K – PENSION PLANS - CONTINUED**

**Disability and Death Benefits**

Like most defined benefit plans, CERS provides benefits for those employees who become disabled or who die prior to retirement. Participants have to have a minimum of 5 years of service to apply for disability benefits and approval determined by systems under criteria established by state statute. CERS also provides death before retirement and special death in the line of duty benefits. After retirement, the benefits left to the retiree's beneficiary vary based upon the payment option selected at retirement. In addition, CERS provides a \$5,000 lump sum death benefit for members who retire with at least 4 years of service.

**Contributions**

Plan members are required to contribute 5.00% of their annual salary if hired before September 1, 2008 and 6% if hired on or after September 1, 2008 through payroll deductions and the Board is required to contribute at an actuarially determined rate. The current rate is 17.67% of the employee's total covered compensation, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District's contributions to CERS for the year ended June 30, 2015 was \$213,538, which consisted of \$164,415 from the District and \$49,123 from the employees.

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

KTRS portion of GASB 68 changes will be reported by the State only and the district will not reflect any of those changes in their report but the district will fully comply with all changes of GASB 68 concerning CERS and disclose those changes within the report.

At June 30, 2015, the District reported a liability of \$1,374,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the District's proportion was 0.042%, which was an increase of 0.001% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$110,000. 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<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|---|---|--|
| Differences between expected and actual experience  | \$ -                                      | \$ -                                     |
| Changes of assumptions  | -   | -  |
| Net difference between projected and actual earnings on pension plan investments                              | -   | 153,000                                  |
| Changes in proportion and differences between District contributions and proportionate share of contributions | -   | -  |
| District contributions subsequent to the measurement date   | <u>164,415</u>                            | <u>-</u>                                 |
| Total   | <u>\$ 164,415</u>                         | <u>\$ 153,000</u>                        |

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE K – PENSION PLANS - CONTINUED**

\$164,415 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 of resources related to pensions will be recognized in pension expense as follows:

| <b>Year ended June 30:</b> |                   |
|----------------------------|-------------------|
| 2016                       | \$ 30,600         |
| 2017                       | 30,600            |
| 2018                       | 30,600            |
| 2019                       | 30,600            |
| 2020                       | <u>30,600</u>     |
|                            | <u>\$ 153,000</u> |

***Actuarial Methods and Assumptions***

A summary of the actuarial methods and assumptions used in determining the total pension liability as of June 30, 2014 are as follows:

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

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

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE K – PENSION PLANS - CONTINUED**

| <u>Asset Class</u>         | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|--------------------------|---|
| Domestic Equity            | 30%                      | 8.45%   |
| International Equity       | 22                       | 8.85  |
| Emerging Market Equity     | 5                        | 10.50   |
| Private Equity             | 7                        | 11.25   |
| Real Estate                | 5                        | 7.00  |
| Core US Fixed Income       | 10                       | 5.25  |
| High Yield US Fixed Income | 5                        | 7.25  |
| Non US Fixed Income        | 5                        | 5.50  |
| Commodities                | 5                        | 7.75  |
| TIPS                       | 5                        | 5.00  |
| Cash                       | 1                        | 3.25  |
| Total                      | <u>100%</u>              |   |

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions from participating employers will be made at contractually required rates, actuarially determined. 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 active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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

|   | <u>1.0% Decrease<br/>(6.75%)</u> | <u>Current Discount<br/>Rate (7.75%)</u> | <u>1.0% Increase<br/>(8.75%)</u> |
|---|----------------------------------|--|----------------------------------|
| District's proportionate share of the net pension liability | \$1,808,169                      | \$1,374,000                              | \$990,512                        |

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS 2014 Comprehensive Annual Financial Report at [kyret.ky.gov](http://kyret.ky.gov).

**NOTE L - CONTINGENCIES**

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE L – CONTINGENCIES - CONTINUED**

refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE M - LITIGATION**

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

**NOTE N - INSURANCE AND RELATED ACTIVITIES**

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

**NOTE O - RISK MANAGEMENT**

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

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

**NOTE P - DEFICIT OPERATING BALANCES**

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

|                   |            |
|-------------------|------------|
| General Fund      | \$ 177,080 |
| Construction Fund | \$ 12,576  |
| FSPK Fund         | \$ 112,036 |
| Proprietary Fund  | \$ 27,164  |
| Fiduciary Fund    | \$ 10,275  |

The Proprietary Fund had a deficit net position (\$285,661) at June 30, 2015 due to a restatement to beginning net position concerning the required booking of the net pension liability (GASB 68).

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

For the year ended June 30, 2015

**NOTE Q - 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 R - TRANSFER OF FUNDS**

The following transfers were made during the year:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u>  | <u>Purpose</u> | <u>Amount</u> |
|-------------|------------------|-----------------|----------------|---------------|
| Operating   | FSPK             | Construction    | Construction   | \$ 205,996    |
| Operating   | FSPK             | Debt Service    | Debt Service   | \$ 457,110    |
| Operating   | General          | Special Revenue | Other          | \$ 17,083     |
| Operating   | Capital Outlay   | Debt Service    | Debt Service   | \$ 73,574     |
| Operating   | General          | Debt Service    | Debt Service   | \$ 2,500      |

**NOTE S – INTERFUND RECEIVABLES AND PAYABLES**

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

**NOTE T – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 12, 2015, the date on which the financial statements were available to be issued.

**NOTE U – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT**

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB Statement No. 27*, for the employees' Pension Plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

The implementation of GASB Statement No. 68 had the following effect:

|  | <u>Governmental<br/>Activities</u> | <u>Business-Type<br/>Activities</u> |
|--|------------------------------------|-------------------------------------|
| Net position, June 30, 2014  | \$ 5,663,439                       | \$ 109,923                          |
| Recognition of net pension liabilities,<br>deferred pension inflows and outflows | <u>(1,048,580)</u>                 | <u>(368,420)</u>                    |
| Restated net position, June 30, 2014   | <u>\$ 4,614,859</u>                | <u>\$ (258,497)</u>                 |

**REQUIRED SUPPLEMENTARY INFORMATION**

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

**GENERAL FUND**

For the year ended June 30, 2015

|  | <u>Budgeted Amounts</u> |                  | <u>Actual<br/>(GAAP Basis)</u> | <u>Variance<br/>with Final<br/>Budget<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|------------------|--------------------------------|---|
|  | <u>Original</u>         | <u>Final</u>     |                                |   |
| <b>Revenues:</b>   |                         |                  |                                |   |
| From local sources   |                         |                  |                                |   |
| Taxes  |                         |                  |                                |   |
| Property   | \$ 2,073,064            | \$ 2,073,064     | \$ 1,881,495                   | \$ (191,569)  |
| Motor vehicle  | 140,000                 | 140,000          | 136,880                        | (3,120)   |
| Utilities  | 450,000                 | 450,000          | 446,094                        | (3,906)   |
| Tuition and fees   | 50,000                  | 50,000           | 47,191                         | (2,809)   |
| Earnings on investments  | 20,000                  | 20,000           | 8,082                          | (11,918)  |
| Other local revenues   | 9,000                   | 9,000            | 25,810                         | 16,810  |
| Intergovernmental - state  | 4,022,261               | 4,022,261        | 4,229,842                      | 207,581   |
| Intergovernmental - indirect federal   | 1,000                   | 1,000            | 3,392                          | 2,392   |
| <b>Total revenues</b>  | <b>6,765,325</b>        | <b>6,765,325</b> | <b>6,778,786</b>               | <b>13,461</b>   |
| <b>Expenditures:</b>   |                         |                  |                                |   |
| Instruction  | 4,419,519               | 4,419,519        | 4,405,261                      | 14,258  |
| Support services:  |                         |                  |                                |   |
| Student  | 236,558                 | 236,558          | 244,832                        | (8,274)   |
| Instructional staff  | 319,824                 | 319,824          | 321,868                        | (2,044)   |
| District administrative  | 1,146,383               | 1,146,383        | 350,948                        | 795,435   |
| School administrative  | 337,100                 | 337,100          | 349,553                        | (12,453)  |
| Business   | 193,620                 | 193,620          | 227,511                        | (33,891)  |
| Plant operation and maintenance  | 736,855                 | 736,855          | 829,170                        | (92,315)  |
| Student transportation   | 197,730                 | 197,730          | 161,910                        | 35,820  |
| Central office   | -                       | -                | -                              | -   |
| Facilities acquisition and construction  | -                       | -                | -                              | -   |
| Community service activities   | -                       | -                | -                              | -   |
| Other  | -                       | -                | 45,230                         | (45,230)  |
| <b>Total expenditures</b>  | <b>7,587,589</b>        | <b>7,587,589</b> | <b>6,936,283</b>               | <b>651,306</b>  |
| <b>Excess (deficit) of revenues over expenditures</b>  | <b>(822,264)</b>        | <b>(822,264)</b> | <b>(157,497)</b>               | <b>664,767</b>  |
| <b>Other Financing Sources (Uses):</b>   |                         |                  |                                |   |
| Proceeds from the sale of fixed assets   | -                       | -                | -                              | -   |
| Operating transfers in   | -                       | -                | -                              | -   |
| Operating transfers out  | (15,000)                | (15,000)         | (19,583)                       | (4,583)   |
| <b>Total other financing sources (uses)</b>  | <b>(15,000)</b>         | <b>(15,000)</b>  | <b>(19,583)</b>                | <b>(4,583)</b>  |
| <b>Excess (deficit) of revenues and other financing<br/>sources over expenditures and other financing uses</b> | <b>(837,264)</b>        | <b>(837,264)</b> | <b>(177,080)</b>               | <b>660,184</b>  |
| <b>Fund balance, July 1, 2014</b>  | <b>837,264</b>          | <b>837,264</b>   | <b>922,113</b>                 | <b>84,849</b>   |
| <b>Fund balance, June 30, 2015</b>   | <b>\$ -</b>             | <b>\$ -</b>      | <b>\$ 745,033</b>              | <b>\$ 745,033</b>   |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

**SPECIAL REVENUE FUND**

For the year ended June 30, 2015

|  | <u>Budgeted Amounts</u> |                 | <u>Actual<br/>(GAAP Basis)</u> | <u>Variances<br/>with Final<br/>Budget<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|-----------------|--------------------------------|--|
|  | <u>Original</u>         | <u>Final</u>    |                                |  |
| <b>Revenues:</b>   |                         |                 |                                |  |
| Earnings on investments  | \$ -                    | \$ -            | \$ -                           | \$ -   |
| Other local revenue  | -                       | -               | -                              | -  |
| State aid  | 204,786                 | 204,786         | 200,875                        | (3,911)  |
| Federal aid  | 764,026                 | 764,026         | 771,767                        | 7,741  |
| <b>Total revenues</b>  | <b>968,812</b>          | <b>968,812</b>  | <b>972,642</b>                 | <b>3,830</b>   |
| <b>Expenditures:</b>   |                         |                 |                                |  |
| <b>Current:</b>  |                         |                 |                                |  |
| Instruction  | 761,124                 | 761,124         | 769,710                        | (8,586)  |
| Support Services:  |                         |                 |                                |  |
| Student  | 18,990                  | 18,990          | 18,990                         | -  |
| Instructional staff  | 149,634                 | 149,634         | 148,024                        | 1,610  |
| District administration  | -                       | -               | -                              | -  |
| School administration  | -                       | -               | -                              | -  |
| Business   | -                       | -               | -                              | -  |
| Plant operations and maintenance   | -                       | -               | -                              | -  |
| Student transportation   | 2,331                   | 2,331           | 2,000                          | 331  |
| Central office   | -                       | -               | -                              | -  |
| Community services activities  | 53,816                  | 53,816          | 51,001                         | 2,815  |
| <b>Total expenditures</b>  | <b>985,895</b>          | <b>985,895</b>  | <b>989,725</b>                 | <b>(3,830)</b>   |
| <b>Excess of (deficit) revenues over expenditures</b>  | <b>(17,083)</b>         | <b>(17,083)</b> | <b>(17,083)</b>                | <b>-</b>   |
| <b>Other Financing Sources (Uses):</b>   |                         |                 |                                |  |
| Transfers in   | 17,083                  | 17,083          | 17,083                         | -  |
| Transfers out  | -                       | -               | -                              | -  |
| <b>Total other financing sources (uses)</b>  | <b>17,083</b>           | <b>17,083</b>   | <b>17,083</b>                  | <b>-</b>   |
| <b>Excess (deficit) of revenues and other financing<br/>sources over expenditures and other financing uses</b> | <b>-</b>                | <b>-</b>        | <b>-</b>                       | <b>-</b>   |
| <b>Fund balance July 1, 2014</b>   | <b>-</b>                | <b>-</b>        | <b>-</b>                       | <b>-</b>   |
| <b>Fund balance June 30, 2015</b>  | <b>\$ -</b>             | <b>\$ -</b>     | <b>\$ -</b>                    | <b>\$ -</b>  |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF  
THE NET PENSION LIABILITY (CERS)**

JUNE 30, 2015

|  | <u>6/30/2015</u> |
|--|------------------|
| District's proportion of the net pension liability (asset)   | 0.042352%        |
| District's proportionate share of the net pension liability (asset)  | \$ 1,374,000     |
| District's covered-employee payroll  | \$ 1,187,942     |
| District's proportionate share of the net pension liability (asset)<br>as a percentage of its covered-employee payroll | 115.60%          |
| Plan fiduciary net position as a percentage of the total<br>pension liability  | 66.80%           |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The amounts presented have a measurement date of the previous fiscal year end.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS (CERS)**  
**JUNE 30, 2015**

|  | <u>6/30/2015</u>   |
|--|--------------------|
| Contractually required contribution                                  | \$ 164,415         |
| Contributions in relation to the contractually required contribution | <u>164,415</u>     |
| Contribution deficiency (excess)                                     | <u><u>\$ -</u></u> |
| District's covered-employee payroll                                  | \$ 1,187,942       |
| Contributions as a percentage of covered-employee payroll            | 13.8%              |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO SUPPLEMENTARY INFORMATION (CERS)**

For the year ended June 30, 2015

**Changes of Benefit Terms include:**

There were no changes of benefit terms for the year ended June 30, 2015.

**Changes of Assumptions:**

There were no changes of benefit assumptions for the year ended June 30, 2015.

**COMBINING STATEMENTS – NONMAJOR FUNDS**

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2015

|  | <u>Construction<br/>Fund</u> | <u>Debt<br/>Service<br/>Fund</u> | <u>SEEK<br/>Capital<br/>Outlay<br/>Fund</u> | <u>Total<br/>Nonmajor<br/>Governmental<br/>Funds</u> |
|--|------------------------------|----------------------------------|---|--|
| <b>Assets and Resources:</b>               |                              |                                  |   |  |
| Cash and cash equivalents                  | \$ -                         | \$ 5,267                         | \$ -  | \$ 5,267   |
| Accounts receivables                       | <u>-</u>                     | <u>-</u>                         | <u>-</u>                                    | <u>-</u>   |
| <b>Total assets and resources</b>          | <u><u>\$ -</u></u>           | <u><u>\$ 5,267</u></u>           | <u><u>\$ -</u></u>                          | <u><u>\$ 5,267</u></u>                               |
| <b>Liabilities and Fund Balances:</b>      |                              |                                  |   |  |
| <b>Liabilities:</b>                        |                              |                                  |   |  |
| Accounts payable                           | <u>\$ -</u>                  | <u>\$ -</u>                      | <u>\$ -</u>                                 | <u>\$ -</u>  |
| <b>Total liabilities</b>                   | -                            | -                                | -   | -  |
| <b>Fund Balances:</b>                      |                              |                                  |   |  |
| <b>Restricted For:</b>                     |                              |                                  |   |  |
| Debt Service                               | <u>-</u>                     | <u>5,267</u>                     | <u>-</u>                                    | <u>5,267</u>   |
| <b>Total fund balances</b>                 | <u>-</u>                     | <u>5,267</u>                     | <u>-</u>                                    | <u>5,267</u>   |
| <b>Total liabilities and fund balances</b> | <u><u>\$ -</u></u>           | <u><u>\$ 5,267</u></u>           | <u><u>\$ -</u></u>                          | <u><u>\$ 5,267</u></u>                               |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2015

|  | Construction<br>Fund | Debt<br>Service<br>Fund | SEEK<br>Capital<br>Outlay<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|----------------------|-------------------------|-----------------------------------|--|
| <b>Revenues:</b>   |                      |                         |                                   |  |
| From local sources   |                      |                         |                                   |  |
| Taxes:   |                      |                         |                                   |  |
| Property   | \$ -                 | \$ -                    | \$ -                              | \$ -                                       |
| Earnings on investments  | -                    | 90                      | -                                 | 90   |
| Other local revenues   | -                    | -                       | -                                 | -  |
| Intergovernmental - state  | -                    | 126,668                 | 73,574                            | 200,242                                    |
| Intergovernmental - indirect federal   | -                    | 100,832                 | -                                 | 100,832                                    |
| <b>Total revenues</b>  | <b>-</b>             | <b>227,590</b>          | <b>73,574</b>                     | <b>301,164</b>                             |
| <b>Expenditures:</b>   |                      |                         |                                   |  |
| Instruction  | -                    | -                       | -                                 | -  |
| Support services:  |                      |                         |                                   |  |
| Student  | -                    | -                       | -                                 | -  |
| Instructional staff  | -                    | -                       | -                                 | -  |
| Direct administrative  | -                    | -                       | -                                 | -  |
| School administrative  | -                    | -                       | -                                 | -  |
| Business   | -                    | -                       | -                                 | -  |
| Plant operation and maintenance  | -                    | -                       | -                                 | -  |
| Student transportation   | -                    | -                       | -                                 | -  |
| Central office   | -                    | -                       | -                                 | -  |
| Facilities and construction  | 218,572              | -                       | -                                 | 218,572                                    |
| Community service activities   | -                    | -                       | -                                 | -  |
| Other  | -                    | 760,684                 | -                                 | 760,684                                    |
| <b>Total expenditures</b>  | <b>218,572</b>       | <b>760,684</b>          | <b>-</b>                          | <b>979,256</b>                             |
| <b>Excess (deficit) of revenues over expenditures</b>  | <b>(218,572)</b>     | <b>(533,094)</b>        | <b>73,574</b>                     | <b>(678,092)</b>                           |
| <b>Other Financing Sources (Uses):</b>   |                      |                         |                                   |  |
| Bond proceeds  | -                    | -                       | -                                 | -  |
| Operating transfers in   | 205,996              | 533,184                 | -                                 | 739,180                                    |
| Operating transfers out  | -                    | -                       | (73,574)                          | (73,574)                                   |
| Non operating transfers in   | -                    | -                       | -                                 | -  |
| Non operating transfers out  | -                    | -                       | -                                 | -  |
| <b>Total other financing sources (uses)</b>  | <b>205,996</b>       | <b>533,184</b>          | <b>(73,574)</b>                   | <b>665,606</b>                             |
| <b>Excess (deficit) of revenues and other financing sources<br/>over expenditures and other financing uses</b> | <b>(12,576)</b>      | <b>90</b>               | <b>-</b>                          | <b>(12,486)</b>                            |
| <b>Fund balance, July 1, 2014</b>  | <b>12,576</b>        | <b>5,177</b>            | <b>-</b>                          | <b>17,753</b>                              |
| <b>Fund balance, June 30, 2015</b>   | <b>\$ -</b>          | <b>\$ 5,267</b>         | <b>\$ -</b>                       | <b>\$ 5,267</b>                            |

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

**OTHER COMBINING STATEMENTS AND SCHOOL ACTIVITY FUNDS**

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**SCHOOL ACTIVITY FUNDS (AGENCY FUND)**  
**JUNE 30, 2015**

|                                       | <u>PAINTSVILLE<br/>HIGH<br/>SCHOOL</u> | <u>PAINTSVILLE<br/>ELEMENTARY<br/>SCHOOL</u> | <u>TOTAL</u>     |
|---------------------------------------|--|--|------------------|
| <b>Assets:</b>                        |  |  |                  |
| Cash                                  | \$ 37,377                              | \$ 28,505                                    | \$ 65,882        |
| Accounts receivable                   | -                                      | -  | -                |
| <b>Total assets</b>                   | <u>\$ 37,377</u>                       | <u>\$ 28,505</u>                             | <u>\$ 65,882</u> |
| <b>Liabilities and Fund Balances:</b> |  |  |                  |
| Accounts payable                      | \$ -                                   | \$ 213                                       | \$ 213           |
| Due to student groups                 | <u>37,377</u>                          | <u>28,292</u>                                | <u>65,669</u>    |
| <b>Total liabilities</b>              | <u>\$ 37,377</u>                       | <u>\$ 28,505</u>                             | <u>\$ 65,882</u> |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES DUE TO STUDENT GROUPS**

**SCHOOL ACTIVITY FUNDS (AGENCY FUND)**

For the year ended June 30, 2015

|   | <u>PAINTSVILLE<br/>HIGH<br/>SCHOOL</u> | <u>PAINTSVILLE<br/>ELEMENTARY<br/>SCHOOL</u> | <u>TOTALS</u>           |
|---|--|--|-------------------------|
| <b>Revenues:</b>  |  |  |                         |
| School activities and projects funds                      | \$ 96,280                              | \$ 53,139                                    | \$ 149,419              |
| Athletic fund   | <u>154,710</u>                         | <u>7,948</u>                                 | <u>162,658</u>          |
| <b>Total revenues</b>                                     | <b>250,990</b>                         | <b>61,087</b>                                | <b>312,077</b>          |
| <b>Expenditures:</b>                                      |  |  |                         |
| School activities and projects funds                      | 106,446                                | 53,616                                       | 160,062                 |
| Athletic fund   | <u>154,300</u>                         | <u>7,990</u>                                 | <u>162,290</u>          |
| <b>Total expenditures</b>                                 | <b><u>260,746</u></b>                  | <b><u>61,606</u></b>                         | <b><u>322,352</u></b>   |
| <b>Excess (deficit) of revenues<br/>over expenditures</b> | <b>(9,756)</b>                         | <b>(519)</b>                                 | <b>(10,275)</b>         |
| <b>Fund balances, July 1, 2014</b>                        | <b><u>47,133</u></b>                   | <b><u>28,811</u></b>                         | <b><u>75,944</u></b>    |
| <b>Fund balances, June 30, 2015</b>                       | <b><u>\$ 37,377</u></b>                | <b><u>\$ 28,292</u></b>                      | <b><u>\$ 65,669</u></b> |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**STATEMENT OF RECEIPTS, DISBURSEMENTS DUE STUDENT GROUPS**

**SCHOOL ACTIVITY FUNDS - (AGENCY FUND)**

For the year ended June 30, 2015

|                                | Cash<br>Balances<br>July 1, 2014 | Receipts          | Disbursements     | Cash<br>Balances<br>June 30, 2015 | Accounts<br>Receivable<br>June 30, 2015 | Accounts<br>Payable<br>June 30, 2015 | Due<br>Student<br>Groups<br>June 30, 2015 |
|--------------------------------|----------------------------------|-------------------|-------------------|-----------------------------------|---|--------------------------------------|---|
| <b>PAINTSVILLE HIGH SCHOOL</b> |                                  |                   |                   |                                   |   |                                      |   |
| Academic Boosters              | \$ 459                           | \$ 2,310          | \$ 2,769          | \$ -                              | \$ -                                    | \$ -                                 | \$ -                                      |
| Athletic                       | 1,485                            | 154,710           | 155,670           | 525                               | -                                       | -                                    | 525                                       |
| Band Booster Club              | 993                              | 4,179             | 5,172             | -                                 | -                                       | -                                    | -   |
| Beta Club                      | 73                               | -                 | 73                | -                                 | -                                       | -                                    | -   |
| Charlie Adkins Scholarship     | 3,841                            | 4,805             | 3,666             | 4,980                             | -                                       | -                                    | 4,980                                     |
| Cheer Varsity                  | 12,048                           | 15,952            | 23,030            | 4,970                             | -                                       | -                                    | 4,970                                     |
| Class of 2014                  | 1,343                            | 53                | 1,396             | -                                 | -                                       | -                                    | -   |
| Class of 2015                  | 4,761                            | 1,530             | 5,475             | 816                               | -                                       | -                                    | 816                                       |
| Class of 2016                  | 307                              | 10,901            | 9,202             | 2,006                             | -                                       | -                                    | 2,006                                     |
| Class of 2017                  | -                                | 5,006             | 1,512             | 3,494                             | -                                       | -                                    | 3,494                                     |
| FCCLA                          | 331                              | -                 | 331               | -                                 | -                                       | -                                    | -   |
| General                        | 160                              | 28,401            | 20,890            | 7,671                             | -                                       | -                                    | 7,671                                     |
| Instruction                    | 129                              | -                 | 129               | -                                 | -                                       | -                                    | -   |
| Library                        | 365                              | -                 | 365               | -                                 | -                                       | -                                    | -   |
| Media                          | 114                              | -                 | 114               | -                                 | -                                       | -                                    | -   |
| Middle School Student Fees     | 15                               | -                 | 15                | -                                 | -                                       | -                                    | -   |
| Newspaper                      | 300                              | -                 | 300               | -                                 | -                                       | -                                    | -   |
| PHS Cheer                      | -                                | 1,002             | -                 | 1,002                             | -                                       | -                                    | 1,002                                     |
| PHS Scholarship                | -                                | 1,225             | 1,225             | -                                 | -                                       | -                                    | -   |
| Project Prom                   | 15,735                           | 12,762            | 19,546            | 8,951                             | -                                       | -                                    | 8,951                                     |
| Pride Club                     | 62                               | 30                | 92                | -                                 | -                                       | -                                    | -   |
| Staff Pop                      | 3,480                            | 4,556             | 8,036             | -                                 | -                                       | -                                    | -   |
| Student Council                | 461                              | -                 | 461               | -                                 | -                                       | -                                    | -   |
| Yearbook                       | 1,046                            | 3,924             | 2,008             | 2,962                             | -                                       | -                                    | 2,962                                     |
| Youth Service Center           | 735                              | -                 | 735               | -                                 | -                                       | -                                    | -   |
| <b>Totals</b>                  | <b>\$ 48,243</b>                 | <b>\$ 251,346</b> | <b>\$ 262,212</b> | <b>\$ 37,377</b>                  | <b>\$ -</b>                             | <b>\$ -</b>                          | <b>\$ 37,377</b>                          |

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

PAINTSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

DEBT SERVICE FUNDS

For the year ended June 30, 2015

|  | QZAB<br>Series<br>2012 | Issue<br>of 2012 | Issue<br>of 2010<br>Refunding | Issue<br>of 2010 | Issue<br>of 2008<br>Refunding | Issue<br>of 2003<br>Refunding | Total<br>Debt<br>Service<br>Funds |
|--|------------------------|------------------|-------------------------------|------------------|-------------------------------|-------------------------------|-----------------------------------|
| <b>Revenues:</b>   |                        |                  |                               |                  |                               |                               |                                   |
| Earning on investments   | \$ -                   | \$ 37            | \$ 26                         | \$ 19            | \$ 7                          | \$ 1                          | \$ 90                             |
| Intergovernmental - state  | -                      | 49,246           | -                             | 66,986           | 10,436                        | -                             | 126,668                           |
| Intergovernmental - federal  | 100,832                | -                | -                             | -                | -                             | -                             | 100,832                           |
| <b>Total revenues</b>  | <b>100,832</b>         | <b>49,283</b>    | <b>26</b>                     | <b>67,005</b>    | <b>10,443</b>                 | <b>1</b>                      | <b>227,590</b>                    |
| <b>Expenditures:</b>   |                        |                  |                               |                  |                               |                               |                                   |
| Current:   |                        |                  |                               |                  |                               |                               |                                   |
| Bond principal   | 88,917                 | 105,000          | 125,000                       | 80,000           | 50,000                        | -                             | 448,917                           |
| Bond interest  | 108,772                | 84,001           | 27,677                        | 84,397           | 4,420                         | -                             | 309,267                           |
| Trust fees   | 500                    | 500              | 500                           | 500              | 500                           | -                             | 2,500                             |
| <b>Total expenditures</b>  | <b>198,189</b>         | <b>189,501</b>   | <b>153,177</b>                | <b>164,897</b>   | <b>54,920</b>                 | <b>-</b>                      | <b>760,684</b>                    |
| <b>Excess (deficit) of revenues over expenditures</b>  | <b>(97,357)</b>        | <b>(140,218)</b> | <b>(153,151)</b>              | <b>(97,892)</b>  | <b>(44,477)</b>               | <b>1</b>                      | <b>(533,094)</b>                  |
| <b>Other Financing Sources (Uses):</b>   |                        |                  |                               |                  |                               |                               |                                   |
| Bond Proceeds  | -                      | -                | -                             | -                | -                             | -                             | -                                 |
| Operating transfers in   | 97,357                 | 140,255          | 153,177                       | 97,911           | 44,484                        | -                             | 533,184                           |
| Non operating transfers in   | -                      | -                | -                             | -                | -                             | -                             | -                                 |
| Non operating transfers out  | -                      | -                | -                             | -                | -                             | -                             | -                                 |
| <b>Total other financing sources (uses)</b>  | <b>97,357</b>          | <b>140,255</b>   | <b>153,177</b>                | <b>97,911</b>    | <b>44,484</b>                 | <b>-</b>                      | <b>533,184</b>                    |
| <b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b> | <b>-</b>               | <b>37</b>        | <b>26</b>                     | <b>19</b>        | <b>7</b>                      | <b>1</b>                      | <b>90</b>                         |
| <b>Fund balance, July 1, 2014</b>  | <b>-</b>               | <b>3,537</b>     | <b>344</b>                    | <b>86</b>        | <b>71</b>                     | <b>1,139</b>                  | <b>5,177</b>                      |
| <b>Fund balance, June 30, 2015</b>   | <b>\$ -</b>            | <b>\$ 3,574</b>  | <b>\$ 370</b>                 | <b>\$ 105</b>    | <b>\$ 78</b>                  | <b>\$ 1,140</b>               | <b>\$ 5,267</b>                   |

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

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2015

| <u>FEDERAL GRANTOR/<br/>PASS - THROUGH GRANTOR/<br/>PROGRAM OR CLUSTER TITLE</u> | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass - Through<br/>Grantor's<br/>Number</u> | <u>Federal<br/>Expenditures</u>       |
|--|------------------------------------|--|---------------------------------------|
| <b><u>U.S. DEPT. OF AGRICULTURE</u></b>  |                                    |  |                                       |
| Passed Through State Dept. of Education:   |                                    |  |                                       |
| <b><u>CHILD NUTRITION CLUSTER</u></b>  |                                    |  |                                       |
| National School Lunch Program  | 10.555                             | 7750002 14<br>7750002 15                       | \$ 33,562<br>135,161<br><hr/> 168,723 |
| Passed Through State Dept. of Agriculture:                                       |                                    |  |                                       |
| Food Donation (In-Kind Commodities)  | 10.555                             | 1006   | 25,775<br><hr/> 194,498               |
| School Breakfast Program   | 10.553                             | 7760005 14<br>7760005 15                       | 10,769<br>35,766<br><hr/> 46,535      |
| <b>TOTAL U.S. DEPT. OF AGRICULTURE</b>   |                                    |  | <hr/> 241,033                         |
| <b><u>U.S. DEPT. OF EDUCATION</u></b>  |                                    |  |                                       |
| Passed Through State Dept. of Education:   |                                    |  |                                       |
| Title I - Grants to Local Educational Agencies                                   | 84.010                             | 3100002 13<br>3100002 14                       | 134,651<br>85,734<br><hr/> 220,385    |
| Career and Technical Education - Basic Grants to States                          | 84.048                             | 3710002 13<br>3710002 14                       | 1,717<br>5,857<br><hr/> 7,574         |
| Twenty-First Century Community Learning Centers                                  | 84.287                             | 3400002 12                                     | <hr/> 62,096                          |
| Rural Education  | 84.358                             | 3140002 13<br>3140002 14                       | 1,366<br>16,425<br><hr/> 17,791       |
| Improving Teacher Quality - State Grants   | 84.367                             | 3230002 14                                     | <hr/> 26,823                          |
| Race to the Top - District Grants  | 84.416A                            | 436A   | <hr/> 106,523                         |
|  |                                    |  | <hr/> 441,192                         |

The accompanying notes are an integral part of this schedule.  
(Continued next page)  
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**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2015

(Continued)

| <b>FEDERAL GRANTOR/<br/>PASS-THROUGH GRANTOR/<br/>PROGRAM OR CLUSTER TITLE</b> | <b>Federal<br/>CFDA<br/>Number</b> | <b>Pass - Through<br/>Grantor's<br/>Number</b> | <b>Federal<br/>Expenditures</b> |
|--|------------------------------------|--|---------------------------------|
| Race to the Top  | 84.413                             | 3960002 11                                     | <u>6,742</u>                    |
| <b><u>SPECIAL EDUCATION CLUSTER (IDEA)</u></b>                                 |                                    |  |                                 |
| Special Education - Grants to States   | 84.027                             | 3810002 12                                     | 35                              |
|  |                                    | 3810002 13                                     | 13,371                          |
|  |                                    | 3810002 14                                     | <u>116,122</u>                  |
|  |                                    |  | 129,528                         |
| Special Education - Preschool Grants   | 84.173                             | 3800002 12                                     | 5,328                           |
|  |                                    | 3800002 13                                     | 7,769                           |
|  |                                    | 3800002 14                                     | <u>3,796</u>                    |
|  |                                    |  | 16,893                          |
| Subtotal Special Education Cluster   |                                    |  | <u>146,421</u>                  |
| <b>TOTAL U.S. DEPT. OF EDUCATION</b>   |                                    |  | <u>594,355</u>                  |
| <b><u>U.S. DEPARTMENT OF HEALTH AND<br/>HUMAN SERVICES</u></b>                 |                                    |  |                                 |
| Passed through Big Sandy Area Community Action<br>Program, Inc.:               |                                    |  |                                 |
| Head Start   | 93.600                             | 04CH071248                                     | 65,499                          |
|  | 93.600                             | 04CH071249                                     | <u>170,289</u>                  |
| <b>TOTAL U.S. DEPARTMENT OF HEALTH AND<br/>HUMAN SERVICES</b>                  |                                    |  | <u>235,788</u>                  |
| <b><u>U. S. DEPARTMENT OF COMMERCE</u></b>                                     |                                    |  |                                 |
| Direct Program:  |                                    |  |                                 |
| Congressionally Identified Awards and Projects - Pride Grant                   | 11.469                             | 2726   | <u>750</u>                      |
| <b>TOTAL U. S. DEPARTMENT OF COMMERCE</b>                                      |                                    |  | <u>750</u>                      |
| <b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>                                      |                                    |  | <u>\$ 1,071,926</u>             |

The accompanying notes are an integral part of this schedule.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO 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 (the Schedule) includes the federal grant activity of the Paintsville Independent School District under programs of the federal government for the year ended June 30, 2015. 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*. Because the Schedule presents only a selected portion of the operations of the Paintsville Independent School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Paintsville Independent School District.

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

- (1) 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 of Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) 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 received and disbursed. At June 30, 2015, the District had no food commodities in inventory.

**NOTE D – TYPE A PROGRAMS**

The Paintsville Independent School District did not have any Type A programs for which total expenditures of federal awards exceeded \$300,000 for fiscal year 2015.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

Type of auditor's report issued *unmodified*.

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_yes X no
- Significant deficiency(ies) identified? \_\_\_yes X none reported

Noncompliance material to financial statements noted? X yes \_\_\_no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_yes X no
- Significant deficiency(ies) identified? \_\_\_yes X none reported

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

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.416A               | Race to the Top-District Grants           |
| 93.600                | Headstart                                 |

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

Auditee qualified as low-risk auditee? X yes \_\_\_no

**SECTION II – FINDINGS-FINANCIAL STATEMENTS AUDIT**

2015-001 No 1099 Issued

Condition: Found where an individual received over \$600 for services provided and never received a 1099.

Criteria: According to the Internal Revenue Service Code any individual receiving \$600 or more for contract labor should receive a 1099.

Cause of Condition: Bookkeeper failed to acknowledge this individual was paid over \$600.

Effect: The District was in violation of the Internal Revenue Code.

Recommendation: Bookkeeper needs to give all individuals performing a service a W-9 form and keep up with all amounts paid for contact labor during the calendar year and issue 1099's to anyone receiving \$600 or more.

Management's Response: Principals will be asked to make sure that the bookkeeper complies with the recommendation.

**SECTION III – FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT**

The audit did not disclose any audit findings.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

June 30, 2015

All prior year comments were addressed by the District. Corrections were initiated and improvements made in the documentation that was recommended.

**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***



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

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

Members of the Board of Education  
Paintsville Independent School District  
Paintsville, 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; the provisions of Office Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Audit Extension Request, and Appendix IV of the Independent Auditor's Contract – Instructions for Submission of the Audit Report; the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paintsville Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Paintsville Independent School District's basic financial statements, and have issued our report thereon dated October 12, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Paintsville Independent 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 Paintsville Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Paintsville Independent 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 Paintsville Independent 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-001.

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Paintsville Independent School District, in a separate letter dated October 12, 2015.

## Paintsville Independent School District's Response to Findings

Paintsville Independent School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Paintsville Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

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



Certified Public Accountants  
Paintsville, Kentucky  
October 12, 2015

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



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

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

Members of the Board of Education  
Paintsville Independent School District  
Paintsville, Kentucky

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

We have audited Paintsville Independent 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 Paintsville Independent School District's major federal programs for the year ended June 30, 2015. Paintsville Independent 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 Paintsville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by The Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, and Appendix II to the Independent Auditor's Contract – State Audit Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Paintsville Independent 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 Paintsville Independent School District's compliance.

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

In our opinion, Paintsville Independent 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 Paintsville Independent 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 Paintsville Independent 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 Paintsville Independent 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.

*Wells & Company PSC*

Certified Public Accountants  
Paintsville, Kentucky  
October 12, 2015

**MANAGEMENT LETTER COMMENTS**



WELLS & COMPANY, P.S.C.

*Certified Public Accountants*

865 South Mayo Trail, Suite 7  
Paintsville, Kentucky 41240-1215

(606) 789-3588

Fax (606) 789-3326

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Paintsville Independent School District  
Paintsville, Kentucky

In planning and performing our audit of the financial statements of Paintsville Independent School District (the "District") as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated October 12, 2015 on the financial statements of the District.

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

Respectfully,

Certified Public Accountants  
Paintsville, Kentucky  
October 12, 2015

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**MANAGEMENT LETTER COMMENTS**

June 30, 2015

**PRIOR YEAR COMMENTS**

All prior year comments were addressed by the District. Corrections were initiated and improvements made in the documentation that was recommended.

**PAINTSVILLE INDEPENDENT SCHOOL DISTRICT**

**MANAGEMENT LETTER COMMENTS - CONTINUED**

June 30, 2015

**CURRENT YEAR COMMENTS**

**Activity Fund 15-1 Multiple Receipt Forms Not Completed**

Condition: Teachers were not having the students sign the multiple receipt form nor turning supporting documents into the bookkeeper for verification of monies collected at the High School or Elementary.

Criteria: Multiple receipt forms are to be accurately completed and turned into the bookkeeper for back up when collecting money.

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

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

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

Management's Response: Principals will be made aware of this requirement and ask to have their teachers comply.

**Activity Fund 15-2 Fundraiser Worksheets Not Completed**

Condition: We discovered that fundraiser worksheets are not being completed with each fundraiser at the High School or Elementary.

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

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

Effect: Profits and ending inventory are not being monitored.

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

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