

Menifee County School District
Audited Financial Statements
and Required Supplementary Information
June 30, 2016

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SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITORS' REPORT

Kentucky State Committee of School District Audits
Members of the Board of Education
Menifee County School District
Frenchburg, Kentucky 40322

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Menifee County School District (the District) as of and for the year ended June 30, 2016 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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Menifee County School District as of June 30, 2016 and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 4 through 9 and the Schedule of District's Proportionate Share of Net Pension Liability and Schedule of Contributions on pages 52-54 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 Menifee County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the 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 17, 2016, on our consideration of Menifee County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
October 17, 2016

**MENIFEE COUNTY SCHOOL DISTRICT – FRENCHBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

As management of the Menifee County 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, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

The General fund has \$8,765,594 in revenue, which primarily consisted of the state program (SEEK), property, utilities and motor vehicle taxes. Excluding inter-fund transfers, there was \$8,379,642 in General Fund expenditures. This includes on-behalf payments of \$1,754,285. The District approved a 4% increase in property taxes, resulting in a tax rate of .487 cents per \$100.

The District hired Lorri Bartley, CFE, as the finance officer in July 2015.

The district was mandated by the state to fund a 2% raise so the Board of Education adopted a salary schedule that included a 2% across the board increase and an experience step increase per each employee.

The District was awarded a grant for three years totaling \$432,761 from the U.S. Department of Education for Menifee County School District -Menifefitness Project. The program will increase student time spent in physical activity during the school day, and enhance nutrition and wellness curriculum District-wide.

On November 13, 2014, the Kentucky Commissioner of Education notified the Menifee County Board Chair and Kentucky Board of Education Chair that he was recommending the Menifee County School District be placed under state assistance, due to a "pattern of significant lack of efficiency and effectiveness in the governance and administration of the school district in multiple areas." Subsequently the Kentucky Board of Education affirmed state assistance for Menifee County School District.

Due to lack of significant improvement, on July 10, 2015, the Kentucky Department of Education assumed the role of state management of the Menifee County School District. The former Finance Officer was transferred from her position effective July 1, 2015. Due to state management, the superintendent’s role is advisory only. The Kentucky Department of Education hired a state manager to oversee all operations of the district. In addition, a new finance officer with extensive knowledge and experience was hired on July 23, 2015. Procedures have been implemented addressing many deficiencies district wide. Currently, the position of superintendent is vacant.

The beginning General Fund balance was \$457,056. The ending balance for the General Fund was \$1,060,087 for June 30, 2016, noting an increase of \$603,031 from cost cuts initiated by state management and the finance department.

CURRENT ISSUES

One of the greatest concerns looking ahead at the future fiscal years is the impact of the federal sequestration - or loss of federal funds for the next eight years, averaging a decline of 7.8% to 9.1%.

On July 13, 2016, the Menifee County Board of Education approved the 2016 tax rate of 54.4 for real Estate and 54.7 for tangible property that included an additional nickel to be restricted to the Building Fund. A petition was validated on August 30, 2016 asking for a recall of the approved tax rate. The Menifee County Board of Education did not recall the nickel increase. So a special election has been set for January 3, 2017, to determine the disposition of the tax rate. Tax bills for 2016 will be printed and set at the rate of 50.1 for real estate and tangible property pursuant to KRS132.017(3)(d).

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 or deteriorating.

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

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

The basic governmental fund financial statements can be found on pages 12-21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-51 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2.9 million as of June 30, 2016 as compared to \$2.5 million in the prior year. An increase of \$0.4 million.

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

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

Net position for the periods ending June 30, 2016 and 2015

	June 30, 2016	June 30, 2015
Current Assets	\$1,858,367	\$964,757
Noncurrent Assets	12,530,943	11,999,301
Total Assets	14,389,310	12,964,058
Deferred Outflows of Resources	647,131	428,942
Current Liabilities	1,367,512	956,410
Noncurrent Liabilities	10,573,068	9,434,426
Total Liabilities	11,940,580	10,390,836
Deferred Inflows of Resources	0	215,000
Net Position		
Investment in capital assets (net)	3,752,352	3,978,942
Restricted	215,175	8,513
Unreserved Fund Balance	(871,666)	(1,487,794)
Total Net Position	<u>\$3,095,861</u>	<u>\$2,499,661</u>

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2015 and 2016.

	Summary of Revenue and Expenditures					
	Governmental		Business-type		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Local revenue sources	\$1,435,512	\$1,214,788	\$75,961	\$70,494	\$1,511,473	\$1,285,282
State revenue sources	9,470,822	8,729,810	56,779	71,376	9,527,601	8,801,186
Federal revenue sources	1,212,606	1,917,932	818,246	769,011	2,030,852	2,686,943
Investments	16,318	6,199	0	0	16,318	6,199
Total Revenue	12,135,258	11,868,729	950,986	910,881	13,086,244	12,779,610
Expenses:						
Instruction	5,654,325	6,586,125	0	0	5,654,325	6,586,125
Student support services	1,276,573	1,254,148	0	0	1,276,573	1,254,148
Instructional support	436,948	366,284	0	0	436,948	366,284
District administration	435,630	294,010	0	0	435,630	294,010
School administration	577,715	466,733	0	0	577,715	466,733
Business support	445,697	354,372	0	0	445,697	354,372
Plant operations	1,471,486	1,131,017	0	0	1,471,486	1,131,017
Student transportation	986,892	720,153	0	0	986,892	720,153
Community service	153,980	152,163	0	0	153,980	152,163
Facility acquisition	0	0	0	0	0	0
Interest on long-term debt	346,122	273,925	0	0	346,122	273,925
Food service	0	0	930,084	892,519	951,326	892,519
Total Expenses	11,785,368	11,598,930	930,084	892,519	12,736,694	12,491,449
Change in net position	309,037	269,799	20,902	18,362	308,697	288,161
Beginning net position	2,876,177	3,799,567	112,242	167,220	2,787,164	3,966,787
Effect of GASB Statement	0	(1,193,189)	0	(274,595)	0	(1,467,784)
Ending net position	\$3,185,214	\$2,876,177	\$133,144	\$(89,013)	\$3,095,861	\$2,787,164

Governmental Activities

The majority of revenue was derived from local taxes making up 12% of the total revenue and state funding making up 78% of total revenue. Instruction makes up 49% of total Governmental Fund Expenditures. Central support services expenditures are: Transportation 8%, Maintenance & Operations 12%, School Administration 5% and Other Support Functions 26%.

Business-Type Activities

Revenues for Food Service Fund totals \$950,986 as of June 30, 2016, an increase of \$40,105 from 2015. These revenues include lunchroom sales, federal and state grants, federal commodities, and interest income. Total Operating Expenditures for Food Service Fund totals \$930,084 as of June 30, 2016, an increase of \$37,565 from 2015. The Change in Net position (Revenues less Expenditures) for the Food Service Fund is an increase of \$20,902

Comments on Budget Comparisons

The District's total general fund revenues for the fiscal year ended June 30, 2016 net of inter-fund transfers, were \$12,135,258, an increase of \$266,529 from the total revenues of \$11,868,729 for 2015.

General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual revenues being \$718,179 more than budget. General fund budget compared to actual expenditures varied slightly from line item to line item with the ending actual expenditures being \$123,966 more than budgeted.

The following table presents a summary of revenue and expense, excluding transfers for selected funds (including on-behalf payments)

	For the Year Ending June 30, 2016		
	<u>GENERAL FUND</u>	<u>RESTRICTED FUNDS</u>	<u>Food Service Fund</u>
REVENUES:			
From local sources:			
Taxes:			
Property	\$ 684,009	\$ -	\$ -
Motor vehicle	136,744	-	-
Utilities	260,776	-	-
Unmined Minerals	1,090	-	-
Earnings on investments	12,565	-	
Other local revenues	203,848	26,916	75,961
Intergovernmental - State	7,275,899	372,546	56,779
Intergovernmental -Federal	220,633	991,973	818,246
TOTAL REVENUES	<u>8,795,564</u>	<u>1,391,435</u>	<u>950,986</u>
EXPENDITURES:			
Instruction:	4,152,149	737,126	
Support Services:			
Student	719,889	310,460	-
Instructional staff	217,833	171,408	-
District administration	383,483	3,339	-
School administration	470,360	-	-
Business	365,140	289	-
Plant operations and maintainance	1,095,796	12,886	
Student transportation	832,483	45,948	-
Community services	404	151,521	-
Food Service			951,326
Facilities acquisition and construction	-	-	-
Debt service	142,105	-	
TOTAL EXPENDITURES	<u>8,379,642</u>	<u>1,432,977</u>	<u>951,326</u>
Excess (Deficit) of Revenues over Expenditures	\$ <u>415,922</u>	\$ <u>(41,542)</u>	\$ <u>(340)</u>

For the Year Ending June 30, 2015

	GENERAL FUND	RESTRICTED FUNDS	Food Service Fund
REVENUES:			
From local sources:			
Taxes:			
Property	\$ 665,461	\$ -	\$ -
Motor vehicle	142,186	-	-
Utilities	307,872	-	-
Unmined Minerals	888	-	-
Earnings on investments	6,199	-	-
Other local revenues	98,381	82,382	70,494
Intergovernmental - State	7,341,878	303,443	71,376
Intergovernmental -Federal	173,909	1,158,182	769,011
TOTAL REVENUES	8,736,774	1,544,007	910,881
EXPENDITURES:			
Instruction:	4,694,144	950,004	
Support Services:			
Student	865,629	243,213	-
Instructional staff	195,011	160,052	-
District administration	301,534	(12,562)	-
School administration	465,775	-	-
Business	308,183	22,399	-
Plant operations and maintenance	898,768	10,058	-
Student transportation	556,590	29,990	-
Community services	-	152,163	-
Food Service	-	-	892,519
Facilities acquisition and construction	-	-	-
Debt service	162,254	-	-
TOTAL EXPENDITURES	8,447,888	1,555,317	892,519
Excess (Deficit) of Revenues over Expenditures	\$ 288,886	\$ (11,310)	\$ 18,362

Debt

At June 30, 2016, the School District had \$7,980,182 in revenue bonds outstanding; of this amount \$3,727,578 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$820,675 is due within one year.

Capital Assets

The Board added \$1,144,335 to the governmental funds and \$0 to the proprietary funds in capital assets during the year, primarily for construction projects, technology equipment and school buses.

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 overall budget. By law the budget must have a minimum 2% contingency.

Questions regarding this report should be directed to Lorri Bartley, CFE, Finance Officer (606) 768-8002 or by mail at the Menifee County Board of Education, 202 Back Street, Frenchburg, KY 40322.

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016**

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 1,283,579	\$ 194,040	\$ 1,477,619
Accounts receivable			
Accounts	329,708	20,841	350,549
Inventory	-	11,081	11,081
Prepaid Expenses	19,118	-	19,118
Total Current Assets	<u>1,632,405</u>	<u>225,962</u>	<u>1,858,367</u>
Noncurrent Assets			
Non-depreciated capital assets	970,650	-	970,650
Net depreciated capital assets	11,544,644	15,649	11,560,293
Total Noncurrent Assets	<u>12,515,294</u>	<u>15,649</u>	<u>12,530,943</u>
TOTAL ASSETS	<u>14,147,699</u>	<u>241,611</u>	<u>14,389,310</u>
DEFERRED OUTFLOW OF RESOURCES			
Pension	579,995	67,136	647,131
Total deferred outflow of resources	<u>579,995</u>	<u>67,136</u>	<u>647,131</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	34,097	763	34,860
Current portion of bond obligations	820,657	-	820,657
Current portion of capital lease obligations	184,813	-	184,813
Current portion of accrued sick leave	65,151	-	65,151
Accrued interest payable	55,501	-	55,501
Unearned revenues	199,998	-	199,998
Current portion of KSBIT payable	6,532	-	6,532
Total Current Liabilities	<u>1,366,749</u>	<u>763</u>	<u>1,367,512</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	7,159,525	-	7,159,525
Noncurrent portion of capital lease obligations	613,596	-	613,596
KSBIT Payable	26,128	-	26,128
Net pension liability	2,288,099	397,338	2,685,437
Noncurrent portion of accrued sick leave	88,382	-	88,382
Total Noncurrent Liabilities	<u>10,175,730</u>	<u>397,338</u>	<u>10,573,068</u>
TOTAL LIABILITIES	<u>11,542,479</u>	<u>398,101</u>	<u>11,940,580</u>
NET POSITION			
Invested in capital assets, net of related debt	3,736,703	15,649	3,752,352
Restricted			
Capital projects (expendable)	283,464	-	283,464
Other purposes	36,713	(105,002)	(68,289)
Unrestricted	(871,666)	-	(871,666)
TOTAL NET POSITION	<u>\$ 3,185,214</u>	<u>\$ (89,353)</u>	<u>\$ 3,095,861</u>

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 5,654,325	\$ -	\$ 2,226,235	\$ -	\$ (3,428,090)	\$ -	\$ (3,428,090)
Support Services:							
Student	1,276,573	-	385,979	-	(890,594)	-	(890,594)
Instructional staff	436,948	-	116,794	-	(320,154)	-	(320,154)
District administration	435,630	-	205,610	-	(230,020)	-	(230,020)
School administration	577,715	-	252,190	-	(325,525)	-	(325,525)
Business	445,697	-	195,775	-	(249,922)	-	(249,922)
Plant operations and maintenance	1,471,486	-	587,527	-	(883,959)	-	(883,959)
Student transportation	986,892	-	446,348	-	(540,544)	-	(540,544)
Community services	153,980	-	-	-	(153,980)	-	(153,980)
Facilities acquisition and construction	-	-	-	373,552	373,552	-	373,552
Interest on long-term debt	346,122	-	353,022	-	6,900	-	6,900
Total Governmental Activities	11,785,368	-	4,769,480	373,552	(6,642,336)	-	(6,642,336)
Business Type Activities:							
Food Service	951,326	75,961	875,025	-	-	(340)	(340)
Total Business Type Activities	951,326	75,961	875,025	-	-	(340)	(340)
Total Primary Government	\$ 12,736,694	\$ 75,961	\$ 5,644,505	\$ 373,552	\$ (6,642,336)	\$ (340)	\$ (6,642,676)
			General Revenues:				
				\$ 777,893	\$ -	\$ 777,893	
				136,744	-	136,744	
				260,776	-	260,776	
				1,090	-	1,090	
				5,525,754	-	5,525,754	
				16,318	-	16,318	
				232,798	-	232,798	
				6,951,373	-	6,951,373	
				309,037	(340)	308,697	
				2,876,177	(89,013)	2,787,164	
				\$ 3,185,214	\$ (89,353)	\$ 3,095,861	

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	CONSTRUCTION FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 963,401	\$ -	\$ 282,770	\$ 37,407	\$ 1,283,578
Accounts receivable					
Accounts	129,315	-	-	-	129,315
Intergovernmental - Federal	-	200,393	-	-	200,393
Dues from other funds	374	-	-	-	374
Prepaid Expenses	19,119	-	-	-	19,119
TOTAL ASSETS	\$ 1,112,209	\$ 200,393	\$ 282,770	\$ 37,407	\$ 1,632,779
LIABILITIES:					
Accounts payable	\$ 34,076	\$ 21	\$ -	\$ -	\$ 34,097
Accrued sick leave	11,514	-	-	-	11,514
Other current liabilities	6,532	-	-	-	6,532
Due to other funds	-	374	-	-	374
Unearned revenue	-	199,998	-	-	199,998
TOTAL LIABILITIES	\$ 52,122	\$ 200,393	\$ -	\$ -	\$ 252,515
FUND BALANCES:					
Restricted					
Capital projects		-	282,770	694	283,464
Other		-	-	36,713	36,713
Assigned	28,521	-	-	-	28,521
Unassigned	1,031,566	-	-	-	1,031,566
TOTAL FUND BALANCES	\$ 1,060,087	\$ -	\$ 282,770	\$ 37,407	\$ 1,380,264
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,112,209	\$ 200,393	\$ 282,770	\$ 37,407	\$ 1,632,779

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total Governmental Fund Balances	\$	1,380,264
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position		
Capital assets		12,515,294
Certain assets (obligations) are not a use of financial resources and therefore, are not reported in the government funds, but are presented in the statement of net position		
Pension contributions subsequent to measurement date		579,995
Net pension liability		(2,288,099)
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net position		
Bond obligations		(8,778,591)
Accrued interest		(55,501)
Other accrued liabilities		(26,128)
Accrued sick leave		(142,019)
		(9,002,239)
Net Position of Governmental Activities	\$	3,185,215

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	CONSTRUCTION FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 684,009	\$ -	\$ -	\$ 93,884	\$ 777,893
Motor vehicle	136,744	-	-	-	136,744
Utilities	260,776	-	-	-	260,776
Unmined Minerals	1,090	-	-	-	1,090
Earnings on investments	12,565	-	3,738	14	16,317
Other local revenues	203,848	26,916	-	28,245	259,009
Intergovernmental - State	7,275,899	372,546	-	726,574	8,375,019
Intergovernmental - Indirect federal	220,633	991,973	-	-	1,212,606
TOTAL REVENUES	8,795,564	1,391,435	3,738	848,717	11,039,454
EXPENDITURES:					
Current:					
Instruction:	4,152,149	737,128	-	14,870	4,904,147
Support Services:					
Student	719,889	310,460	-	-	1,030,349
Instructional staff	217,833	171,408	-	-	389,241
District administration	383,483	3,339	-	-	386,822
School administration	470,360	-	-	-	470,360
Business	365,140	289	-	-	365,429
Plant operations and maintainance	1,095,796	12,886	-	26,339	1,135,021
Student transportation	832,483	45,948	-	-	878,431
Community services	404	151,521	-	-	151,925
Facilities acquisition and construction	-	-	916,154	-	916,154
Debt service	142,105	-	27,755	797,164	967,024
TOTAL EXPENDITURES	8,379,642	1,432,979	943,909	838,373	11,594,903
Excess (Deficit) of Revenues over Expenditures	415,922	(41,544)	(940,171)	10,344	(555,449)
OTHER FINANCING SOURCES (USES):					
Operating transfers in	1,000	41,544	-	444,142	486,686
Operating transfers out	(41,544)	-	(4,738)	(440,403)	(486,685)
Sale of Equipment	46,231	-	-	-	46,231
Bond proceeds	-	-	1,160,000	-	1,160,000
Capital lease proceeds	181,422	-	-	-	181,422
TOTAL OTHER FINANCING SOURCES (USES):	187,109	41,544	1,155,262	3,739	1,387,654
Net Change in Fund Balances	603,031	-	215,091	14,083	832,205
Fund balance - beginning of year	433,781	-	67,679	23,324	524,784
Prior Period Adjustment	23,275	-	-	-	23,275
Fund balance - beginning of year (Restated)	457,056	-	67,679	23,324	548,059
Fund balance - end of year	\$ 1,060,087	\$ -	\$ 282,770	\$ 37,407	\$ 1,380,264

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY 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, 2016**

Net Change in Fund Balances - Total Governmental Funds	\$	832,205
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Issuance of debt proceeds are recognized in this fund financial statement as resources available for use as current financial resources, but bond proceeds are not recognized in the statement of activities.</p>		
Bond proceeds		(1,160,000)
Capital lease proceeds		(181,422)
<p>Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
Capital outlays		1,144,335
Depreciation expense		(538,910)
Loss on disposal		(62,874)
<p>Generally, expenditures recognized in the 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.</p>		
Accrued interest		(9,323)
Sick leave		(14,920)
<p>Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.</p>		
KTRS on-behalf revenue		1,081,163
KTRS on-behalf pension expense		(1,081,163)
Pension expense		(329,248)
<p>Bond and 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.</p>		
		629,194
Change in Net Position of Governmental Activities	\$	309,037

**MENIFEE COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Taxes:				
Property	\$ 588,525	\$ 653,038	\$ 684,009	\$ 30,971
Motor vehicle	130,000	130,000	136,744	6,744
Unmined minerals	-	1,500	1,090	(410)
Franchise	-	25,000	-	(25,000)
Utilities	297,064	350,910	260,776	(90,134)
Earnings on investments	4,000	8,961	12,565	3,604
Other local revenues	75,000	85,299	203,848	118,549
Intergovernmental - State	5,435,271	6,689,019	7,275,899	586,880
Intergovernmental - Federal	150,000	133,658	220,633	86,975
TOTAL REVENUES	<u>6,679,860</u>	<u>8,077,385</u>	<u>8,795,564</u>	<u>718,179</u>
EXPENDITURES:				
Current:				
Instruction:	3,436,597	4,095,676	4,152,149	(56,473)
Support Services:				
Student	652,110	703,035	719,889	(16,854)
Instructional staff	163,395	203,143	217,833	(14,690)
District administration	256,266	262,453	383,483	(121,030)
School administration	337,765	468,984	470,360	(1,376)
Business	182,804	279,121	365,140	(86,019)
Plant operations and maintenance	852,211	1,202,739	1,095,796	106,943
Student transportation	546,151	898,284	832,483	65,801
Noninstructional	2,375	140	404	(264)
Debt service	162,254	142,101	142,105	(4)
TOTAL EXPENDITURES	<u>6,591,928</u>	<u>8,255,676</u>	<u>8,379,642</u>	<u>(123,966)</u>
Excess (Deficit) of Revenues over Expenditures	<u>87,932</u>	<u>(178,291)</u>	<u>415,922</u>	<u>594,213</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	35,000	1,000	(34,000)
Operating transfers out	(13,932)	(41,572)	(41,544)	28
Sale of equipment	2,000	16,763	46,231	29,468
Capital lease proceeds	-	181,422	181,422	-
Contingency	(165,000)	(461,853)	-	461,853
TOTAL OTHER FINANCING SOURCES (USES):	<u>(176,932)</u>	<u>(270,240)</u>	<u>187,109</u>	<u>457,349</u>
Net Change in Fund Balance	(89,000)	(448,531)	603,031	1,051,562
Fund balance - beginning of year	89,000	448,531	433,781	(14,750)
Prior Period Adjustment	-	-	23,275	23,275
Fund balance - beginning of year (Restated)	<u>89,000</u>	<u>448,531</u>	<u>457,056</u>	<u>8,525</u>
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,060,087</u>	<u>\$ 1,060,087</u>

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	SPECIAL REVENUE FUND			
	BUDGETED AMOUNTS		ACTUAL	VARIANCE Favorable (Unfavorable)
	ORIGINAL	FINAL		
REVENUES:				
From local sources:				
Other local revenues	\$ 33,444	\$ 188,451	\$ 26,916	\$ (161,535)
Intergovernmental - State	342,192	549,165	372,546	(176,619)
Intergovernmental - Indirect federal	1,199,958	2,792,561	991,973	(1,800,588)
TOTAL REVENUES	<u>1,575,594</u>	<u>3,530,177</u>	<u>1,391,435</u>	<u>(2,138,742)</u>
EXPENDITURES:				
Current:				
Instruction:	1,036,368	1,865,263	737,128	1,128,135
Support Services:				
Student	228,974	666,555	310,460	356,095
Instructional staff	193,416	554,059	171,408	382,651
District administration	-	10,753	3,339	7,414
Business	-	28,461	289	28,172
Plant operations and maintenance	13,500	30,560	12,886	17,674
Student transportation	17,044	66,410	45,948	20,462
Community services	100,224	381,699	151,521	230,178
TOTAL EXPENDITURES	<u>1,589,526</u>	<u>3,603,760</u>	<u>1,432,979</u>	<u>2,170,781</u>
Excess (Deficit) of Revenues over Expenditures	<u>(13,932)</u>	<u>(73,583)</u>	<u>(41,544)</u>	<u>32,039</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	13,932	73,583	41,544	17,996
TOTAL OTHER FINANCING SOURCES (USES):	<u>13,932</u>	<u>73,583</u>	<u>41,544</u>	<u>17,996</u>
Net Change in Fund Balance	-	-	-	-
Fund balance - beginning of year	-	-	-	-
Fund balance - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016**

	FOOD SERVICE
ASSETS:	
Current Assets	
Cash and cash equivalents	\$ 194,040
Accounts receivable	20,841
Inventory	11,081
Total Current Assets	225,962
Noncurrent Assets	
Machinery & equipment	224,919
Accumulated depreciation	(209,270)
Total Noncurrent Assets	15,649
TOTAL ASSETS	241,611
DEFERRED OUTFLOW OF RESOURCES	
Pension	67,136
TOTAL DEFERRED OUTFLOWS OF RESOURCES	67,136
LIABILITIES:	
Current Liabilities	
Accounts payable	763
Noncurrent Liabilities	
Net pension liability	397,338
TOTAL LIABILITIES	398,101
NET POSITION:	
Invested in capital assets, net of related debt	15,649
Restricted	(105,002)
TOTAL NET POSITION	\$ (89,353)

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>FOOD SERVICE</u>
OPERATING REVENUES:	
Lunchroom sales	\$ 45,356
Other operating revenues	30,605
TOTAL OPERATING REVENUES	75,961
OPERATING EXPENSES:	
Salaries and wages	234,199
Employee benefits	158,107
Contract services	6,037
Materials and supplies	536,554
Property	6,085
Miscellaneous	3,995
Depreciation	6,349
TOTAL OPERATING EXPENSES	951,326
Operating income (loss)	(875,365)
NON-OPERATING REVENUES (EXPENSES)	
Federal grants	772,954
Federal commodities	45,292
State grants	56,779
NON-OPERATING REVENUES (EXPENSES)	875,025
Net income (loss) before operating transfers	(340)
Operating transfers	-
Change in net position	(340)
Net position - beginning	(89,013)
Net position - end of yea	\$ (89,353)

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 95,962
Cash paid to suppliers	(528,524)
Cash paid to employees	(419,007)
	(851,569)
Net Cash Provided (Used) by Operating Activities	(851,569)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Governmental grants	887,547
	887,547
Net Cash Provided (Used) by Noncapital Activities	887,547
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	-
	-
Net Cash Provided (Used) by Financing Activities	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received	-
	-
Net Cash Provided (Used) by Investing Activities	-
Net Increase (Decrease) in Cash and Cash Equivalents	35,978
Cash and cash equivalents - beginning of year	158,062
Cash and cash equivalents - end of year	\$ 194,040
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (875,365)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Federal commodities	45,292
On-behalf payments	56,779
Depreciation	6,349
Changes in Assets and Liabilities:	
Accounts Receivable	20,001
Inventory	(4,759)
Deferred outflows	(26,183)
Accounts payable	(16,386)
Deferred inflows	34,195
Net pension liability	(91,492)
	(851,569)
Net Cash Provided (Used) by Operating Activities:	\$ (851,569)
Schedule of non-cash transactions:	
Donated commodities received from federal government	\$ 45,292
On-behalf payments	\$ 56,779

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>AGENCY FUNDS</u>
ASSETS:	
Cash and cash equivalents	\$ 36,055
Accounts receivable	<u>-</u>
TOTAL ASSETS	\$ <u>36,055</u>
LIABILITIES:	
Accounts payable	\$ 813
Due to student groups	<u>35,242</u>
TOTAL LIABILITIES	\$ <u>36,055</u>
NET POSITION:	
Net position - restricted for school activity funds	\$ <u>-</u>

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – REPORTING ENTITY

The Menifee County Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Menifee County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as 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 the funds and account groups relevant to the operation of the Menifee County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself, such as Boosters Club, Parent-Teacher Associations and other student association entities.

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

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

Blended Component Unit

Menifee County Board of Education Finance Corporation - In a prior year, the Board resolved to authorize the establishment of the Menifee County School District Finance Corporation (a non-stock, non-profit corporation organized under School Bond Act and Chapter 273 and KRS 58.180) (the Corporation) as an agency of the District for financing the costs of school building improvements. The Board members of the Menifee County Board of Education also comprise the corporation's Board of Directors. The Corporation does not publish individual component unit financial statements.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

BASIS OF PRESENTATION

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

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 activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the statements for governmental funds.

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

Fund Financial Statements

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

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 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 the total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) The General Fund is the primary 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 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. Project accounting is employed to maintain integrity for the various sources of funds. The Special Revenue Fund is a major fund.

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

- 1) The Support Education Excellence in Kentucky (SEEK) Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing capital acquisitions. This is a non-major fund of the District.
- 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 non-major fund of the District.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

- 3) The Construction Fund accounts for funds from two sources. First, funds generated by sales of bonds issues are used for various construction and renovation projects. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. This is a non-major fund of the District.

(D) The Debt Service Fund accounts for financial resources used for payment of principal and interest and other debt related costs. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

(A) The Food Service Fund accounts 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.

III. Fiduciary Fund Type (Agency)

(A) 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*. This is a non major fund.

(B) The Special Purpose Trust Fund accounts for funds donated to the District for special purposes. The District does not currently have any Special Purpose Trust Funds.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis of accounting, 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 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises during the period for which taxes are levied, but only after the District has completed certain legal steps to establish the enforceable legal claim. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements when in which the District must provide local resources to be used for a specified purpose and expenditure requirements for in which the resources that are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized in the governmental fund statements.

In the Government-wide Statement of Net position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. requirements have been satisfied.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues from local sources consist primarily of property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. Revenue is recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as unearned revenues until all eligibility have been met.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Inventory

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

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 acquisition 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. 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 expensed.

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:

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	12 years
Furniture and fixtures	20 years
Rolling Stock	15 years
Other	10 years

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1 for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes unpaid after December 31, are considered delinquent and the County Attorney can file a lien against the property, after certain notices are provided to taxpayers.

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, if the taxes are restricted to a specific purpose, such as the Building Fund (FSPK).

The property tax rates assessed for the year ended June 30, 2016 to finance the General Fund operations were \$.487 per \$100 valuation for real property, \$.487 per \$100 valuation for business personal property and \$.492 per \$100 valuation for motor vehicles. The District levies a 3% utility tax on all businesses and households within the County.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund advances 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.

Budgetary Process

The District's budgetary process accounts for certain transactions on a basis of accounting other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note 15 for these amounts which were not known by the District at the time the budget was adopted.

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

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

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 the 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. 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 amount "accrued sick leave" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Balances

The District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for fiscal year 2011 for its governmental funds. Fund balances for each of the District's governmental funds (General Fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable fund balance*—amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned fund balance*—amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

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

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and any deferred outflows/inflows related to debt issued for capital financing . Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating 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 various schools and fees charged for day care services. All other revenues are non-operating. Operating expenses can be tied directly to the production of the goods and services, such as the materials and labor and direct overhead. Other expenses are non-operating.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

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 the proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

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 in the financial statements and the accompanying notes. Actual results could differ from those estimates.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports two types of deferred outflows- contributions to the CERS pension system after the measurement period and the District's proportional share of the collective difference between certain actual experience and assumptions used in the CERS actuarial valuation.

In addition to liabilities, the statement of net 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 appropriate period. The District reports one type of deferred inflows related to the net difference projected and actual earnings on pension plan investments. (see Note 7).

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the CERS and KTRS, respectively. 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.

New Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement will also enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Statement became effective for fiscal year beginning July 1, 2015. The implementation of GASB No. 72 did not have a material effect on the District, but the future valuation of donated capital assets will be measured using the acquisition value.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

New Accounting Pronouncements(Cont.)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will revise employer accounting and reporting for other postemployment benefits (OPEB) and implement requirements similar to the provisions of GASBS No. 68 and No. 73 for pension benefits. GASBS No. 75 will be effective for the District beginning July 1, 2018, and will require the District to report its proportionate share of the net OPEB liability, deferred outflows and inflows of resources, and OPEB expense related to the CERS cost-sharing defined benefit OPEB plan. In addition, the District's note disclosures for the KTRS cost-sharing defined benefit OPEB plan will be expanded to include a description of the state's proportionate shares of these balances related to the District. The District has not determined the financial impact of the implementation of GASBS No. 75.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end, the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC Insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$1,523,735. The bank balance for the same time was \$1,972,123.

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$ 50,600	\$ 0	\$ (767)	\$ 49,833
Construction in Progress	<u>0</u>	<u>920,817</u>	<u>0</u>	<u>920,817</u>
Total Capital Assets not being depreciated	50,600	920,817	(767)	970,650
Other Capital Assets				
Land Improvements	272,052	0	0	272,052
Buildings & Improvements	14,427,859	0	0	14,427,859
Technological Equipment	1,517,874	20,266	(590,275)	947,865
Vehicles	1,554,188	197,417	0	1,751,605
General Equipment	<u>211,806</u>	<u>5,835</u>	<u>(1,697)</u>	<u>215,944</u>
Total Other Assets	<u>17,983,779</u>	<u>223,518</u>	<u>(591,972)</u>	<u>17,615,325</u>
Less accumulated depreciation for:				
Land Improvements	(198,217)	(9,933)	0	(208,150)
Buildings & Improvements	(3,735,823)	(343,430)	0	(4,079,254)
Technological Equipment	(1,171,799)	(33,599)	523,607	(681,791)
Vehicles	(771,701)	(145,952)	0	(917,652)
General Equipment	<u>(179,535)</u>	<u>(5,996)</u>	<u>1,697</u>	<u>(183,834)</u>
Total accumulated depreciation	<u>(6,057,076)</u>	<u>(538,910)</u>	<u>525,304</u>	<u>(6,070,681)</u>
Other Capital Assets, net	<u>11,926,703</u>	<u>(315,392)</u>	<u>(66,668)</u>	<u>11,544,644</u>
Governmental Activities, net	<u>11,977,303</u>	<u>605,425</u>	<u>(67,434)</u>	<u>12,515,294</u>
Business Activities:				
Technological Equipment	3,396	0	0	3,396
General Equipment	<u>221,523</u>	<u>0</u>	<u>0</u>	<u>221,523</u>
Total	224,919	0	0	224,919
Less accumulated depreciation for:				
Technological Equipment	(3,396)	0	0	(3,396)
General Equipment	<u>(199,525)</u>	<u>(6,349)</u>	<u>0</u>	<u>(205,874)</u>
Total accumulated depreciation	<u>(202,921)</u>	<u>(6,349)</u>	<u>0</u>	<u>(209,270)</u>
Business Activities, net	<u>\$ 21,998</u>	<u>\$ (6,349)</u>	<u>\$ 0</u>	<u>\$ 15,649</u>

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 - CAPITAL ASSETS (cont'd)

Depreciation expense was charged to functions of the governmental activities of the District as follows:

Governmental Activities:

Instruction	\$	7,787
Support Services:		
Student		133,478
Instructional Staff		4,266
District Administration		3,342
School Administration		159
Plant Operations & Maintenance		12,810
Student Transportation		240,153
Non-instructional		136,915
Total depreciation expense, governmental activities	\$	538,910

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS

Bonds

The District, through the General Fund, the Building Fund, and the SEEK Capital Outlay Fund are obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Menifee County School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996, the District entered into "Participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds which may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2016 for debt service (principal and interest) are as follows:

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (cont'd)

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

Issue	Proceeds	Rates		Maturity Dates	Outstanding Balance June 30, 2016
2008R	\$ 970,000	2.25%	- 3.30%	2/1/2018	\$ 235,000
2009R	635,000	2.20%	3.70%	2/1/2019	245,000
2011	5,450,000	2.00%	4.50%	5/1/2031	4,820,182
2012R	2,345,000	.50%	2.15%	5/1/2023	1,520,000
2015	1,160,000	2.00%	3.25%	10/1/2035	1,160,000
	<u>\$ 10,560,000</u>				<u>\$ 7,980,182</u>

Year	Menifee County School District		Kentucky School Construction Commission		Total
	Principal	Interest	Principal	Interest	
2017	\$ 300,380	\$ 141,459	\$ 254,620	\$ 124,198	\$ 820,657
2018	304,953	133,695	250,047	118,087	806,782
2019	320,551	125,766	239,449	112,127	797,893
2020	324,464	117,809	200,536	105,253	748,062
2021	330,071	109,949	204,929	99,863	744,812
2022-2026	1,358,829	419,227	1,036,353	401,229	3,215,638
2027-2031	1,313,355	176,247	1,191,644	199,892	2,881,138
2032-2036	0	0	350,000	27,219	377,219
	<u>\$ 4,252,604</u>	<u>\$ 1,224,152</u>	<u>\$ 3,727,578</u>	<u>\$ 1,187,869</u>	<u>\$ 10,392,202</u>

During fiscal year 2016, School building Revenue Bonds Series 2015 was approved on October 1, 2015, sold on October 21, 2015 and delivered on November 12, 2015 in the amount of \$1,160,000 for the purposes of the roofing project within the District buildings.

Capital Leases

The following is an analysis of the leased property under capital leases by class at June 30, 2016:

Class of Property	Amount
Buses Book Value	\$1,026,169

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (cont'd)

Capital Leases (continued)

During fiscal year 2016, KISTA Bond Pool Sizing First Series of 2016 was approved on March 1, 2016 and delivered on March 22, 2016 in the amount of \$181,422 for the purposes of the two new school buses.

The following is a schedule by years of the future minimum lease payments under capital leases with the present value of the minimum lease payments as of June 30, 2016:

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>
2017	\$ 184,813
2018	173,115
2019	127,557
2020	106,394
2021	75,087
Thereafter	<u>131,445</u>
Total Minimum lease payments	798,410
Less: Amount of Interest	<u>(66,190)</u>
Present value of net minimum lease payments	<u>\$ 732,220</u>

KSBIT Payable

In 2013, the Kentucky School Board Insurance Trust (KSBIT) notified the District that its self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment was 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 of funding. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will take over the future responsibility for all present and future claims. The District's liability under the novation method was estimated to be \$52,258. The District elected to make an initial payment of 25% of its assessment and finance the remaining liability over 6 years. The plan was approved in June 2014 and the first payment was due by August 15, 2014.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (cont'd)

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2016:

	06/30/15 Beginning Balance	Additions	Reductions	06/30/16 Ending Balance	Amounts Due Within One Year
Bonds	\$ 7,325,182	\$ 1,160,000	\$ 505,000	\$ 7,980,182	\$ 820,657
Capital Leases	758,886	210,856	171,332	798,409	184,813
KSBIT	39,193	0	6,532	32,661	6,532
Sick Leave	127,099	65,151	38,717	153,533	65,151
Total	<u>\$ 8,250,360</u>	<u>\$ 1,436,007</u>	<u>\$ 721,581</u>	<u>\$ 8,964,785</u>	<u>\$ 1,077,153</u>

The District had a line of credit in the amount of \$300,000 at Traditional Bank which was closed on August 11, 2016. The District paid \$3 in interest during the year on the line.

NOTE 6 - COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provided for the minimum future rental payments as of June 30, 2016 are as follows:

<u>Year Ending June 30:</u>	<u>Amount</u>
2016	\$ 25,947
2017	25,947
2018	25,947
Total	<u>\$ 77,841</u>

Expenditures for equipment under operating leases for the year ended June 30, 2016 totaled \$25,497.

NOTE 7 - RETIREMENT PLAN

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

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

Plan Description

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

Benefits provided

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

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

Health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member’s years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member’s health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage. Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service. Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

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

Contributions

Required contributions by the employee are based on the tier:

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

Plan description

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

Benefits provided

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

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

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

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

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

Contributions

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

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

Retirement Plans

The District also offers employees the option to participate in defined contribution plans under Sections 403(B) and 401(K) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. These plans are administered by independent third party administrators.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements. Employee contributions made to the plans during the year totaled \$126,985. The District does not contribute to these plans.

Medical Insurance Plan

Plan description

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

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

Funding policy

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

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net CERS pension liability	\$	2,685,437
Commonwealth's proportionate share of the net KTRS pension liability associated with the District		29,954,231
	\$	32,693,668

The net pension liability for each plan was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability for both system were determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .06246% percent.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

\$1,700,657 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,317	\$ -
Changes of assumptions	270,797	-
Net difference between projected and actual earnings on pension plan investments	27,073	-
Changes in proportion and differences between District contributions and proportionate share of contributions	81,856	-
District contributions subsequent to the measurement date	248,088	-
Total	\$ 647,131	\$ -

\$248,088 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, 2017.

Actuarial assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

NOTE 7 - RETIREMENT PLAN (cont'd)

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

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

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

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

Discount rate

For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 - RETIREMENT PLAN (cont'd)

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$ 3,428,353	\$ 2,685,437	\$ 2,049,281
KTRS	3.88%	4.88%	5.88%
District's proportionate share of net pension liability	0	0	0

Pension plan fiduciary net position

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

NOTE 8 – 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. At June 30, 2016, this amount totaled \$153,335.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9- 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 are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated and include workers' compensation insurance.

NOTE 10 - CONTINGENCIES

Funding for the District's Grant Funds is provided by federal, state and local government agencies. These funds are to be used for designated purposes only. If, based upon the grantor's review, the funds are considered not to have been used for the intended purpose the grantor may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 11- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for worker's 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 a 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 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 days notice.

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11- RISK MANAGEMENT (cont'd)

In the event the Trust terminated coverage, any amount remaining in the Fund 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 several fiscal years.

NOTE 12 - 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 13 - DEFICIT OPERATING/ FUND BALANCES

There were no funds operating at a deficit fund balance at June 30, 2016.

NOTE 14 – INTERFUND TRANSACTIONS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
	Special		
General	Revenue	KETS Matching	\$41,544
Capital Outlay	Debt Service	Debt Service	\$72,027
Building	Debt Service	Debt Service	\$368,377
Construction	Debt Service	Debt Service	\$3,738
Construction	General	Roof Replacement	\$1,000

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 15 - ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2016, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

Kentucky Teachers Retirement System	\$ 619,494
Health & Life Insurance	1,135,248
Technology	50,853
Debt Service	<u>353,022</u>
Recognized at the Fund Level	<u>2,157,703</u>
Additional pension expense recognized at the Government-Wide Level	\$ <u>1,081,163</u>
Total On-Behalf	<u><u>\$ 3,238,866</u></u>

These payments were recorded in the appropriate revenue and expense accounts on the statement of revenue, expenses, and changes in fund balance as follows:

General Fund	\$1,747,902
Food Service Fund	56,779
Debt Service Fund	<u>353,022</u>
Total	<u><u>\$2,157,703</u></u>

NOTE 16- LITIGATION

The District is subject to several 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.

NOTE 17- SUBSEQUENT EVENTS

In preparing these financial statements, management of the District has evaluated events and transaction for potential recognition or disclosure through October 17, 2016, the date the financial statements were available to be issued. In the subsequent period a settlement agreement was reached. The net effect did not have an financial impact on the District.

MENIFEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULES

**MENIFEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
District's proportion of the net pension liability	0.06246%	0.05929%
District's proportionate share of the net pension liability	\$ 2,685,437	\$ 1,923,000
District's covered-employee payroll	\$ 1,961,629	\$ 1,457,224
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	136.898%	131.963%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
District's proportion of the net pension liability	0.1287%	0.1466%
District's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	\$ 29,954,231	\$ 30,126,070
Total	<u>\$ 29,954,231</u>	<u>\$ 30,126,070</u>
District's covered-employee payroll	\$ 4,179,746	\$ 4,347,207
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

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

**MENIFEE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	2015	2014
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 186,481	\$ 257,491
Contributions in relation to the contractually required contribution	186,481	257,491
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,961,629	\$ 1,457,224
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	9.51%	17.67%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 4,179,746	\$ 4,347,207
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%

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

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of June 30, 2015. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	28 Years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

Changes of Benefit Terms - None

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014

Changes of Assumptions:

The assumed investment rate was decreased from 7.75% to 7.5%.

The assumed rate of inflation was reduced from 3.5% to 3.25%.

The assumed rate of wage inflation was reduced from 1% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

KENTUCKY TEACHER'S RETIREMENT SYSTEM:

Actuarial Methods and Assumptions:

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

Actuarial Cost Method	Entry Age
Amortization Period	Level percentage of payroll, open
Remaining Amortization Period	30 Years
Asset Valuation Method	5-year smoothed market
Inflation	3.50%
Salary Increase	4.00 to 8.20%, including inflation
Ultimate Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

Changes of Benefit Terms - None

Changes of Assumptions:

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

MENIFEE COUNTY SCHOOL DISTRICT
SUPPLEMENTAL SCHEDULES

**MENIFEE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	DISTRICT ACTIVITY FUND	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 36,713	\$ -	\$ 694	\$ -	\$ 37,407
TOTAL ASSETS	<u>\$ 36,713</u>	<u>\$ -</u>	<u>\$ 694</u>	<u>\$ -</u>	<u>\$ 37,407</u>
FUND BALANCES:					
Restricted	36,713	-	694	-	37,407
TOTAL FUND BALANCES	<u>\$ 36,713</u>	<u>\$ -</u>	<u>\$ 694</u>	<u>\$ -</u>	<u>\$ 37,407</u>

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016**

	DISTRICT ACTIVITY FUND	SEEK CAPITAL OUTLAY FUND	FSPK BUILDING FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ -	\$ -	93,884	\$ -	93,884
Interest on investments	14	-	-	-	14
Other	28,245	-	-	-	28,245
Intergovernmental - State	-	98,365	275,187	353,022	726,574
TOTAL REVENUES	<u>28,259</u>	<u>98,365</u>	<u>369,071</u>	<u>353,022</u>	<u>848,717</u>
EXPENDITURES:					
Current:					
Instruction	14,870	-	-	-	14,870
Plant operations and maintenance	-	26,339	-	-	26,339
Debt service	-	-	-	797,164	797,164
TOTAL EXPENDITURES	<u>14,870</u>	<u>26,339</u>	<u>-</u>	<u>797,164</u>	<u>838,373</u>
Excess (Deficit) of Revenues over Expenditures	<u>13,389</u>	<u>72,026</u>	<u>369,071</u>	<u>(444,142)</u>	<u>10,344</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	-	-	444,142	444,142
Operating transfers out	-	(72,026)	(368,377)	-	(440,403)
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>(72,026)</u>	<u>(368,377)</u>	<u>444,142</u>	<u>3,739</u>
Net Change in Fund Balances	13,389	-	694	-	14,083
Fund balance - beginning of year	23,324	-	-	-	23,324
Fund balance - end of year	<u>\$ 36,713</u>	<u>\$ -</u>	<u>\$ 694</u>	<u>\$ -</u>	<u>\$ 37,407</u>

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
For The Year Ended June 30, 2016**

	Cash Balances June 30, 2015	Receipts	Disbursements	Cash Balances June 30, 2016	Accounts Receivable June 30, 2016	Accounts Payable June 30, 2016	Due To Student Groups June 30, 2016
Menifee Co. High School	\$ 33,603	\$ 151,222	\$ 157,040	\$ 27,785	\$ 0	\$ 813	\$ 26,971
Menifee Co. Elementary	11,557	36,950	41,897	6,609	0	-	6,609
Botts Elementary	5,590	10,596	14,524	1,662	-	-	1,662
	<u>\$ 50,749</u>	<u>\$ 198,767</u>	<u>\$ 213,461</u>	<u>\$ 36,055</u>	<u>\$ 0</u>	<u>\$ 813</u>	<u>\$ 35,242</u>

See Accompanying Notes to the Financial Statements

**MENIFEE COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
MENIFEE COUNTY COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

ACCOUNTS:	Cash Balances June 30, 2015	Receipts	Disbursements	Cash Balances June 30, 2016	Accounts Receivable June 30, 2016	Accounts Payable June 30, 2016	Due To Student Groups June 30, 2016
General Fund	\$ 3,208	\$ 4,254	\$ 5,879	\$ 1,583	\$ -	\$ 100	\$ 1,483
Sweep	-	4,000	4,000	-	-	-	-
Faculty Vending	2	164	166	-	-	-	-
Student Parking	-	-	-	-	-	-	-
Volleyball	246	-	-	246	-	-	246
Wrestling	18	-	-	18	-	-	18
Athletic Concessions	3,968	19,584	23,303	249	-	-	249
Baseball - Boys	28	6,070	6,098	-	-	-	-
Basketball - Boys	2,639	6,152	6,268	2,524	-	157	2,367
Basketball - Girls	1,449	10,492	10,362	1,578	-	157	1,422
Cross Country - Boys	14	429	443	-	-	-	-
Softball - Girls	12	7,805	7,817	-	-	-	-
Track	259	303	562	-	-	-	-
Golf	773	825	1,184	413	-	-	413
Soccer - Boys	127	5,221	5,326	22	-	-	22
Soccer - Girls	20	4,720	4,739	-	-	-	-
Varsity Cheerleading	109	4,223	4,309	23	-	-	23
Bass Fishing	135	100	173	62	-	-	62
Archery	22	350	353	20	-	-	20
Soccer Support - Boys	-	1,524	1,395	128	-	-	128
Soccer Support - Girls	-	1,853	1,637	216	-	-	216
P.E, Donations	288	-	-	288	-	286	1
FCCLA	1,289	7,958	7,702	1,544	-	-	1,544
FFA	3,062	17,382	15,527	4,917	-	114	4,804
Journalism	7,853	4,116	5,940	6,030	-	-	6,030
Junior Class	-	5,000	2,668	2,332	-	-	2,332
Senior Class	719	28,820	29,346	194	-	-	194
BETA Club	26	562	102	485	-	-	485
FBLA	312	-	312	-	-	-	-
Band	689	1,402	1,359	732	-	-	732
Special Education	109	174	132	151	-	-	151
Academic	16	-	-	16	-	-	16
FCA	265	-	-	265	-	-	265
FFA Dues	896	1,065	916	1,045	-	-	1,045
Student Council	847	1,731	2,114	465	-	-	465
Book Club	306	-	-	306	-	-	306
Start-Up Change	-	570	570	-	-	-	-
KDTC Scholarship	-	-	-	-	-	-	-
Guidance	3,585	2,488	4,317	1,756	-	-	1,756
Y-Club	311	1,887	2,020	178	-	-	178
TOTALS	\$ 33,603	\$ 151,222	\$ 157,040	\$ 27,785	\$ -	\$ 813	\$ 26,971

See Accompanying Notes to the Financial Statements

MENIFEE COUNTY BOARD OF EDUCATION
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2016

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Grantor and Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
Department of Education				
Special Education Cluster (IDEA)-Cluster				
Special Education Grants to States		KENTUCKY DEPARTMENT OF EDUCATION	SPECIAL EDUCATION - BASIC-3810002-14	\$ 23,693
Special Education Grants to States	84.027	KENTUCKY DEPARTMENT OF EDUCATION	SPECIAL EDUCATION - BASIC--3810002-15	229,009
Total Special Education Grants to States				<u>252,702</u>
Special Education Preschool Grants		KENTUCKY DEPARTMENT OF EDUCATION	SPECIAL ECUCATION - PRESCHOOL--3800002-15	8,740
Special Education Preschool Grants	84.173	KENTUCKY DEPARTMENT OF EDUCATION	SPECIAL EDUCATION - PRESCHOOL--3800002-14	8,740
Total Special Education Preschool Grants to States				<u>17,480</u>
Total Special Education Cluster (IDEA)-Cluster				<u>270,182</u>
GLD - ARTISAN CENTER ACTORS GUILD				
GLD - ARTISAN CENTER ACTORS GUILD	84.168	KENTUCKY DEPARTMENT OF EDUCATION	DLG - Artisan Center\Actors Guild--5283	3,339
Total GLD - ARTISAN CENTER ACTORS GUILD				<u>3,339</u>
RACE TO THE TOP				
RACE TO THE TOP	84.413	KENTUCKY DEPARTMENT OF EDUCATION	RACE TO THE TOP--4521	5,852
Total RACE TO THE TOP				<u>5,852</u>
Title I Grants to Local Educational Agencies				
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I - PARENT INVOLVEMENT--310BM	2,535
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I--3100002-15	464,255
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I--3100002-14	57,533
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I - PARENT INVOLVEMENT--3103M	974
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I - P.D.--3104D	360
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I - PARENT INVOLVEMENT--3104M	2,595
Title I Grants to Local Educational Agencies	84.010	KENTUCKY DEPARTMENT OF EDUCATION	TITLE I--3104	3,830
Total Title I Grants to Local Educational Agencies				<u>532,082</u>
Career and Technical Education -- Basic Grants to States				
Career and Technical Education -- Basic Grants to States	84.048	KENTUCKY DEPARTMENT OF EDUCATION	VOCATIONAL EDUCATION BASIC GRANT--3710002-15	9,984
Career and Technical Education -- Basic Grants to States	84.048	KENTUCKY DEPARTMENT OF EDUCATION	CARL PERKINS CARRYOVER--3710002-14	429
Total Career and Technical Education -- Basic Grants to States				<u>10,413</u>
Fund for the Improvement of Education				
Fund for the Improvement of Education	84.215	KENTUCKY DEPARTMENT OF EDUCATION	PEP CAROL M WHITE PHYSICAL ED--532BF	37,731
Fund for the Improvement of Education	84.215	KENTUCKY DEPARTMENT OF EDUCATION	HOPE ABSTINENCE ED--5324	5,823
Fund for the Improvement of Education	84.215	KENTUCKY DEPARTMENT OF EDUCATION	PEP CAROL M WHITE PHYSICAL ED--532AF	10,911
Total Fund for the Improvement of Education				<u>\$ 54,465</u>

MENIFEE COUNTY BOARD OF EDUCATION
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2016

Rural Education	84.358	KENTUCKY DEPARTMENT OF	RURAL AND LOW -	\$ 13,455
			RURAL AND LOW -	
		KENTUCKY DEPARTMENT OF	INCOME SCHOOL	
Rural Education	84.358	EDUCATION	PROGRAM--3140002-14	<u>5,465</u>
Total Rural Education				<u>18,920</u>
Improving Teacher Quality State Grants				
Improving Teacher Quality State Grants	84.367	KENTUCKY DEPARTMENT OF	TEACHER QUALITY--	
		EDUCATION	3230002-15	72,523
Improving Teacher Quality State Grants	84.367	KENTUCKY DEPARTMENT OF	TEACHER QUALITY--	
		EDUCATION	3230002-14	<u>2,157</u>
Total Improving Teacher Quality State Grants				<u>74,680</u>
<i>Total Department of Education</i>				<u>969,933</u>
Appalachian Regional Commission				
Appalachian Research, Technical Assistance, and Demonstration Projects				
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	KENTUCKY DEPARTMENT OF	KY AHED GRANT--6884	654
		EDUCATION		
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	KENTUCKY DEPARTMENT OF	KY AHED--688B	<u>4,051</u>
		EDUCATION		
Total Appalachian Research, Technical Assistance, and Demonstration Projects				<u>4,705</u>
<i>Total Appalachian Regional Commission</i>				<u>4,705</u>
United States Department of Agriculture				
National School Lunch Program				
National School Lunch Program	10.555	KENTUCKY DEPARTMENT OF	COMMODITIES-- 51	45,292
		EDUCATION		
National School Lunch Program		KENTUCKY DEPARTMENT OF	NSLP--FUND 51	
		EDUCATION		
Child and Adult Care Food Program	10.558		7790021-15	1,339
Child and Adult Care Food Program	10.558		7790021-16	13,560
Child and Adult Care Food Program	10.558		7800016-15	104
Child and Adult Care Food Program	10.558		7800016-16	<u>1,049</u>
Total Child and Adult Care Food Program				16,051
School Breakfast Program	10.553		7760005-15	57,533
School Breakfast Program	10.553		7760005-16	178,413
National School Lunch Program	10.555		7750002-15	110,010
National School Lunch Program	10.555		7750002-16	355,197
State Administrative Program	10.560		7700001-15	1,470
Summer School Service Program for Children	10.582		7720012-15	7,151
Summer School Service Program for Children	10.582		7720012-16	<u>47,128</u>
Total Cash Assistance				<u>756,902</u>
<i>Total United States Department of Agriculture</i>				<u>818,246</u>
Total Other Programs				<u>974,638</u>
Total Expenditures of Federal Awards				<u>\$ 1,792,884</u>

The accompanying notes are an integral part of this schedule

**MENIFEE COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Menifee County School District under the programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance) . Because the schedule presents only a selected portion of operations of the Menifee County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

NOTE 2- 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Menifee County School District has not applied the indirect cost rate.

NOTE 3 – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2016, the District received food commodities totaling \$45,292.

SUMMERS, MCCRARY & SPARKS, P.S.C.

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Menifee County School District
Frenchburg, KY

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits, as defined in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Menifee County School District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 17, 2016.

In addition, the results of our tests disclosed no material instances of noncompliance with specific state statutes or regulations identified in the *Kentucky Public School District's Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits.

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.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
October 17, 2016

SUMMERS, MCCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Kentucky State Committee for School District Audits
Members of the Board of Education
Menifee County School District
Frenchburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Menifee County School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U. S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Menifee County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
October 17, 2016

**MENIFEE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section 1 - 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 deficiencies identified
that are not considered to be material
weakness? yes X none reported

Noncompliance material to financial
statements noted? yes X no

Federal Awards

Internal control over majority programs:

Material weakness(es) identified? yes X no

Significant deficiencies identified
that are not considered to be material
weakness(es)? yes X none reported

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

Any audit findings disclosed that are
required to be report in accordance
with 2 CFR section 200.516 (a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555,10.553,10.559	Child Nutrition Cluster

Dollar threshold used to distinguish
between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes no

**MENIFEE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section II – Financial Statement Findings

There were no findings this year.

Section III – Federal Award Findings and Questioned Costs

There were no findings this year.

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

2015-001 Board Policy 04.11 was not followed. During the current year the District corrected this issue under the leadership of the state manager new finance officer.

2015-002 Procedures for the approval payment of bills. During the current year the District corrected this issue under the leadership of the state manager new finance officer.

2015-003 Procedures for the approval payment of payroll prior to distribution. During the current year the District corrected this issue under the leadership of the state manager new finance officer.

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Members of the Board of Education
Menifee County School District
Frenchburg, Kentucky

In planning and performing our audit of the financial statements of Menifee County School District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated October 17, 2016 on the financial statements of the Menifee County School District

We will review the status of these comments during our next audit engagement. We have already discussed many of 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,

Summers, McCrary & Sparks, PSC

Summers, McCrary & Sparks, PSC
Lexington, Kentucky
October 17, 2016

**MENIFEE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2016**

BOARD

Comment: During our review of payroll controls we noted some required forms, W-4 or I-9 were not in some employee files.

Response: We have implemented procedures requiring all newly hired employees to have all paperwork completed within 30 days of employment. The employee noted has been contacted and appropriate paperwork has been obtained by the finance department.

Comment: During our review of cash disbursements, we noted instances of standard invoices not completed with all required information. We also noted one instance where sales tax was paid.

Response: We continuously improve our internal controls throughout the year and will continue to address any oversights noted.

SCHOOL ACTIVITY FUNDS

MENIFEE COUNTY HIGH SCHOOL

Comment: During our review of cash receipts, we found multiple instances where money was not turned in timely to the bookkeeper. We recommend the principal and bookkeeper review the "Receipts" section, item no. 1, of the "Redbook", which states all money collected by a teacher or sponsor should be given to the school treasurer on the day collected, and convey this point to the teachers in the school.

Response: Redbook receipts section reviewed by bookkeeper and principal. Email sent out to all staff to reinforce rule of turning in money.

Comment: During our review of cash disbursements, we found an instance of a purchase that exceeded the approved amount on the purchase order. We recommend the bookkeeper review the "Purchasing" section, item no. 5, of the "Redbook", which states that the purchase order shall be prepared and approved by the sponsor and principal before the payment is obligated. The approved amount on the purchase order should be equal to or greater than the amount spent, but it should not be less.

Response: Purchasing section reviewed by bookkeeper. Email sent to all staff to reinforce issue of proper amount for purchase order and to make sure quote (price) is attained.

**MENIFEE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2016**

Comment: During our review of fundraising activity, we found multiple instances where the Fundraiser Worksheet (F-SA-2B) was not completed. We recommend the bookkeeper review the "Fundraising" section of the "Redbook", which states that for fundraisers where items are sold, the Fundraiser Worksheet (F-SA-2B) is required.

Response: Copy of fundraiser worksheet given to all staff and email sent to all in regards to its completion when warranted.

MENIFEE COUNTY ELEMENTARY SCHOOL

Any exceptions noted in testing appeared to be isolated incidents only and were communicated to management.

BOTTS ELEMENTARY

Comment: During our review of ticket sales, we noted an instance where the Ticket Sales Form (F-SA-1) was not completed properly. We recommend the principal review the "Ticket Sales" section and the Ticket Sales Form (F-SA-1) of the "Redbook" to ensure that the Ticket Sales Form is completed properly.

Response: The Ticket Sales Form (F-SA-1) is not a form we use often. The principal will make sure in the future anyone that uses ticket sales for an event knows how to correctly fill out the form and the bookkeeper will double check this when it is turned in.

STATUS OF PRIOR YEAR COMMENTS

BOARD

- Previously, the auditors noted the following comments:
 - 2015-004 - Invoices not paid timely. No Instances noted in the current year
 - 2015-005 – Official Minute book not maintained. No Instances noted in the current year.
 - 2015-006 – Non compliance with Model Procurement Act - No Instances noted in the current year.
 - 2015-007 – CDIP report filed late. No Instances noted in the current year
 - 2015-008 – Federal Cash Requests. No Instances noted in the current year
 - 2015-009 - Sales tax paid. **Repeat finding**
 - 2015-010 – Board Member reimbursement. No Instances noted in the current year
 - 2015-011 – Treasurer’s Bond. No Instances noted in the current year

**MENIFEE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2016**

MENIFEE COUNTY HIGH SCHOOL

- Previously, the auditors found that students were not signing the Multiple Receipt Form. According to the Red Book, “Students third grade and above must sign the Multiple Receipt Form. The previous auditors recommended the principal remind teachers/sponsors who are receiving money to have students sign the Multiple Receipt Form. No similar findings occurred in the current year.
- Previously, the auditors found that teachers were not turning money into the school treasurer timely. According to the Red Book, “All money collected by a teacher or sponsor shall be given to the school treasurer on the day collected:.. The previous auditors recommended that the principal should remind all teachers and sponsors to turn money in daily. Similar finding occurred in the current year.
- Previously, the auditors found that the booster clubs did not submit an annual financial report for the fiscal year ending June 30 to the principal by July 15. The previous auditors recommended that the principal should remind booster clubs of their responsibilities, and if the booster clubs do not comply, the principal should dissociate with the external organization. No similar findings occurred in the current year.
- Previously, the auditors found that purchase orders were not being prepared and approved by the sponsor and the principal before the payment was obligated. The previous auditor recommended that purchase orders should be prepared prior to the date the obligation occurred and should be signed by the sponsor. No similar finding occurred in the current year.
- Previously, the auditors found that there was one check written to the principal during the year. According to the Redbook, “The principal shall not be the vendor on a purchase order”. The previous auditors stated that the school should not write any checks to the principal. No similar findings occurred in the current year.

MENIFEE COUNTY ELEMENTARY SCHOOL

- Previously, the auditors found that the booster clubs did not submit an annual financial report for the fiscal year ending June 30 to the principal by July 15. The previous auditors recommended that the principal should remind booster clubs of their responsibilities, and if the booster clubs do not comply, the principal should dissociate with the external organization. No similar findings occurred in the current year.

**MENIFEE COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2016**

BOTTS ELEMENTARY SCHOOL

- Previously, the auditors found that purchase orders were not being prepared and approved by the sponsor and the principal before the payment was obligated. The previous auditor recommended that purchase orders should be prepared prior to the date the obligation occurred and should be signed by the sponsor. No similar finding occurred in the current year.

- Previously, the auditors found that the booster clubs did not submit an annual financial report for the fiscal year ending June 30 to the principal by July 15. The previous auditors recommended that the principal should remind booster clubs of their responsibilities, and if the booster clubs do not comply, the principal should dissociate with the external organization. No similar findings occurred in the current year.