

**MARION COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2017**

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November 6, 2017

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of the district's proportionate share of net pension liabilities on Pages 4 through 10 and 44 through 49 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 Marion County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2017, on our consideration of Marion County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marion County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**MARION COUNTY PUBLIC SCHOOL DISTRICT – LEBANON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2017**

Management’s discussion and analysis of the Marion County School District (District) offers readers of the District’s financial statements a narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2017. We encourage readers to review the information presented here in conjunction with additional information found within the body of these financial statements.

FINANCIAL HIGHLIGHTS

- The General Fund had \$26.4 million in revenues, which primarily consisted of funding through the State’s Support Education Excellence in Kentucky (SEEK) program and revenues from taxes, which include property taxes, motor vehicle, and utilities taxes. This compares to \$25.8 million in General Fund revenues for the prior year.
- Total local taxes collected were \$9,098,847 including property, vehicles, and utility taxes. Penalties and interest, omitted property taxes, and revenue in lieu of taxes are also included in this amount. \$1,276,877 of the total local taxes collected was for the building fund (5 Cent Levy and Recallable Nickel Levy) required for participation in the School Facilities Construction Commission (SFCC). SFCC funds must be used for projects identified in the District’s Facility Plan.
- The District levied tax rates of 60.0 cents (real estate), 60.0 cents (tangible property), and 52.6 cents (motor vehicles) per \$100 of assessed value, and continued the 3% utility tax.
- General Fund expenditures totaled \$26.9 million, compared to \$25.4 million in the prior year.

FACILITIES AND CONSTRUCTION HIGHLIGHTS

- State law requires districts to update a priority list of construction and renovation needs, called a Local Facilities Plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars. The district updated its facilities plan during fiscal year 2017. The plan indicated over \$64 million dollars in needs.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues

and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 43 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14.5 million as of June 30, 2017.

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

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

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

Statement of Net Position

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY16</u>	<u>FY17</u>	<u>FY16</u>	<u>FY17</u>	<u>FY16</u>	<u>FY17</u>
Current Assets	\$ 10,586,647	\$ 9,059,108	\$ 557,455	\$ 487,309	\$11,144,102	\$ 9,546,417
Non-Current Assets	31,911,885	30,639,003	137,781	136,128	32,049,666	30,775,131
Total Assets	42,498,532	39,698,111	695,236	623,437	43,193,768	40,321,548
Deferred Outflows	1,667,748	2,418,825	83,359	475,351	1,751,107	2,894,176
Total Assets and Deferred Outflows	44,166,280	42,116,936	778,595	1,098,788	44,944,875	43,215,724
Current Liabilities	3,870,701	2,176,830	56,774	36,080	3,927,475	2,212,910
Non-Current Liabilities	25,947,155	24,693,382	444,720	1,456,683	26,391,875	26,150,065
Total Liabilities	29,817,856	26,870,212	501,494	1,492,763	30,319,350	28,362,975
Deferred Inflows	33,465	280,964	2,519	70,239	35,984	351,203
Total Liabilities and Deferred Inflows	29,851,321	27,151,176	504,013	1,563,002	30,355,334	28,714,178
Net Position:						
Invested in capital (net of debt)	11,457,154	10,929,003	137,781	136,128	11,594,935	11,065,131
Restricted	1,809,887	1,569,668	136,801	(600,342)	1,946,688	969,326
Unrestricted	1,047,918	2,467,089			1,047,918	2,467,089
Total Net Position	\$ 14,314,959	\$ 14,965,760	\$ 274,582	\$ (464,214)	\$ 14,589,541	\$ 14,501,546

Statement of Activities

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>FY16</u>	<u>FY17</u>	<u>FY16</u>	<u>FY17</u>	<u>FY16</u>	<u>FY17</u>
Revenues						
<u>Program Revenues:</u>						
Charges for Services	\$ 70,619	\$ 70,619	\$ 654,398	\$ 475,754	\$ 725,017	\$ 546,373
Operating Grants and Contributions	3,518,201	3,821,765	1,811,106	2,137,361	5,329,307	5,959,126
Capital Grants and Contributions	119,318	112,054			119,318	112,054
<u>General Revenue:</u>						
Property Taxes	6,183,924	6,185,374			6,183,924	6,185,374
Motor Vehicle Taxes	635,019	719,385			635,019	719,385
Utility Taxes	1,503,865	1,506,238			1,503,865	1,506,238
Other Taxes		687,850				687,850
State Aid - Formula Grants	19,009,608	19,084,563			19,009,608	19,084,563
Investment Earnings	71,114	66,449	2,712	2,397	73,826	68,846
Miscellaneous Revenues	231,413	243,888			231,413	243,888
Gain (Loss) on Sale of Capital Assets	27,257	3,797			27,257	3,797
Loss Compensation		60,581				60,581
Total Revenues	31,370,338	32,562,563	2,468,216	2,615,512	3,838,554	35,178,075
Expenses						
Instructional	20,237,274	21,870,408			20,237,274	21,870,408
Student Support Services	1,101,283	1,271,856			1,101,283	1,271,856
Staff Support Services	1,930,692	1,605,773			1,930,692	1,605,773
District Administration	963,750	1,072,987			963,750	1,072,987
School Administration	1,495,497	1,301,485			1,495,497	1,301,485
Business Support Services	738,618	756,567			738,618	756,567
Plant Operation & Maintenance	2,093,134	2,061,919			2,093,134	2,061,919
Student Transportation	1,819,559	1,676,208			1,819,559	1,676,208
Food Service			2,501,546	2,759,371	2,501,546	2,759,371
Community Service Operations	294,996	303,653			294,996	303,653
Interest on Long-Term Debt	641,459	585,843			641,459	585,843
Total Expenses	31,316,262	32,506,699	2,501,546	2,759,371	33,817,808	35,266,070
Change in Net Position	(16,543)	55,864	(33,330)	(143,859)	(49,873)	(87,995)
Net Position July 1,	14,331,502	14,314,959	307,912	274,582	14,639,414	14,589,541
Prior Period Adjustment		594,937		(594,937)		
Net Position June 30,	\$ 14,314,959	\$ 14,965,760	\$ 274,582	\$ (464,214)	\$ 14,589,541	\$ 14,501,546

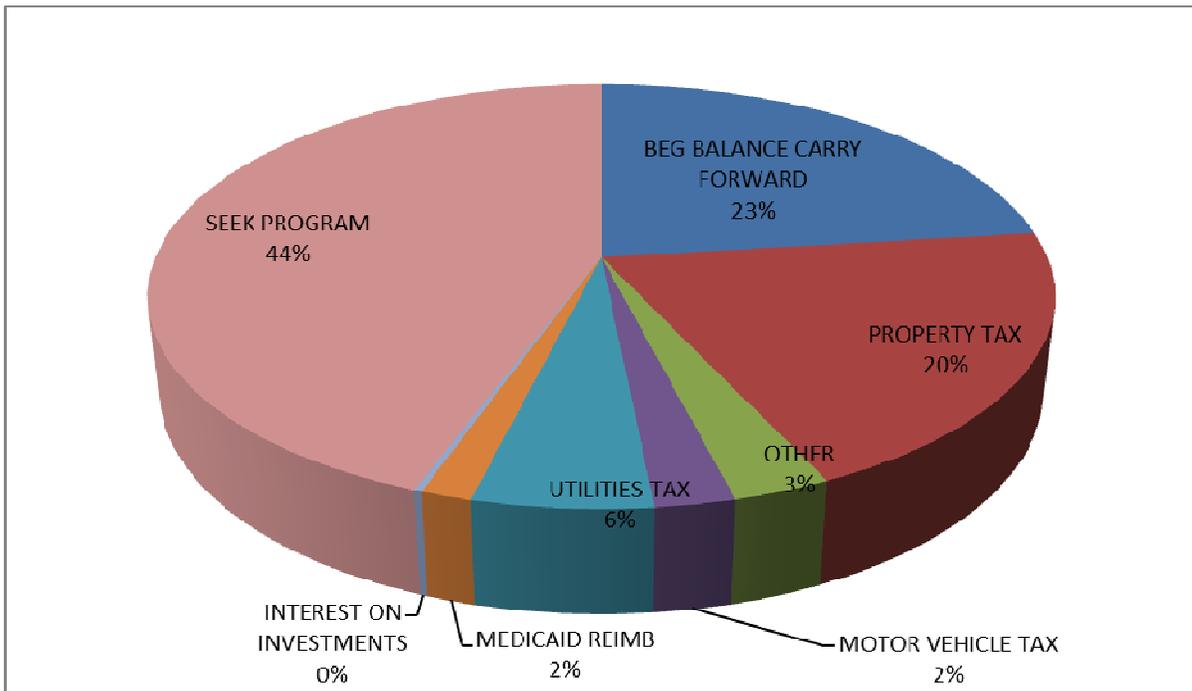
On-Behalf Payments

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

On-Behalf Distribution 2016-2017	
Health Insurance, Life, Admin,HRA/Dental/Vision	\$ 3,321,554
Kentucky Teachers Retirement	\$ 2,236,139
Technology	\$ 76,846
Debt Service	<u>\$ 539,459</u>
Total On-Behalf Payments	<u>\$ 6,173,998</u>

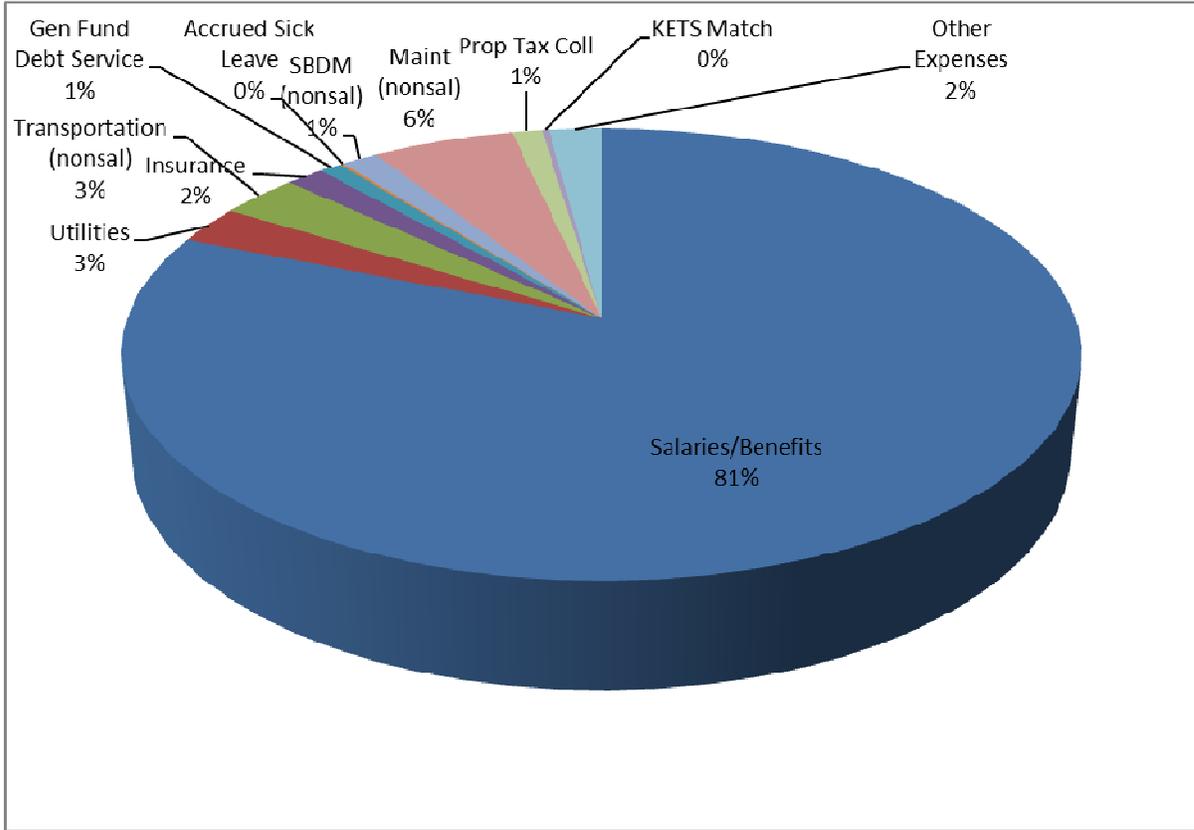
General Fund Revenue Chart 1.

The majority of general revenue was derived from SEEK (state funding) 44%, with local taxes (property, motor vehicle, and utility) making up 30% of total general revenue.



General Fund Expenditures Chart 2.

Approximately 81% of the general fund expenses were spent for salaries and fringe benefits. A breakdown of all general fund expenditures is found in the chart below.



GENERAL FUND BUDGETARY HIGHLIGHTS

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

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$19,693,131 with actual results being \$26,877,487. Budgeted expenditures were \$26,114,163 compared to actual expenditures of \$27,046,757. The most significant variance between budget and actual was the District's contingency account of \$2,290,032 which is required by law to be budgeted, but no actual expenses were incurred. The District also did not budget for state on-behalf payments, which are stated in the actual expenses. For many years, the District has prepared its budget in a conservative manner. A sizable fund balance at the beginning of the year is important since the majority of the District's tax revenue is not received until approximately five months into the fiscal year. The District's fund balance is used to offset the delay in tax receipts for the year.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. Significant Board action that impacts the finances includes the Board's salary schedules which were increased 1% for the 2016-17 school year for certified and classified employees.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The table below shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2016 and 2017.

	Governmental Activities (Net of Depreciation)		Business – Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	2017	2016	2017	2016	2017	2016
Land	\$ 814,396	\$ 814,396	\$ -	\$ -	\$814,396	\$ 814,396
Construction in Progress	-	4,766,682	-	-	-	4,766,682
Buildings and Improvements	27,704,738	24,053,760	-	-	27,704,738	24,053,760
Technology	670,859	889,498	6,808	9,680	677,667	899,178
Vehicles	1,236,905	1,144,211	-	-	1,263,905	1,144,211
General Equipment	212,105	243,338	129,320	128,101	314,425	371,439
Total	\$ 30,639,003	\$ 31,911,885	\$ 136,128	\$ 137,781	\$30,775,131	\$ 32,049,666

The table below shows the changes in capital assets for fiscal years ended June 30, 2016 and 2017.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Beginning Balance	\$ 31,911,885	\$ 29,433,929	\$ 137,781	\$ 169,910	\$ 32,049,666	\$ 29,603,839
Additions	694,049	4,322,721	35,326	5,840	729,375	4,328,561
Retirements	(1,020)	(554)	-	-	(1,020)	(554)
Depreciation	(1,965,911)	(1,844,211)	(36,979)	(37,969)	(2,002,890)	(1,882,180)
Ending Balance	\$ 30,639,003	\$ 31,911,885	\$ 136,128	\$ 137,781	\$ 30,775,131	\$ 32,049,666

Long-Term Debt

At year-end the District had \$19,710,000 in bonds outstanding. No bonds were issued during the fiscal year ended June 30, 2017. A total of \$1,345,000 of bond principal is due within one year.

Contacting the District's Financial Management

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	8,354,911	433,490	8,788,401
Accounts Receivable:			
Taxes - Current	170,830		170,830
Taxes - Delinquent	7,302		7,302
Accounts	198,489	25,147	223,636
Intergovernmental - State	55,786		55,786
Intergovernmental - Federal	271,790		271,790
Inventories for Consumption		28,672	28,672
Total Current Assets	9,059,108	487,309	9,546,417
Noncurrent Assets - Note F			
Land	814,396		814,396
Buildings & Improvements	50,301,570		50,301,570
Furniture & Equipment	8,792,038	843,512	9,635,550
Less: Accumulated Depreciation	(29,269,001)	(707,384)	(29,976,385)
Total Noncurrent Assets	30,639,003	136,128	30,775,131
TOTAL ASSETS	39,698,111	623,437	40,321,548
Deferred Outflows Related to Pensions	1,936,253	475,351	2,411,604
Deferred Outflows from Advanced Bond Refundings	482,572		482,572
TOTAL ASSETS AND DEFERRED OUTFLOWS	42,116,936	1,098,788	43,215,724
LIABILITIES:			
Current Liabilities:			
Accounts Payable	70,947	36,080	107,027
Accrued Sick Leave - Note A	112,377		112,377
Advances from Grantors	507,292		507,292
Bond Obligations - Note E	1,345,000		1,345,000
KSBIT Assessment - Note R	37,145		37,145
Accrued Interest Payable	104,069		104,069
Total Current Liabilities	2,176,830	36,080	2,212,910
Noncurrent Liabilities:			
Bond Obligations - Note E	18,365,000		18,365,000
KSBIT Assessment - Note R	111,426		111,426
Net Pension Liability	5,826,732	1,456,683	7,283,415
Accrued Sick Leave - Note A	390,224		390,224
Total Noncurrent Liabilities	24,693,382	1,456,683	26,150,065
TOTAL LIABILITIES	26,870,212	1,492,763	28,362,975
Deferred Inflows Related to Pensions	280,964	70,239	351,203
TOTAL LIABILITIES AND DEFERRED INFLOWS	27,151,176	1,563,002	28,714,178
NET POSITION:			
Net Investment in Capital Assets	10,929,003	136,128	11,065,131
Restricted for:			
Capital Projects	77,651		77,651
School Activities	85,810		85,810
SFCC Escrow	1,402,700		1,402,700
Debt Service	3,507		3,507
Food Service		(600,342)	(600,342)
Unrestricted	2,467,089		2,467,089
TOTAL NET POSITION	14,965,760	(464,214)	14,501,546
TOTAL LIABILITIES AND NET POSITION	42,116,936	1,098,788	43,215,724

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	21,870,408	52,485	3,240,438		(18,577,485)		(18,577,485)
Support Services:							
Student Support Services	1,271,856		123,768		(1,148,088)		(1,148,088)
Staff Support Services	1,605,773		157,089		(1,448,684)		(1,448,684)
District Administration	1,072,987				(1,072,987)		(1,072,987)
School Administration	1,301,485				(1,301,485)		(1,301,485)
Business Support Services	756,567				(756,567)		(756,567)
Plant Operation & Maintenance	2,061,919				(2,061,919)		(2,061,919)
Student Transportation	1,676,208	18,134			(1,658,074)		(1,658,074)
Community Service Operations	303,653		300,470		(3,183)		(3,183)
Interest on Long-Term Debt	585,843			112,054	(473,789)		(473,789)
TOTAL GOVERNMENTAL ACTIVITIES	32,506,699	70,619	3,821,765	112,054	(28,502,261)		(28,502,261)
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,759,371	475,754	2,137,361			(146,256)	(146,256)
TOTAL BUSINESS-TYPE ACTIVITIES	2,759,371	475,754	2,137,361	0	0	(146,256)	(146,256)
TOTAL SCHOOL DISTRICT	35,266,070	546,373	5,959,126	112,054	(28,502,261)	(146,256)	(28,648,517)
GENERAL REVENUES:							
Taxes:							
Property					6,185,374		6,185,374
Motor Vehicle					719,385		719,385
Utility					1,506,238		1,506,238
Other					687,850		687,850
State Aid - Formula Grants					19,084,563		19,084,563
Investment Earnings					66,449	2,397	68,846
Miscellaneous					243,888		243,888
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					3,797		3,797
Loss Compensation					60,581		60,581
TOTAL GENERAL & SPECIAL					28,558,125	2,397	28,560,522
CHANGE IN NET POSITION					55,864	(143,859)	(87,995)
NET POSITION - BEGINNING OF YEAR AS RESTATED- NOTE R					14,909,896	(320,355)	14,589,541
NET POSITION - ENDING					14,965,760	(464,214)	14,501,546

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

MARION COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	GENERAL FUND	SPECIAL REVENUE	BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	6,605,527	179,716	963,646	606,022	8,354,911
Accounts Receivable:					
Taxes - Current	170,830				170,830
Taxes - Delinquent	7,302				7,302
Accounts	198,489				198,489
Intergovernmental - State		55,786			55,786
Intergovernmental - Federal		271,790			271,790
TOTAL ASSETS	<u>6,982,148</u>	<u>507,292</u>	<u>963,646</u>	<u>606,022</u>	<u>9,059,108</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	70,947				70,947
Advances from Grantors		507,292			507,292
Total Liabilities	<u>70,947</u>	<u>507,292</u>	<u>0</u>	<u>0</u>	<u>578,239</u>
Fund Balance:					
Restricted for:					
Capital Projects				77,651	77,651
Debt Service				3,507	3,507
School Activities				85,810	85,810
SFCC Escrow			963,646	439,054	1,402,700
Committed for:					
Sick Leave	112,377				112,377
Unassigned Fund Balance	6,798,824				6,798,824
Total Fund Balance	<u>6,911,201</u>	<u>0</u>	<u>963,646</u>	<u>606,022</u>	<u>8,480,869</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>6,982,148</u>	<u>507,292</u>	<u>963,646</u>	<u>606,022</u>	<u>9,059,108</u>

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

MARION COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

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

TOTAL GOVERNMENTAL FUND BALANCE		8,480,869
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	59,908,004	
Accumulated Depreciation	<u>(29,269,001)</u>	30,639,003
Deferred Outflows on Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		
		482,572
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		
		1,936,253
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
KSBIT Assessment	(148,571)	
Bonds Payable	(19,710,000)	
Net Pension Liability	(5,826,732)	
Accrued Interest on Bonds	(104,069)	
Accrued Sick Leave	<u>(502,601)</u>	(26,291,973)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		
		<u>(280,964)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>14,965,760</u></u>

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL	SPECIAL REVENUE	BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	4,908,497		1,276,877		6,185,374
Motor Vehicle	719,385				719,385
Utility	1,506,238				1,506,238
Other	687,850				687,850
Earnings on Investments	65,186	830		433	66,449
Intergovernmental - State	17,885,560	1,389,784	484,792	826,265	20,586,401
Intergovernmental - Federal	481,462	1,950,519			2,431,981
Other Sources	177,192	67,310		70,005	314,507
TOTAL REVENUES	26,431,370	3,408,443	1,761,669	896,703	32,498,185
EXPENDITURES:					
Instructional	17,350,282	2,864,989		54,172	20,269,443
Support Services:					
Student Support Services	1,162,155	109,428			1,271,583
Staff Support Services	1,463,927	138,888		2,076	1,604,891
District Administration	931,360				931,360
School Administration	1,297,635				1,297,635
Business Support Services	840,579				840,579
Plant Operation & Maintenance	1,992,160				1,992,160
Student Transportation	1,774,314				1,774,314
Community Service Operations	37,004	265,656			302,660
Adult Education Operations					
Facilities Acquisition & Construction	10,083			181,960	192,043
Debt Service:					
Principal				1,305,000	1,305,000
Interest				531,450	531,450
TOTAL EXPENDITURES	26,859,499	3,378,961	0	2,074,658	32,313,118
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(428,129)	29,482	1,761,669	(1,177,955)	185,067
OTHER FINANCING SOURCES(USES):					
Loss Compensation	60,581				60,581
Proceeds from Sale of Assets	4,817				4,817
Operating Transfers In - Note N	380,719	60,231	127,028	1,294,084	1,862,062
Operating Transfers Out - Note N	(187,259)	(89,713)	(1,204,371)	(380,719)	(1,862,062)
TOTAL OTHER FINANCING SOURCES	258,858	(29,482)	(1,077,343)	913,365	65,398
NET CHANGE IN FUND BALANCES	(169,271)	0	684,326	(264,590)	250,465
FUND BALANCES - BEGINNING	7,080,472	0	279,320	870,612	8,230,404
FUND BALANCES - ENDING	6,911,201	0	963,646	606,022	8,480,869

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

MARION 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, 2017

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

NET CHANGES - GOVERNMENTAL FUNDS		250,465
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,965,911)	
Capital Outlays	694,049	(1,271,862)
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		1,305,000
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflows on Advanced Bond Refundings	(77,697)	
District Pension Contributions	470,646	
Cost of Benefits Earned Net of Employee Contributions	(402,622)	
Accrued Interest Payable	23,304	
KISBIT Assessment	82,083	
Accrued Sick Leave	(322,433)	(226,719)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Loss- Sale of Assets		(1,020)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		55,864

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	ENTERPRISE FUND
	FOOD SERVICE
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	433,490
Accounts Receivable	25,147
Inventories for Consumption	28,672
Total Current Assets	487,309
Noncurrent Assets:	
Furniture & Equipment	843,512
Less: Accumulated Depreciation	(707,384)
Total Noncurrent Assets	136,128
TOTAL ASSETS	623,437
Deferred Outflows Related to Pensions	475,351
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,098,788
LIABILITIES:	
Current Liabilities:	
Account Payable	36,080
Total Current Liabilities	36,080
Noncurrent Liabilities:	
Net Pension Liability	1,456,683
Total Noncurrent Liabilities	1,456,683
TOTAL LIABILITIES	1,492,763
Deferred Inflows Related to Pensions	70,239
TOTAL LIABILITIES AND DEFERRED INFLOWS	1,563,002
Net Position:	
Net Investment in Capital Assets	136,128
Restricted	(600,342)
Total Net Position	(464,214)
TOTAL LIABILITIES AND NET POSITION	1,098,788

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	ENTERPRISE FUND
	FOOD SERVICE
OPERATING REVENUES:	
Lunchroom Sales	443,917
Other Operating Revenues	31,837
TOTAL OPERATING REVENUES	475,754
OPERATING EXPENSES:	
Salaries & Benefits	1,218,451
Contract Services	69,001
Materials & Supplies	1,431,383
Depreciation - Note F	36,979
Other Operating Expenses	3,557
TOTAL OPERATING EXPENSES	2,759,371
OPERATING INCOME(LOSS)	(2,283,617)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,817,807
State Grants	173,760
Donated Commodities	145,794
Interest Income	2,397
TOTAL NONOPERATING REVENUE	2,139,758
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(143,859)
CAPITAL CONTRIBUTIONS	0
CHANGE IN NET POSITION	(143,859)
TOTAL NET POSITION - BEGINNING AS RESTATED - NOTE R	(320,355)
TOTAL NET POSITION - ENDING	(464,214)

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from:	
Lunchroom Sales	443,917
Other Activities	31,837
Cash Paid to/for:	
Employees	(1,024,687)
Supplies	(1,246,041)
Other Activities	(72,558)

Net Cash Used by Operating Activities (1,867,532)

CASH FLOWS FROM NON-CAPITAL AND RELATED
FINANCING ACTIVITIES:

Federal Grants	1,818,167
State Grants	20,823

Net Cash Provided by Non-Capital and Related Financing Activities 1,838,990

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Purchases of Capital Assets	(34,326)
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CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income	2,397
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Net Increase in Cash and Cash Equivalents (60,471)

Balances, Beginning of Year 493,961

Balances, End of Year 433,490

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating Loss (2,283,617)

Adjustments to Reconcile Operating Loss to Net Cash (Used)
by Operating Activities

Depreciation	36,979
State On-Behalf Payments	152,937
Donated Commodities	145,794
Change in Assets and Liabilities:	
Inventory	9,316
Accrued Salaries & Benefits	(50,926)
Net Pension Liability	91,753
Accounts Payable	30,232

Net Cash Used by Operating Activities (1,867,532)

Schedule of Non-Cash Transactions:

Donated Commodities	145,794
State On-Behalf Payments	152,937

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUND</u>
ASSETS:		
Cash and Cash Equivalents		215,433
Investments - Note D	140,819	
TOTAL ASSETS	<u>140,819</u>	<u>215,433</u>
LIABILITIES:		
Due to Student Groups		215,433
TOTAL LIABILITIES	<u>0</u>	<u>215,433</u>
NET POSITION HELD IN TRUST	<u><u>140,819</u></u>	<u><u>0</u></u>

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Net Interest and Investment Gains(Losses)	7,983
DEDUCTIONS:	
Broker Fees	2,052
Benefits Paid	<u>7,000</u>
Changes in Net Position	(1,069)
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>141,888</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>140,819</u></u>

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

MARION COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. 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 main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

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

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

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 Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$0.60 per \$100 valuation for real property, \$0.60 per \$100 valuation for business personal property, and \$0.526 per \$100 valuation for motor vehicles.

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

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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 “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

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

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

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	112,377	Long-Term Sick Leave Commitment

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their 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 the various schools.

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$9,003,834. Of the total cash balance, \$324,125 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2017, consisted of the following:

	Bank Balance	Book Balance
U.S. Bank	14,392	13,392
Citizens National Bank	10,950,803	8,929,710
Farmers National Bank	<u>61,359</u>	<u>60,732</u>
Total	<u>11,026,554</u>	<u>9,003,834</u>
Breakdown per financial statements:		
Governmental Funds		8,354,911
Proprietary Funds		<u>433,490</u>
Cash per Statement of Net Position		8,788,401
Agency Funds		<u>215,433</u>
Total Cash		<u>9,003,834</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – INVESTMENTS

Private purpose trust funds reflected in the statement of fiduciary net position consist of trust fund monies restricted by the donors for awarding college scholarships. These restricted funds are managed by USB Financial Services, Inc. These funds are held in the District’s name and invested in money market and mutual fund investments.

Credit Risk – Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counter party, the District will not be able to recover the value of its investments or collateral securities that are held in the possession of an outside party.

Interest Rate Risk – Interest rate risk is the risk that the changes in market interest rates will adversely affect the fair market value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Concentration of Credit Risk – The District’s investment policy places no limit on the amount the District may invest in any one issuer.

Risks and Uncertainties – The District invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the account balances and the amounts reports in the statement of fiduciary net position.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The initial cost of the investments was \$108,650. Investments at June 30, 2017, consist of the following:

	<u>Fair Value</u>
Money Market Funds	\$ 9,135
Mutual Funds	<u>131,684</u>
Total	<u>140,819</u>

All fair values listed above are valued using quoted market prices (Level 1 inputs).

While such investments are not in conformity with state law, the assets are in trust, and the trustee makes all investment decisions.

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make payments relating to the bonds issued by the Marion County School District Finance Corporation aggregating \$24,549,000.

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

2005 Unrefunded	785,000	3.60% - 3.80%
2009	3,045,000	3.00% - 3.375%
2012	3,210,000	1.25% - 2.125%
2012 Series B	1,030,000	1.70% - 3.25%
2012 Series C	4,750,000	1.00% - 2.375%
2014	5,645,000	1.00% - 3.50%
2015	3,524,000	1.00% - 3.75%
2015 Series A	815,000	1.30% - 3.50%
2015 Series B	1,745,000	.40% - 1.5%

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

In 1995 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission’s participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2017, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2017-18	1,345,000	498,735	481,640	1,362,095
2018-19	1,345,000	462,430	443,573	1,363,857
2019-20	1,345,000	440,127	414,136	1,370,992
2020-21	1,310,000	422,715	345,083	1,387,632
2021-22	1,355,000	396,253	344,232	1,407,020
2022-23	1,385,000	367,888	343,382	1,409,506
2023-24	1,380,000	328,026	287,925	1,420,101
2024-25	1,425,000	295,414	291,426	1,428,988
2025-26	1,435,000	261,289	264,982	1,431,307
2026-27	1,305,000	224,365	186,940	1,342,425
2027-28	1,340,000	184,107	185,291	1,338,816
2028-29	1,400,000	141,161	188,503	1,352,658
2029-30	1,425,000	94,428	154,130	1,365,298
2030-31	380,000	64,775	69,225	375,550
2031-32	400,000	51,975	67,113	384,862
2032-33	355,000	38,494	0	393,494
2033-34	380,000	26,450	0	406,450
2034-35	400,000	13,563	0	413,563
	<u>19,710,000</u>	<u>4,312,195</u>	<u>4,067,581</u>	<u>19,954,614</u>

Long-term liability activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	21,015,000	0	1,305,000	19,710,000	1,345,000
KSBIT Assessment	230,651	0	82,080	148,571	37,145
Net Pension Liability	5,082,510	744,222	0	5,826,732	0
Accrued Sick Leave	<u>180,169</u>	<u>357,650</u>	<u>35,218</u>	<u>502,601</u>	<u>112,377</u>
Total Governmental Activities:	<u>26,508,330</u>	<u>1,101,872</u>	<u>1,422,298</u>	<u>26,187,904</u>	<u>1,494,522</u>
Proprietary Activities:					
Net Pension Liability	<u>1,270,628</u>	<u>186,055</u>	<u>0</u>	<u>1,456,683</u>	<u>0</u>
Total Long-Term Liabilities:	<u>27,778,958</u>	<u>1,297,927</u>	<u>1,422,298</u>	<u>27,644,587</u>	<u>1,494,522</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	814,396			814,396
Construction	4,766,682	(4,766,682)		0
Depreciable Assets:				
Buildings & Building Improvements	45,211,754	5,089,816		50,301,570
Technology Equipment	3,858,359	60,525	15,115	3,903,769
Vehicles	3,744,148	302,540		4,046,688
General Equipment	835,875	7,850	2,144	841,581
TOTAL AT HISTORICAL COST	<u>59,231,214</u>	<u>694,049</u>	<u>17,259</u>	<u>59,908,004</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	21,157,994	1,438,838		22,596,832
Technology Equipment	2,968,861	279,038	14,989	3,232,910
Vehicles	2,599,937	209,846		2,809,783
General Equipment	592,537	38,189	1,250	629,476
TOTAL ACCUMULATED DEPRECIATION	<u>27,319,329</u>	<u>1,965,911</u>	<u>16,239</u>	<u>29,269,001</u>
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u>31,911,885</u>	<u>(1,271,862)</u>	<u>(1,020)</u>	<u>30,639,003</u>
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	19,264			19,264
General Equipment	788,922	35,326		824,248
TOTALS AT HISTORICAL COST	<u>808,186</u>	<u>35,326</u>	<u>0</u>	<u>843,512</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	9,584	2,872		12,456
General Equipment	660,821	34,107		694,928
TOTAL ACCUMULATED DEPRECIATION	<u>670,405</u>	<u>36,979</u>	<u>0</u>	<u>707,384</u>
PROPRIETARY ACTIVITIES CAPITAL NET	<u>137,781</u>	<u>(1,653)</u>	<u>0</u>	<u>136,128</u>
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,517,406
Student Support Services				4,046
Staff Support Services				5,339
District Administration				142,334
School Administration				8,110
Business Support Services				176
Plant Operation & Maintenance				79,872
Student Transportation				207,635
Community Service Operations				993
TOTAL				<u>1,965,911</u>

NOTE G – RETIREMENT PLANS

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

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

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

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

Tier 1	Participation date	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 or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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 (TRS)—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. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. TRS issues a publicly available financial report that can be obtained at http://www.TRS.ky.gov/05_publications/index.htm.

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

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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. TRS 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to TRS.

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 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS 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 TRS 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, 2017, 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 TRS because the Commonwealth of Kentucky provides the pension support directly to TRS 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:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 7,283,415
Commonwealth's proportional share of the TRS net pension liability associated with the District	<u>135,901,392</u>
	<u>\$ 143,184,807</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.14793% percent.

For the year ended June 30, 2017, the District recognized pension expense of \$750,784 related to CERS and \$2,236,139 related to TRS. The District also recognized revenue of \$2,236,139 for TRS support provided by the Commonwealth. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 63,476	\$ -
Changes of assumptions	770,222	-
Net difference between projected and actual earnings on pension plan investments	1,031,280	303,852
Changes in proportion and differences between District contributions and proportionate share of contributions	4,407	47,351
District contributions subsequent to the measurement date	<u>542,219</u>	<u>-</u>
Total	<u>\$ 2,411,604</u>	<u>\$ 351,203</u>

\$542,219 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

	<u>Year ended June 30:</u>
2018	542,236
2019	403,548
2020	270,001
2021	165,454
2022	136,943

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Actuarial assumptions—The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>TRS</u>
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 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, 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 2015.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. 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 TRS, the discount rate used to measure the total pension liability was 4.2%. 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 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. 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 TRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.5%	7.5%	8.5%
District's proportionate share of net pension liability	9,076,308	7,283,415	5,746,539
TRS	3.2%	4.2%	5.2%
District's proportionate share of net pension liability	0	0	0

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 TRS.

NOTE H – CONTINGENCIES

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

NOTE I – INSURANCE AND RELATED ACTIVITIES

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

NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

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

NOTE K – DEFICIT OPERATING BALANCES

The Food Service Fund had a deficit fund balance in the amount of \$464,214 at June 30, 2017. Additionally, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	169,271
Capital Outlay	93,913
Debt Service	2,907
Construction Fund	181,527

NOTE L – 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).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	60,231
Operating	Capital Outlay	General	Operations	380,719
Operating	Special Revenue	Debt Service	Debt Service	89,713
Operating	General	Building	Operations	127,028
Operating	Building	Debt Service	Debt Service	<u>1,204,371</u>
		Total Transferred Funds		<u>1,862,062</u>

NOTE N – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2017.

NOTE O – SUBSEQUENT EVENTS

Management has reviewed subsequent events through November 6, 2017. There are no material subsequent events to disclose.

NOTE P – ON-BEHALF PAYMENT

For the year ended June 30, 2017, \$6,173,998 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$2,236,139
Health Insurance	3,372,018
Life Insurance	5,615
Administrative Fee	44,584
HRA/Dental/Vision	203,449
Federal Reimbursement	(304,112)
Technology	76,846
SFCC Debt Service Payments	<u>539,459</u>
Total	<u>\$6,173,998</u>

NOTE Q – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers’ Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2017, Marion County School District’s remaining assessment is valued at \$148,571. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2018	37,145
2019	37,143
2020	37,143
2021	<u>37,140</u>
Total	<u>148,571</u>

NOTE R – NET POSITION, AS RESTATED

Beginning net position of the Governmental Activities was understated by \$594,937 and the beginning net position of the Business-Type Activities was overstated by \$594,937. Below are the details of the restatement:

	<u>Government Activities</u>	<u>Business-Type Activities</u>
Net Position June 30, 2016	\$14,314,959	\$ 274,582
Add (Less): Allocation net pension liability	825,908	(825,908)
Add (Less): Allocation deferred outflows on pensions	(319,195)	319,195
Add (Less): Allocation deferred inflows on pensions	<u>88,224</u>	<u>(88,224)</u>
Beginning Net Position, As Restated	<u>\$14,909,896</u>	<u>\$(320,355)</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	6,540,692	6,540,692	7,821,970	1,281,278
Other Local Sources	112,025	112,025	182,009	69,984
State Sources	12,345,180	12,345,180	17,885,560	5,540,380
Federal Sources	303,350	303,350	481,462	178,112
Other Sources	391,884	391,884	506,486	114,602
TOTAL REVENUES	19,693,131	19,693,131	26,877,487	7,184,356
EXPENDITURES:				
Instructional	14,187,134	14,187,134	17,350,282	(3,163,148)
Student Support Services	953,808	953,808	1,162,155	(208,347)
Staff Support Services	1,387,870	1,387,870	1,463,927	(76,057)
District Administration	788,628	788,628	931,360	(142,732)
School Administration	1,130,001	1,130,001	1,297,635	(167,634)
Business Support Services	775,621	775,621	840,579	(64,958)
Plant Operation & Maintenance	2,760,028	2,760,028	1,992,160	767,868
Student Transportation	1,580,222	1,580,222	1,774,314	(194,092)
Community Service Operations	63,790	63,790	37,004	26,786
Facility Acquisition & Construction			10,083	(10,083)
Other	2,487,061	2,487,061	187,259	2,299,802
TOTAL EXPENDITURES	26,114,163	26,114,163	27,046,758	(932,595)
NET CHANGE IN FUND BALANCE	(6,421,032)	(6,421,032)	(169,271)	6,251,761
FUND BALANCES - BEGINNING	6,421,032	6,421,032	7,080,472	0
FUND BALANCES - ENDING	0	0	6,911,201	6,251,761

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

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	60,100	60,100	830	(59,270)
State Sources	1,467,220	1,467,220	1,389,784	(77,436)
Federal Sources	2,070,778	2,070,778	1,950,519	(120,259)
Other Sources	70,000	70,000	67,310	(2,690)
TOTAL REVENUES	3,668,098	3,668,098	3,408,443	(259,655)
EXPENDITURES:				
Instructional	3,049,315	3,049,315	2,864,989	184,326
Student Support Services	98,573	98,573	109,428	(10,855)
Staff Support Services	183,824	183,824	138,888	44,936
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	0	0	0	0
Plant Operation & Maintenance	0	0	0	0
Student Transportation	0	0	0	0
Community Service Operations	265,656	265,656	265,656	0
Facility Acquisition & Construction	0	0	0	0
Other	91,260	91,260	29,482	61,778
TOTAL EXPENDITURES	3,688,628	3,688,628	3,408,443	280,185
NET CHANGE IN FUND BALANCE	(20,530)	(20,530)	0	20,530
FUND BALANCES - BEGINNING	20,530	20,530	0	0
FUND BALANCES - ENDING	0	0	0	20,530

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

MARION COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	-	
State of Kentucky's share of the net pension liability associated with the district	<u>96,394,423</u>	<u>106,254,758</u>	<u>135,901,392</u>
TOTAL	<u><u>\$ 96,394,423</u></u>	<u><u>\$ 106,254,758</u></u>	<u><u>\$ 135,901,392</u></u>
District's covered-employee payroll	\$ 14,732,249	14,399,066	15,081,686
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MARION COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of net pension liability	0.149159%	0.144760%	0.147930%
District's proportionate share of the net pension liability	\$ 4,839,279	6,353,138	7,283,415
State of Kentucky's share of the net pension liability associated with the district	\$ -	-	-
TOTAL	<u>4,839,279</u>	<u>6,353,138</u>	<u>7,283,415</u>
District's covered-employee payroll	\$ 3,469,620	3,544,319	3,828,762
District's proportionate share of the net pension liability as a percentage of its covered-payroll	157.02%	139.48%	190.23%
Plan fiduciary net position as a percentage of the total pension liability	66.801%	63.46%	55.50%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MARION COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions (actuarially determined)	\$ 442,377	\$ 440,446	\$ 542,219
Contributions in relation to the actuarially determined contributions	<u>442,377</u>	<u>440,446</u>	<u>542,219</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,469,620	\$ 3,544,319	\$ 3,828,762
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MARION COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions (actuarially determined)	\$ 394,382	\$ 509,366	\$ 535,274
Contributions in relation to the actuarially determined contributions	<u>394,382</u>	<u>509,366</u>	<u>535,274</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 14,732,249	\$ 14,399,066	\$ 15,081,686
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	3.55%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MARION COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2017

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2017 reported in that schedule:

Valuation Date	June 30, 2016
Inflation	3.50 percent
Salary Increases	3.50 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	3.82 Percent
Measurement Date	3.01 Percent
Year FNP is Projected to be Depleted	2039
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	4.88 percent
Measurement Date	4.20 Percent
Post-Retirement Benefit Increases	1.50% annually

MARION COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. 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 the rates reported in that schedule:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

OTHER SUPPLEMENTARY
INFORMATION

MARION COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2017

	CONSTRUCTION FUND	CAPITAL OUTLAY FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents	77,651	439,054	3,507	85,810	606,022
TOTAL ASSETS	77,651	439,054	3,507	85,810	606,022
LIABILITIES AND FUND BALANCES:					
Total Liabilities	0	0	0	0	0
Fund Balance:					
Restricted for:					
Debt Service			3,507		3,507
Capital Projects	77,651				77,651
School Activities				85,810	85,810
Restricted - SFCC Escrow		439,054			439,054
Total Fund Balance	77,651	439,054	3,507	85,810	606,022
TOTAL LIABILITIES AND FUND BALANCES	77,651	439,054	3,507	85,810	606,022

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

MARION COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	CONSTRUCTION FUND	CAPITAL OUTLAY FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Earnings from Investments	433				433
Intergovernmental - State		286,806	539,459		826,265
Other Sources				70,005	70,005
TOTAL REVENUES	<u>433</u>	<u>286,806</u>	<u>539,459</u>	<u>70,005</u>	<u>896,703</u>
EXPENDITURES:					
Instructional				54,172	54,172
Support Services:					
Staff Support Services				2,076	2,076
Facilities Acquisition & Construction	181,960				181,960
Debt Service:					
Principal			1,305,000		1,305,000
Interest			531,450		531,450
TOTAL EXPENDITURES	<u>181,960</u>	<u>0</u>	<u>1,836,450</u>	<u>56,248</u>	<u>2,074,658</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(181,527)	286,806	(1,296,991)	13,757	(1,177,955)
OTHER FINANCING SOURCES(USES):					
Operating Transfers In - Note N			1,294,084		1,294,084
Operating Transfers Out - Note N		(380,719)			(380,719)
TOTAL OTHER FINANCING SOURCES(USES)	<u>0</u>	<u>(380,719)</u>	<u>1,294,084</u>	<u>0</u>	<u>913,365</u>
NET CHANGE IN FUND BALANCES	<u>(181,527)</u>	<u>(93,913)</u>	<u>(2,907)</u>	<u>13,757</u>	<u>(264,590)</u>
FUND BALANCES - BEGINNING	<u>259,178</u>	<u>532,967</u>	<u>6,414</u>	<u>72,053</u>	<u>870,612</u>
FUND BALANCES - ENDING	<u><u>77,651</u></u>	<u><u>439,054</u></u>	<u><u>3,507</u></u>	<u><u>85,810</u></u>	<u><u>606,022</u></u>

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

MARION COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	FUND BALANCE JULY 1, 2016	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2017
Marion County High School	102,473	424,489	410,801	116,161
Charitable Gaming	500	944	944	500
St. Charles Middle School	37,912	90,644	92,337	36,219
Lebanon Middle School	29,959	127,459	138,233	19,185
Lebanon Elementary School	9,068	44,955	46,452	7,571
Calvary Elementary School	4,552	57,140	56,364	5,328
Glasscock Elementary School	16,980	67,582	67,486	17,076
West Marion Elementary School	14,174	60,091	60,874	13,391
Total Activity Funds (Due to Student Groups)	<u>215,618</u>	<u>873,304</u>	<u>873,491</u>	<u>215,431</u>

MARION COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2017

	CASH BALANCE			CASH BALANCE	ACCOUNTS RECEIVABLE	ACCOUNTS PAYABLE	FUND BALANCE
	JULY 1, 2016	RECEIPTS	DISBURSEMENTS	JUNE 30, 2017	JUNE 30, 2017	JUNE 30, 2017	JUNE 30, 2017
Academic Team	326	0	85	241			241
AP Account	0	17,135	17,135	0			0
AP Psych	10	0	0	10			10
AP Social Studies	69	594	580	83			83
Art Department	0	2,880	2,880	0			0
Band	0	7,474	7,060	414			414
Beta Club	2,129	27,697	27,159	2,667			2,667
Beta - NHS Charitable	672	3,308	3,755	225			225
Central KY Beta Inv	0	618	555	63			63
Business Ed Department	2,124	18,709	19,528	1,305			1,305
Class of 2016	8	0	8	0			0
Class of 2017	2,898	18,211	21,109	0			0
Class of 2018	1,635	1,350	0	2,985			2,985
Class of 2019	960	930	5	1,885			1,885
Class of 2020	0	880	0	880			880
Dual Credit	0	3,925	3,925	0			0
FBLA	140	0	140	0			0
FCCLA	1,563	10,655	11,291	927			927
FFA	2,238	29,717	26,789	5,166			5,166
Journalism	258	1,966	2,212	12			12
FMD	228	887	703	412			412
General	28,942	27,723	30,055	26,610			26,610
Graphic Designs	2,523	1,636	2,031	2,128			2,128
HCS Academy	263	0	0	263			263
Key Club	792	0	0	792			792
Library	3	146	149	0			0
National Honor Society	1,108	1,228	1,795	541			541
Pep Club	466	1,100	1,181	385			385
Project Lead the Way	167	1,695	1,574	288			288
PLTW Alumni Acct	0	150	0	150			150
Ultimate Frisbee	0	1,075	1,042	33			33
ROTC	8,411	17,662	16,055	10,018			10,018
Sandra Owen Scholar	760	0	0	760			760
Student Ambassador	295	1,889	1,905	279			279
Student Council	243	4,752	3,845	1,150			1,150
Student of the Week	231	0	0	231			231
Teachers' Activity	311	803	851	263			263

TSA	105	1,190	1,156	139			139
Yearbook Journalism	12,248	9,077	10,368	10,957			10,957
Youth Service Center	25	0	0	25			25
Peers Over Pressure	1,064	0	0	1,064			1,064
FEA	21	0	0	21			21
Athletic Department	7,915	89,611	84,817	12,709			12,709
Baseball	0	11,554	11,554	0			0
Bass Fishing Team	843	1,947	2,252	538			538
Boys' Basketball	91	8,952	8,974	69			69
Boys' Soccer	1,854	1,907	1,533	2,228			2,228
Tennis	0	3,591	2,062	1,529			1,529
Cheerleaders	2,002	9,831	11,833	0			0
Cross Country	190	595	585	200			200
Football	951	24,749	25,700	0			0
Middle School Football	0	600	140	460			460
Girls' Basketball	2,913	11,437	10,660	3,690			3,690
Girls' Soccer	2,005	863	144	2,724			2,724
Track	509	2,020	2,529	0			0
Golf	3,849	4,150	4,885	3,114			3,114
Softball	642	1,111	824	929			929
Swim Team	625	2,391	1,784	1,232			1,232
Volleyball	1,658	30,629	30,423	1,864			1,864
Concessions	1,161	45,058	45,602	617			617
Uniform Rotation Ac	0	7,000	0	7,000			7,000
Heather Garrett Sch	1,135	0	0	1,135			1,135
Nancy Colvin Sch	894	448	500	842			842
Coach Rob Scholarship	0	1,509	(400)	1,909			1,909
DAF Instruction	0	33,704	33,704	0			0
DAF Athletics	0	3,494	3,494	0			0
DAF Library	0	149	149	0			0
Total All Funds	<u>102,473</u>	<u>514,362</u>	<u>500,674</u>	<u>116,161</u>	<u>0</u>	<u>0</u>	<u>116,161</u>
Interfund Transfers	<u>0</u>	<u>(89,873)</u>	<u>(89,873)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u><u>102,473</u></u>	<u><u>424,489</u></u>	<u><u>410,801</u></u>	<u><u>116,161</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>116,161</u></u>

MARION COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Kentucky Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310B	462,815
Title I - Parent Involvement	84.010	3100002	310BM	7,154
Title I - Grants to Local Educational Agencies	84.010	3100002	310C	456,650
Title I - Parent Involvement	84.010	3100002	310CM	3,219
Title I - Educational Recovery Special (MOA)	84.010	3100002	320CE	119,314
Title I Cluster				1,049,152
Migrant Education - State Grant Program	84.011	3110002	311B	10,855
Migrant Education - State Grant Program	84.011	3110002	311C	98,573
Migrant Education Cluster				109,428
IDEA - Special Education - Grants to State	84.027	3810002	337B	31,998
IDEA - Special Education - Grants to State	84.027	3810002	337BP	16,759
IDEA - Special Education - Grants to State	84.027	3810002	337C	294,122
IDEA - Special Education - Grants to State	84.027	3810002	337AP	8,026
IDEA - Special Education - Preschool Grants	84.173	3800002	343AP	93
IDEA - Special Education - Preschool Grants	84.173	3800002	343C	49,670
Special Education Cluster				400,668 *
Perkins Vocational Education	84.048	3710002	348BA	1,148
Perkins Vocational Education	84.048	3710002	348C	21,566
Perkins Vocational Education				22,714
Community Based Work Transition	84.341	371C	371C	35,229
Adult Education	84.002	1700001246	365C	4,108
Adult Education	84.002	1700001246	373B	179
Adult Education	84.002	1700001246	373C	9,837
Adult Education				14,124
Title II - Part A - Teacher Quality Enhancement Grants	84.367	3230002	401A	165,768
Rural and Low Income Schools	84.358	3140002	350A	54,659
Rural and Low Income Schools	84.358	3140002	350B	57,044
Rural and Low Income Schools	84.358	3140002	350C	41,658
Rural and Low Income Schools Total				153,361
Total U.S. Department of Education				1,950,444
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
National School Lunchroom	10.555	7750002-16	7750002-16	289,098
National School Lunchroom	10.555	7750002-17	7750002-17	900,094
School Breakfast Program	10.553	7760005-16	7760005-16	99,998
School Breakfast Program	10.553	7760005-17	7760005-17	309,149
Summer Meal Program	10.559	7740023-16	7740023-16	36,867
Summer Meal Program	10.559	7740023-17	7740023-17	5,818
Summer Meal Program	10.559	7690024-16	7690024-16	3,950
Summer Meal Program	10.559	7690024-17	7690024-17	593
Child Nutrition Cluster				1,645,567 *
Passed-Through State Department of Agriculture				
Commodity Supplemental Food Program	10.565	057502-10	057502-10	145,794
Total U.S. Department of Agriculture				1,791,361
Total Federal Financial Assistance				3,741,805

* Tested as major program

MARION COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Marion County School District under programs of the federal government for the year ended June 30, 2017. 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 the operations of Marion County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Marion County School District.

NOTE B – FOOD DISTRIBUTION

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 and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C – FOOD DISTRIBUTION

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

NOTE D – DE MINIMIS COST RATE

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

MARION COUNTY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2017

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559 84.027/84.173	Child Nutrition Cluster Special Education Cluster

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MARION COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2017

2016-001

Criteria:

The District is required to have internal controls in place that enable it to prepare complete financial statements, including note disclosures, in compliance with generally accepted accounting principles.

Condition:

The District does not have the internal control procedures required to draft the financial statements in conformity with generally accepted accounting principles.

Cause:

The district lacks personnel with the expertise to apply generally accepted accounting principles in preparing its financial statements including note disclosures.

Effect:

Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the financial statements prior to their issuance.

Recommendation:

It was recommended management review the cost and benefits involved to retain a consultant with the required expertise to prepare the financial statements or review the financial statements as prepared by the auditor for compliance with generally accepted accounting principles.

Management Response:

Management has determined that it is more cost effective to continue to engage the auditor to draft the financial statements and related notes.

Current Year Status:

For a portion of the prior year and for matters out of the District's control, the District was operating without a finance officer. That period included June 30, 2016 and the first couple of months of fiscal year 2016-2017. In the fall of 2017, the District hired an experienced finance officer. The District now has designated individuals accepting responsibility for the financial statements. These individuals do not need to have the expertise to perform (or re-perform) the drafting of the financial statements and related notes but they must possess the skill, knowledge, or experience to be able to accept responsibility for the financial statements. Management has demonstrated that they have the knowledge and experience to be able to review the financial statements and related notes and accept responsibility for them. Therefore, retention of an outside consultant is not necessary.

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November 6, 2017

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

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements, and have issued our report thereon dated November 6, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 Marion County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Marion County School District in a separate letter dated November 6, 2017.

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.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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November 6, 2017

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

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Marion County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Marion County School District's major federal programs for the year ended June 30, 2017. Marion County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Marion County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit 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); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards and the 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 Marion County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Marion 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, 2017.

Report on Internal Control Over Compliance

Management of Marion County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Marion County School District's internal control over compliance with the types of requirements that could have a direct and material effect on 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 the 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 Marion County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Marion County School District's basic financial statements. We issued our report thereon dated November 6, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is 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. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

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Certified Public Accountants

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November 6, 2017

MANAGEMENT LETTER

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

In planning and performing our audit of the financial statements of Marion County School District for the year ended June 30, 2017, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year District Recommendation

Prior Year Recommendation:

Purchase orders should be completed prior to all purchases. Testing disclosed a store credit card account purchase for the John Deere Store without proper prior approval.

Current Year Status:

No instances were found during current year testing of purchases made at the District level without proper prior approval.

Marion County High School

Prior Year Recommendation:

During testing, multiple instances of a purchase approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

2017-1 Current Year Status and Recommendation:

During current year testing, only 1 instance was found at Marion County High School of a purchase order being prepared after funds had been obligated. We recommend that all purchase orders be completed and properly approved prior to funds being obligated.

Management Response:

We provided Redbook basic training in August 2017 to all principals and bookkeepers and are following up with quarterly newsletters and quarterly bookkeeper meetings where these items are reviewed. We will also meet individually with this school principal and bookkeeper to review this particular finding.

Prior Year Recommendation:

All fundraisers should be approved and Form F-SA-2A should be completed. Testing disclosed multiple instances of missing fundraiser approval forms.

Current Year Status:

Fundraiser approval forms and reconciliations were being properly completed at Marion County High School.

Lebanon Middle School:

Prior Year Recommendation:

During testing, multiple instances of purchases approved after funds being obligated were noted. Purchase orders should be completed prior to all purchases.

2017-2 Current Year Status and Recommendation:

During current year testing, 2 instances were found where purchase orders were not properly completed and approved prior to funds being obligated. More specifically, for one of the instances, the purchase order was completed after the invoice date. For the second instance, the purchase order did not contain all of the proper signatures. We recommend that all purchase orders be properly completed and approved prior to funds being obligated.

Management Response:

We provided Redbook basic training in August 2017 to all principals and bookkeepers and are following up with quarterly newsletters and quarterly bookkeeper meetings where these items are reviewed. We will also meet individually with this school principal and bookkeeper to review this particular finding.

St. Charles Middle School:

Prior Year Recommendation:

During testing, multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Current Year Status:

No instances of purchases orders being prepared after funds were obligated were found at St. Charles Middle School.

Prior Year Recommendation:

Testing noted multiple instances of ticket sale forms that were not properly completed. Two people are required to work the gate. The first and last tickets should be attached to the Requisition and Report of Ticket Sales (Forms F-SA-1).

Current Year Status:

No such instances were found during current year testing.

Prior Year Recommendation:

A deposit shall be made on any day in which at least \$100 is on hand to deposit. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until the earlier of when \$100 is collected or the weekly deposit is made as required. Testing revealed that a deposit was not deposited within this timeframe.

Current Year Status:

No such instances were found during current year testing.

Calvary Elementary:

Prior Year Recommendation:

During testing, multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Current Year Status:

No such instances were found during current year testing.

Prior Year Recommendation:

All fundraisers should be approved and Form F-SA-2A should be completed. Testing disclosed multiple instances of missing fundraiser approval forms.

2017-3 Current Year Status and Recommendation:

Testing disclosed that fundraiser approval forms and reconciliations were not properly completed. We recommend that the forms required by Redbook for fundraisers be properly completed and necessary approvals obtained.

Management Response:

We provided Redbook basic training in August 2017 to all principals and bookkeepers and are following up with quarterly newsletters and quarterly bookkeeper meetings where these items are reviewed. We will also meet individually with this school principal and bookkeeper to review this particular finding.

Prior Year Recommendation:

Multiple receipt forms should include the names of students remitting money. Students third grade and above must sign the multiple receipt form. Testing disclosed instances of missing names on the multiple receipt forms.

Current Year Status:

No such instances were found during current year testing at Calvary Elementary School.

Prior Year Recommendation:

Form F-SA-17 must be completed for each event and each time money from concession is collected. Testing disclosed instances of concession forms not completed.

Current Year Status:

No such instances were found during current year testing.

Prior Year Recommendation:

During testing transfer forms were not completed. Amounts may be transferred between activity accounts only by proper completion of a Transfer Form (Form F-SA-10).

Current Year Status:

No such instances were found during current year testing.

Glasscock Elementary School:

Prior Year Recommendation:

A deposit shall be made on any day in which at least \$100 is on hand to deposit. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until the earlier of when \$100 is collected or the weekly deposit is made as required. Testing revealed a deposit that was not deposited within this timeframe.

Current Year Status:

No instances of deposits not being made timely were found during current year testing.

Prior Year Recommendation:

Testing noted an instance of ticket sale forms not being completed for the Winter Dance. The Requisition and Report of Ticket Sales (Form F-SA-1) must be completed for all events for which admission is charged.

Current Year Status:

No such instances were found during current year testing.

Lebanon Elementary School:

Prior Year Recommendation:

During testing multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Current Year Status:

No such instances were found at Lebanon Elementary School during current year testing.

Prior Year Recommendation:

Form F-SA-17 must be completed for each event and each time money from concessions/pencils is collected. Testing disclosed instances of concession forms not completed.

Current Year Status:

No such instances were found during current year testing.

Prior Year Recommendation:

Money should be remitted to the treasurer on the date of collection. Testing disclosed instances of money being held by a teacher/sponsor over a period of time before remitting to treasurer.

Current Year Status:

No such instances were found during current year testing.

Prior Year Recommendation:

All fundraisers should be approved and Form F-SA-2A should be completed. Testing disclosed multiple instances of missing fundraiser approval forms.

2017-4 Current Year Status and Recommendation:

Testing disclosed that fundraiser approval forms and reconciliations were not properly completed. We recommend that the forms required by Redbook for fundraisers be properly completed and necessary approvals obtained.

Management Response:

We provided Redbook basic training in August 2017 to all principals and bookkeepers and are following up with quarterly newsletters and quarterly bookkeeper meetings where these items are reviewed. We will also meet individually with this school principal and bookkeeper to review this particular finding.

Prior Year Recommendation:

Donation Acceptance Form shall be completed stating the purpose and restrictions on donations received. Testing disclosed an instance of a missing donation acceptance form.

Current Year Status:

No such instances were found during current year testing.

West Marion Elementary School:

Prior Year Recommendation:

During testing multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Current Year Status:

No such instances were found during current year testing.

Prior Year Recommendation:

During testing transfer forms were not completed. Amounts may be transferred between activity accounts only by proper completion of a Transfer Form (Form F-SA-10).

Current Year Status:

No such instances were found during current year testing.

Current Year Recommendations:

2017-5 Current Year Recommendation:

During current year testing of receipts at Marion County High School, it was noted that students were not always signing the multiple receipt form for funds remitted to the school. We recommend that sponsors, teachers, bookkeepers, and principals follow Redbook requirements and that students 3rd grade and above sign their name when remitting money to the school.

Management Response:

We provided Redbook basic training in August 2017 to all principals and bookkeepers and are following up with quarterly newsletters and quarterly bookkeeper meetings where these items are reviewed. We will also meet individually with this school principal and bookkeeper to review this particular finding.

2017-6 Current Year Recommendation:

Testing disclosed that fundraiser approval forms and reconciliations were not properly completed at the elementary school level and at St. Charles Middle School. We recommend that the forms required by Redbook for fundraisers be properly completed and necessary approvals obtained.

Management Response:

We provided Redbook basic training in August 2017 to all principals and bookkeepers and are following up with quarterly newsletters and quarterly bookkeeper meetings where these items are reviewed. We will also meet individually with this school principal and bookkeeper to review this particular finding.

2017-7 Current Year Recommendation:

Current year review of the District's insurance and bonding revealed that the current finance officer was not properly bonded. We recommend that the District follow state bonding law requirements and that the Superintendent give additional attention to this area especially in years of change in bonded positions.

Management Response:

We will review bonding requirements regularly. We also note that proper bonding coverage has now been obtained for the current finance officer.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

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Certified Public Accountants

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November 6, 2017

Members of the Board of Education
Marion County School District
Lebanon, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Marion County School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 11, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Marion County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by Marion County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 6, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Marion County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Marion County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 44 and 45, or on the schedules of the district's proportionate share of net pension liabilities on pages 46 and 47, or on the schedules of contributions to the County Employees Retirement Plan and the Teachers Retirement System on pages 48 and 49, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Marion County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants