

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2022  
with  
REPORT OF INDEPENDENT AUDITORS**

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Audit of the Financial Statements**

***Opinions***

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 Middlesboro Independent School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Middlesboro Independent School District, as of June 30, 2022, 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.

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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 the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements and Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Middlesboro Independent School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit program.

***Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Middlesboro Independent School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.







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***Auditors' Responsibilities for the Audit of the Financial Statement***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

***Required Supplementary Information***

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







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***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Middlesboro Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 10, 2022, on our consideration of Middlesboro Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middlesboro Independent School District's internal control over financial reporting and compliance.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 10, 2022



**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
For the year ended June 30, 2022

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The management of Middlesboro Independent School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2022. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

- The General Fund had \$10,653,127 in revenue, excluding interfund transfers, proceeds from sale of assets and capital lease proceeds, which primarily consisted of the SEEK program, property, utilities, and motor vehicle taxes. Excluding interfund transfers and sale of equipment, there were \$9,782,734 in General Fund expenditures.
- Governmental Capital Assets had a net increase of \$1,266,138 during FY 2022. Business-type Capital Assets had a net decrease of \$43,371 during the current fiscal year.
- The District renovates and constructs facilities consistent with long-range facilities plan that is established with the community input and keeping with the Department of Education stringent compliance regulations. The total amount expended for construction was \$1,226,809.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues.



**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
For the year ended June 30, 2022

The government-wide financial statements can be found on the table of contents of this report.

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents 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 financial statements can be found on pages 8 to 16 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Position for the period ending June 30, 2022**

Fiscal year 2022 government-wide net position compared to 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 5,002,996	\$ 4,668,734
Capital assets	19,691,356	18,468,588
Total assets	<u>\$ 24,694,352</u>	<u>\$ 23,137,322</u>
Deferred outflow of resources	<u>\$ 2,810,270</u>	<u>\$ 1,568,390</u>
Current liabilities	\$ 1,652,814	\$ 1,532,524
Noncurrent liabilities	18,429,252	19,357,710
Total liabilities	<u>\$ 20,082,066</u>	<u>\$ 20,890,234</u>
Deferred inflow of resources	<u>\$ 2,748,679</u>	<u>\$ 1,414,092</u>
Net investment in capital assets, net of debt	\$ 7,967,424	\$ 6,677,060
Restricted net position	(78,379)	467,081
Unrestricted net position	(3,215,168)	(4,314,824)
Total net position	<u>\$ 4,673,877</u>	<u>\$ 2,829,317</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$4,896,056; proprietary liabilities exceeded assets by \$222,179 and total assets exceeded liabilities by \$4,673,877 at June 30, 2022.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
For the year ended June 30, 2022

The District had an overall increase in unrestricted net position of \$1,099,656 comprised of an decrease in governmental activities unrestricted net position of \$1,099,656.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2022 and 2021.

	<u>2022</u>	<u>2021</u>
<b>Revenues and other financing sources</b>		
Local revenue sources	\$ 3,673,937	\$ 3,554,489
State revenue sources	8,661,353	8,219,071
Federal revenue	6,131,529	4,911,549
<b>Total revenue</b>	<u>\$ 18,466,819</u>	<u>\$ 16,685,109</u>
<b>Expenditures and other financing uses</b>		
Instruction	\$ 8,155,420	\$ 8,166,363
Student support services	1,800,822	1,982,366
Instructional support	966,440	821,162
District administration	925,912	732,052
School administration	881,502	837,394
Business operations	386,647	375,123
Plant operations and maintenance	1,556,833	1,461,666
Student transportation	858,623	358,784
Community services	247,731	302,535
Debt service	1,035,035	1,019,321
Building improvements	1,226,809	89,566
Student activities	427,295	263,331
<b>Total expenditures</b>	<u>\$ 18,469,069</u>	<u>\$ 16,409,663</u>
<b>Excess revenues (expenditures)</b>	<u>\$ (2,250)</u>	<u>\$ 275,446</u>
<b>Other financing sources (uses)</b>		
Sale of assets	\$ 3,757	\$ -
Bond proceeds	601,000	-
Transfers in	1,260,674	1,185,766
Transfers out	(1,197,620)	(1,123,901)
<b>Total other financing sources (uses)</b>	<u>\$ 667,811</u>	<u>\$ 61,865</u>
<b>Net change in fund balance</b>	<u>\$ 665,561</u>	<u>\$ 337,311</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's fund balance.

## **BUDGETARY IMPLICATION**

In Kentucky the public-school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$1,163,376 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements but are not budgeted by the District.

### **Comments on Budget Comparisons**

- The District's total general fund revenues for the fiscal year ended June 30, 2022 were \$10,653,127 excluding transfers, sale of assets, and bond proceeds.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$3,457,477 more than budget or 48.04% more than budget. This is due primarily to recording on-behalf payments made by the State of Kentucky of \$2,766,062 that were not budgeted. When these are eliminated, revenues compared to budget were \$691,415 or 9.60 % more than anticipated.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2022 was \$9,782,734.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$1,168,572 more than budget or 13.56% more than budget.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent or the Director of Financial Services at 606-242-8800, or by mail at 220 North Twentieth Street, Middlesboro, Kentucky 40965.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION  
June 30, 2022

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,050,578	\$ 374,638	\$ 2,425,216
Accounts receivable:			
Taxes	89,772	-	89,772
Local	283,800	-	283,800
Intergovernmental - State	1,940,823	-	1,940,823
Intergovernmental - Federal	40,933	197,814	238,747
Inventory	-	24,638	24,638
Capital Assets, net			
Nondepreciable	1,458,361	-	1,458,361
Depreciable	17,859,478	373,517	18,232,995
<b>Total assets</b>	<u>23,723,745</u>	<u>970,607</u>	<u>24,694,352</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>			
Deferred outflows from bond refundings	56,224	-	56,224
Deferred outflows from pensions	733,587	212,428	946,015
Deferred outflows from OPEB	612,177	177,270	789,447
Deferred outflows from OPEB - KTRS	1,018,584	-	1,018,584
	<u>2,420,572</u>	<u>389,698</u>	<u>2,810,270</u>
<b>LIABILITIES</b>			
Accounts payable	261,393	31,540	292,933
Accrued expense	126,213	11,870	138,083
Unearned revenue	429,781	-	429,781
Current portion of capital lease obligations	62,135	-	62,135
Current maturities of bond obligations	648,000	-	648,000
Interest payable	81,882	-	81,882
Net pension liability - noncurrent	3,222,022	933,013	4,155,035
Net OPEB - CERS liability - noncurrent	967,236	280,086	1,247,322
Net OPEB - KTRS liability - noncurrent	1,775,000	-	1,775,000
Noncurrent portion of capital lease obligations	247,021	-	247,021
Noncurrent maturities of bond obligations	10,823,000	-	10,823,000
Noncurrent portion of accumulated sick leave	181,874	-	181,874
<b>Total liabilities</b>	<u>18,825,557</u>	<u>1,256,509</u>	<u>20,082,066</u>
<b>DEFERRED INFLOW OF RESOURCES</b>			
Deferred inflows from pension	617,403	178,784	796,187
Deferred inflows from OPEB - CERS	508,301	147,191	655,492
Deferred inflows from OPEB - KTRS	1,297,000	-	1,297,000
	<u>2,422,704</u>	<u>325,975</u>	<u>2,748,679</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,593,907	373,517	7,967,424
Restricted for:			
Capital expenditures	471,849	-	471,849
Other	45,468	-	45,468
Unrestricted	<u>(3,215,168)</u>	<u>(595,696)</u>	<u>(3,810,864)</u>
<b>Total net position</b>	<u>\$ 4,896,056</u>	<u>\$ (222,179)</u>	<u>\$ 4,673,877</u>

The accompanying notes are an integral part of these financial statements.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2022

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position.			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Governmental activities</b>								
Instruction	\$ 7,998,601	\$ -	\$ 5,533,378	\$ -	\$ (2,465,223)	\$ -	\$ (2,465,223)	
Student	1,821,690	-	790,483	-	(1,031,207)	-	(1,031,207)	
Instructional support	966,440	-	395,241	-	(571,199)	-	(571,199)	
District administration	934,591	-	790,483	-	(144,108)	-	(144,108)	
School administration	881,603	-	839,888	-	(41,715)	-	(41,715)	
Business support	386,647	-	197,621	-	(189,026)	-	(189,026)	
Plant operations and maintenance	1,578,649	-	691,672	-	(886,977)	-	(886,977)	
Student transportation	568,305	-	494,052	-	(74,253)	-	(74,253)	
Community services	675,465	-	148,212	-	(527,253)	-	(527,253)	
Interest on long-term debt	348,530	-	-	237,870	(110,660)	-	(110,660)	
<b>Total governmental activities</b>	<b>16,160,521</b>	<b>-</b>	<b>9,881,030</b>	<b>237,870</b>	<b>(6,041,621)</b>	<b>-</b>	<b>(6,041,621)</b>	
<b>Business-type activities</b>								
Food service	1,891,181	61,051	1,362,315	-	-	(467,815)	(467,815)	
<b>Total business-type activities</b>	<b>1,891,181</b>	<b>61,051</b>	<b>1,362,315</b>	<b>-</b>	<b>-</b>	<b>(467,815)</b>	<b>(467,815)</b>	
<b>Total primary government</b>	<b>\$ 18,051,702</b>	<b>\$ 61,051</b>	<b>\$ 11,243,345</b>	<b>\$ 237,870</b>	<b>(6,041,621)</b>	<b>(467,815)</b>	<b>(6,509,436)</b>	
			General revenues					
			Taxes:					
					2,244,774	-	2,244,774	
					258,039	-	258,039	
					595,132	-	595,132	
					9,718	2,322	12,040	
					4,673,980	-	4,673,980	
					570,031	-	570,031	
					63,055	(63,055)	-	
					<b>8,414,729</b>	<b>(60,733)</b>	<b>8,353,996</b>	
					Change in net position	2,373,108	(528,548)	1,844,560
					Net position as of June 30, 2021	2,522,948	306,369	2,829,317
					Net position as of June 30, 2022	\$ 4,896,056	\$ (222,179)	\$ 4,673,877

The accompanying notes are an integral part of these financial statements.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**BALANCE SHEET -  
GOVERNMENTAL FUNDS  
June 30, 2022**

	General Fund	Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,836,628	\$ -	\$ 213,950	\$ 2,050,578
Accounts receivable:				
Taxes	89,772	-	-	89,772
Local	-	7,834	275,966	283,800
Intergovernmental - State	-	1,940,823	-	1,940,823
Intergovernmental - Federal	-	40,933	-	40,933
Interfund receivable	<u>1,473,365</u>	<u>-</u>	<u>-</u>	<u>1,473,365</u>
<b>Total assets</b>	<u>\$ 3,399,765</u>	<u>\$ 1,989,590</u>	<u>\$ 489,916</u>	<u>\$ 5,879,271</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Interfund payable	\$ -	\$ 1,473,365	\$ -	\$ 1,473,365
Accounts payable	233,548	9,778	18,067	261,393
Accrued expense	49,547	76,666	-	126,213
Unearned Revenue	<u>-</u>	<u>429,781</u>	<u>-</u>	<u>429,781</u>
<b>Total liabilities</b>	<u>283,095</u>	<u>1,989,590</u>	<u>18,067</u>	<u>2,290,752</u>
<b>Fund balances</b>				
Restricted	45,468	-	471,849	517,317
Assigned	1,277,050	-	-	1,277,050
Unassigned	<u>1,794,152</u>	<u>-</u>	<u>-</u>	<u>1,794,152</u>
<b>Total fund balances</b>	<u>3,116,670</u>	<u>-</u>	<u>471,849</u>	<u>3,588,519</u>
<b>Total liabilities and fund balances</b>	<u>\$ 3,399,765</u>	<u>\$ 1,989,590</u>	<u>\$ 489,916</u>	<u>\$ 5,879,271</u>

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

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

**June 30, 2022**

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Total fund balances - governmental funds	\$ 3,588,519
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	19,317,839
Deferred outflows of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the Statement of Net Position	2,420,572
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	(11,471,000)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	(309,156)
The long term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	(181,874)
Net pension obligation is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position	(5,964,258)
Deferred inflows of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the Statement of Net Position.	(2,422,704)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	<u>(81,882)</u>
Total net position - governmental activities	<u>\$ 4,896,056</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

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

Year ended June 30, 2022

	General Fund	Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
From local sources:				
Taxes				
Property	\$ 2,007,469	\$ -	\$ 237,305	\$ 2,244,774
Motor vehicle	258,039	-	-	258,039
Utility	595,132	-	-	595,132
Other	-	-	428,457	428,457
Earnings on investments	9,594	124	-	9,718
Other local	83,042	54,775	-	137,817
Intergovernmental - State	7,664,601	444,074	552,678	8,661,353
Intergovernmental - Federal	35,250	6,096,279	-	6,131,529
<b>Total revenues</b>	<b>10,653,127</b>	<b>6,595,252</b>	<b>1,218,440</b>	<b>18,466,819</b>
<b>Expenditures</b>				
Current:				
Instruction	5,474,589	2,680,831	-	8,155,420
Student	751,245	1,049,577	-	1,800,822
Instructional support	433,388	533,052	-	966,440
District administration	825,443	100,469	-	925,912
School administration	836,545	44,957	-	881,502
Business support	203,540	183,107	-	386,647
Plant operations and maintenance	648,846	907,987	-	1,556,833
Student transportation	482,020	376,603	-	858,623
Food services	-	10,526	-	10,526
Community services	42,920	194,285	-	237,205
Student activity expenditures	-	-	427,295	427,295
Building improvements	-	102,954	1,123,855	1,226,809
Debt service	84,198	-	950,837	1,035,035
<b>Total expenditures</b>	<b>9,782,734</b>	<b>6,184,348</b>	<b>2,501,987</b>	<b>18,469,069</b>
Excess (deficit) of revenues over (under) expenditures	870,393	410,904	(1,283,547)	(2,250)
<b>Other financing sources (uses)</b>				
Sale of equipment	3,757	-	-	3,757
Bond principal proceeds	-	-	601,000	601,000
Transfers in	63,055	20,774	1,176,845	1,260,674
Transfers out	(212,749)	(431,678)	(553,193)	(1,197,620)
<b>Total other financing sources (uses)</b>	<b>(145,937)</b>	<b>(410,904)</b>	<b>1,224,652</b>	<b>667,811</b>
<b>Net change in fund balance</b>	<b>724,456</b>	<b>-</b>	<b>(58,895)</b>	<b>665,561</b>
Fund balance as of June 30, 2021	2,392,214	-	530,744	2,922,958
<b>Fund balance as of June 30, 2022</b>	<b>\$ 3,116,670</b>	<b>\$ -</b>	<b>\$ 471,849</b>	<b>\$ 3,588,519</b>



# MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

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

Year ended June 30, 2022

Net change in total fund balances - governmental funds	\$ 665,561
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the Statement of Net Position and depreciated over their estimated economic lives. The difference is the amount by which capital outlay exceeds depreciation expense for the year.	1,266,139
Amortization of deferred outflows or resources is not recognized in the governmental fund financial statements but is a component of interest in the Statement of Activities.	(14,056)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the Statement of Net Position.	81,652
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the Statement of Activities.	3,853
Calculated pension expense is not recognized on the governmental fund financial statements but is recognized as an expense on the Statement of Activities, and current year contributions are deferred.	365,612
Accumulated sick leave is recognized by the amount earned in the Statement of Activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>4,347</u>
Change in net position - governmental activities	<u>\$ 2,373,108</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION -  
 PROPRIETARY FUNDS  
 June 30, 2022

	<u>Food Service Fund</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 374,638
Accounts receivable	197,814
Inventory	<u>24,638</u>
Total current assets	<u>597,090</u>
<b>Noncurrent assets</b>	
Capital assets	816,674
Less accumulated depreciation	<u>(443,157)</u>
Total noncurrent assets	<u>373,517</u>
<b>Total assets</b>	<u>970,607</u>
<b>Deferred outflow of resources</b>	
Deferred outflows from pensions	212,428
Deferred outflows from OPEB - CERS	<u>177,270</u>
	<u>389,698</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	31,540
Accrued expenses	<u>11,870</u>
Total current liabilities	<u>43,410</u>
<b>Noncurrent liabilities</b>	
Net pension liability	933,013
Net OPEB liability	<u>280,086</u>
Total noncurrent liabilities	<u>1,213,099</u>
<b>Total liabilities</b>	<u>1,256,509</u>
<b>Deferred inflow of resources</b>	
Deferred inflows related to pension	178,784
Deferred inflows related to OPEB	<u>147,191</u>
	325,975
<b>NET POSITION</b>	
Net investment in capital assets	373,517
Restricted for:	
Other	
Unrestricted	<u>(595,696)</u>
<b>Total net position</b>	<u>\$ (222,179)</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -  
PROPRIETARY FUNDS

Year ended June 30, 2022

	<u>Food Service Fund</u>
<b>Operating revenues</b>	
Lunchroom sales	\$ 61,051
Total operating revenues	<u>61,051</u>
<b>Operating expenses</b>	
Salaries and wages	463,225
Employee benefits	234,786
Pension expense	57,219
Materials and supplies	1,074,323
Depreciation	<u>61,628</u>
Total operating expenses	<u>1,891,181</u>
Operating income/(loss)	<u>(1,830,130)</u>
<b>Nonoperating revenues</b>	
Federal grants	1,183,277
State grants	116,887
Donated commodities	62,151
Interest income	<u>2,322</u>
Total nonoperating revenues/(expenses)	<u>1,364,637</u>
Income before contributions , transfers, and special items	<u>(465,493)</u>
Transfers out	<u>(63,055)</u>
<b>Change in net position</b>	<u>(528,548)</u>
Net position as of June 30, 2021	<u>306,369</u>
<b>Net position as of June 30, 2022</b>	<u>\$ (222,179)</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUNDS

Year ended June 30, 2022

	Food Service Fund
<b>Cash flows from operating activities</b>	
Cash received from:	
Lunchroom sales	\$ 35,679
Cash paid to/for:	
Employees	(716,333)
Supplies	(1,040,787)
Net cash used in operating activities	<u>(1,721,441)</u>
<b>Cash flows from non-capital financing activities</b>	
Grants received	1,300,164
Purchase of capital assets	(18,259)
Transfers to general fund	(63,055)
Net cash used in non-capital financing activities	<u>1,218,850</u>
<b>Cash flows from investing activities</b>	
Interest received on investments	<u>2,322</u>
Net cash used in capital and related activities	<u>2,322</u>
Net increase in cash and cash equivalents	(500,269)
Cash and cash equivalents as of June 30, 2021	<u>874,906</u>
<b>Cash and cash equivalents as of June 30, 2022</b>	<u>\$ 374,638</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>	
Operating income/ (loss)	\$ (1,830,130)
Adjustments to reconcile change in net position to net cash used in operating activities:	
(Increase)/decrease in accounts receivable	(25,372)
Increase/(decrease) in accounts payable	(28,615)
Increase/(decrease) in accrued expenses	(18,322)
Net change in pension expense	57,219
Donated commodities	62,151
Depreciation	<u>61,628</u>
<b>Net cash used in operating activities</b>	<u>\$ (1,721,441)</u>
<b>Schedule of non-cash transactions:</b>	
Depreciation	\$ 61,628
Donated commodities	<u>62,151</u>
<b>Total non-cash transactions</b>	<u>\$ 123,779</u>



## **1. REPORTING ENTITY**

The Middlesboro Independent Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Middlesboro Independent School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. 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 activities relevant to the operation of the Middlesboro Independent Board of Education. The basic 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. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Middlesboro Independent School District Finance Corporation – In a prior year, the Middlesboro Independent Board of Education resolved to authorize the establishment of the Middlesboro Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

**Government-wide Financial Statements** - The statement of net position and the statement of revenues, expenses, and changes in net position 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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. 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 total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

### I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

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

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### I. Government Fund Types - continued

Capital Projects 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 Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

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

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

The Permanent Fund reports resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

The Student Activity Fund is a special revenue fund that accounts for school activity fund revenues and expenditures.

### II. Proprietary Fund Types (Enterprise Funds)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are 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.

### 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.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Revenues, Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources 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 they can be recognized.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position – proprietary funds as an expense with a like amount reported as donated commodities revenue.

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

### Property Taxes

Property taxes are levied by September 30 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 (including exonerations) assessed for the year ended June 30, 2022, to finance the General Fund operations were \$.514 per \$100 valuation for real property, \$.514 per \$100 valuation for business personal property and \$.560 per \$100 valuation for motor vehicles.

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



**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

Prepaid Assets

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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

### Bonds and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Discounts related to debt issuance are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### Budgetary Process

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 on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, 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. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

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

### Cash and Cash Equivalents

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

### Receivables

The District recognizes revenues as receivables when they are measurable, and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school Food Service Fund inventory consists of food, supplies and U.S. Government commodities.

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

### Accrued Liabilities and Long-Term Obligations

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

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

### Fund Balances

Fund balances are separated into five categories, as required by GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as follows:

**Nonspendable** fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

**Restricted** fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Committed** fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

**Assigned** fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

**Unassigned** fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

### Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are appropriated in the next year. Encumbrances are considered a managerial assignment of fund balance on June 30, 2022, in the governmental funds balance sheet.

### Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt 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 is 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 and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

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

### 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, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

Deferred Inflows and Deferred Outflows of Resources

Deferred inflows and deferred outflows are recorded on the government-wide and proprietary financial statements. The deferred outflows of resources presented were primarily created by the differences in pension expectations, the prior refunding of revenue bonds, and deferral of pension contributions. Deferred inflows were primarily created by actuarial determinations of net pension liability changes.

Pensions

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

Post-employment Benefits Other Than OPEBs (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and the County Employees Retirement System Non-Hazardous (CERS) and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investments contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

New Accounting Standard

GASB Statement No. 87, Leases, effective for fiscal year 2022, was issued to improve accounting and financial reporting for leases by governments, by establishing standards for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset, thus requiring lessees to recognize a lease liability and an intangible right-to-use lease asset, and lessors to recognize a lease receivable and a deferred inflow of resources.

**3. CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2022, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance, collateral agreements, and collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2022 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
First State Bank	\$ 3,572,680	\$ 2,425,216
	<u>\$ 3,572,680</u>	<u>\$ 2,425,216</u>

**3. CUSTODIAL CREDIT RISK – DEPOSITS – CONTINUED**

Breakdown per financial statements is as follows:

Governmental funds	\$	2,050,578
Proprietary funds		<u>374,638</u>
	\$	<u>2,425,216</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

**4. INVESTMENTS**

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2022, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

**5. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2022 was as follows:

*See table on next page*

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**5. CAPITAL ASSETS - CONTINUED**

	June 30, 2021			June 30, 2022		
	Balance	Additions	Retirements	Balance	Balance	Balance
<b>Governmental Activities</b>						
Land & land improvements	\$ 832,843	\$ -	\$ -	\$ 832,843	\$ 832,843	\$ 832,843
Buildings	26,266,884	-	-	26,266,884	26,266,884	26,266,884
Technology equipment	1,919,391	-	-	1,919,391	1,919,391	1,919,391
Vehicles	1,807,376	371,825	60,692	2,118,509	2,118,509	2,118,509
General equipment	783,510	11,900	-	795,410	795,410	795,410
Construction work in progress	53,946	1,226,809	-	1,280,755	1,280,755	1,280,755
Total historical cost	31,663,950	1,610,534	60,692	33,213,792	33,213,792	33,213,792
Less accumulated depreciation	13,612,249	344,396	60,692	13,895,953	13,895,953	13,895,953
Governmental capital assets, net	<u>\$ 18,051,701</u>	<u>\$ 1,266,138</u>	<u>\$ -</u>	<u>\$ 19,317,839</u>	<u>\$ 19,317,839</u>	<u>\$ 19,317,839</u>
<b>Business-type Activities</b>						
Technology equipment	\$ 27,058	\$ -	\$ -	\$ 27,058	\$ 27,058	\$ 27,058
Vehicles	126,330	-	-	126,330	126,330	126,330
Food service and equipment	645,028	18,258	-	663,286	663,286	663,286
Total historical cost	798,416	18,258	-	816,674	816,674	816,674
Less accumulated depreciation	381,529	61,628	-	443,157	443,157	443,157
Business-type capital assets, net	<u>\$ 416,887</u>	<u>\$ (43,370)</u>	<u>\$ -</u>	<u>\$ 373,517</u>	<u>\$ 373,517</u>	<u>\$ 373,517</u>

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 210,985
Student	20,868
District administrative	8,679
School administrative	101
Plant operation and maintenance	21,816
Student transportation	81,507
Community services	440
	<u>\$ 344,396</u>

**6. CAPITAL LEASE PAYABLE**

The District has entered into a capital lease agreement for buses which will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2022:

*See table on next page*



**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**6. CAPITAL LEASE PAYABLE - CONTINUED**

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2021	Debt Issued	Debt Paid	Balance June 30, 2022	Due Within One Year
KISTA:								
2013	March, 2023	2.0%	\$ 104,420	\$ 18,706	\$ -	\$ 9,260	\$ 9,446	\$ 9,446
2016	March, 2026	2.00-2.625%	172,963	84,949	-	17,434	67,515	17,803
2017	March, 2027	2.00-2.625%	113,844	75,773	-	12,512	63,261	12,846
2019	March, 2029	3.0%	97,937	76,879	-	9,382	67,497	9,647
2020	March, 2030	2.0%	129,332	115,501	-	14,064	101,437	12,393
			<u>\$ 618,496</u>	<u>\$ 371,808</u>	<u>\$ -</u>	<u>\$ 62,652</u>	<u>\$ 309,156</u>	<u>\$ 62,135</u>

The following table presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2022:

Year	Principal	Interest	Total
2022-23	\$ 62,135	\$ 7,474	\$ 69,609
2023-24	53,981	6,019	60,000
2024-25	52,148	4,722	56,870
2025-26	51,335	3,425	54,760
2026-27	36,277	2,130	38,407
2027-28	21,802	1,230	23,032
2028-29	19,784	713	20,497
2029-30	11,694	234	11,928
Totals	<u>\$ 309,156</u>	<u>\$ 25,947</u>	\$ 335,103
	Less: amounts representing interest		<u>(25,947)</u>
	Net capital lease liability		<u>\$ 309,156</u>

**7. LONG-TERM OBLIGATIONS**

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Middlesboro Independent School District Finance Corporation. The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

Issue Date	Proceeds	Rates
2015R	\$ 1,825,000	1.00% - 2.30%
2015 School Energy	1,425,000	1.90% - 3.30%
2015	3,690,000	2.00% - 3.50%
2017	4,635,000	1.17%-3.45%
2019	395,000	3.250-3.400%
2021	307,000	1.00%-2.375%
2022	294,000	4.00%

The District, through the General Fund, including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Middlesboro Independent 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.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**7. LONG-TERM OBLIGATIONS-CONTINUED**

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2022 for debt service (principal and interest) are as follows:

Year	Middlesboro Independent School District		Kentucky School Facility Construction Commission		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2022-23	185,322	73,389	462,678	253,649	\$ 648,000	\$ 327,037
2023-24	199,426	75,581	479,574	244,538	679,000	320,119
2024-25	168,056	71,641	491,944	234,916	660,000	306,558
2025-26	170,265	67,740	505,735	224,200	676,000	291,940
2026-27	168,069	63,564	524,931	211,390	693,000	274,954
2027-28	150,620	58,921	543,380	197,755	694,000	256,676
2028-29	154,838	54,341	565,162	181,159	720,000	235,500
2029-30	160,154	49,617	586,846	163,880	747,000	213,498
2030-31	164,571	44,747	613,429	145,861	778,000	190,609
2031-32	169,175	39,663	634,825	126,738	804,000	166,401
2032-33	174,977	34,280	661,023	106,334	836,000	140,614
2033-34	180,936	28,624	692,064	84,982	873,000	113,605
2034-35	186,240	22,574	717,760	61,737	904,000	84,311
2035-36	112,874	16,295	393,126	34,003	506,000	50,298
2036-37	116,789	12,516	401,211	20,844	518,000	33,360
2037-38	108,004	8,786	416,996	7,037	525,000	15,822
2038-39	62,000	5,981	-	-	62,000	5,981
2039-40	58,000	4,015	-	-	58,000	4,015
2040-41	38,000	2,450	-	-	38,000	2,450
2041-42	36,000	1,238	-	-	36,000	1,238
2042-43	16,000	320	-	-	16,000	320
	<u>\$ 2,780,316</u>	<u>\$ 736,283</u>	<u>\$ 8,690,684</u>	<u>\$2,299,023</u>	<u>\$11,471,000</u>	<u>\$ 3,035,306</u>

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**7. LONG-TERM OBLIGATIONS-CONTINUED**

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2022 is as follows:

School Building Revenue Bonds	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
2015R	\$ 1,025,000	\$ -	\$ 185,000	\$ 840,000
2015 School Energy	1,240,000	-	45,000	1,195,000
2015	4,690,000	-	210,000	4,480,000
2017	4,155,000	-	165,000	3,990,000
2019	380,000	-	15,000	365,000
Net Pension Liability	4,490,890	-	335,855	4,155,035
Net OPEB - CERS Liability	1,413,442	-	166,120	1,247,322
Net OPEB - KTRS Liability	2,088,000	-	313,000	1,775,000
Accrued Sick Leave	186,222	-	4,348	181,874
	<u>\$ 19,668,554</u>	<u>\$ -</u>	<u>\$ 1,439,323</u>	<u>\$ 18,229,231</u>

**8. RETIREMENT PLANS**

The District's employees are provided with two pension plans, based on each position's college degree requirement as described below. The two pension plans are County Employees Retirement System (CERS) and the Kentucky Teachers Retirement System (KTRS).

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

**8. RETIREMENT PLANS - CONTINUED**

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.

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

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

*Funding Policy* - Funding for the plan is provided through payroll withholdings and matching District contributions. The District contributes 26.95% of the employee's total compensation subject to contribution. Pension has a contribution rate of 21.17% and OPEB has a contribution rate of 5.78%.

**General information about the Teachers' Retirement System of the State of Kentucky (KTRS)**

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

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

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

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

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance

**8. RETIREMENT PLANS - CONTINUED**

benefit payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

*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.

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.

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

At June 30, 2022, the District reported a liability of \$4,155,035 for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 4,155,035
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>20,042,386</u>
	<u>\$ 24,197,421</u>

The net pension liability for each plan was measured as of June 30, 2021, 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, 2021, the District's proportion was 0.058552%.

For the year ended June 30, 2022, the District recognized pension expense of \$203,416 related to CERS and \$1,599,855 related to KTRS. The District also recognized revenue of \$1,599,855 for KTRS support provided by the Commonwealth. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

8. RETIREMENT PLANS - CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 47,713	\$ 40,327
Changes of assumptions	55,766	-
Net difference between projected and actual earnings on pension plan investments	161,188	714,984
Changes in proportion and differences between District contributions and proportionate share of contributions	326,303	40,876
District contributions subsequent to the measurement date	<u>355,045</u>	<u>-</u>
Total	<u>\$ 946,015</u>	<u>\$ 796,187</u>

The \$355,045 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, 2022. 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>	
2022	\$ 64,305
2023	17,595
2024	(113,700)
2025	(173,418)
	<u>\$ (205,218)</u>

*Actuarial assumptions*—The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	2.30%	2.50%
Projected salary increases	3.3-15.3%	3.0-7.5%
Investment rate of return, net of investment expense & inflation	5.25%	7.10%
Municipal bond index rate		2.13%
Single equivalent interest rate		7.10%

8. RETIREMENT PLANS - CONTINUED

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

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 6.25%. 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 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 7.10%. 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 3.56% 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 KTRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	<u>\$ 5,329,029</u>	<u>\$ 4,155,035</u>	<u>\$ 3,183,582</u>
KTRS	6.10%	7.10%	8.10%
District's proportionate share of net pension liability	<u>-</u>	<u>-</u>	<u>-</u>

*Pension plan fiduciary net position*—Detailed information about the CERS and the KTRS pension plans' fiduciary net position, projected benefits, and projected funding status is available in separately issued financial reports at <http://kyret.ky.gov/> and <https://gov.state.ky.us>, respectively.

The District's and employee's contributions to KTRS for the years ended June 30, 2022, 2021, and 2020 was \$1,416,711, \$1,242,036, and \$1,062,584, respectively. The District's contributions CERS (both withholding and match) for the years ended June 30, 2022, 2021, and 2020 were \$457,023, \$432,548, and \$409,423, respectively. The District met their contribution requirements.



## 9. OTHER POST-EMPLOYMENT BENEFITS PLAN

### General Information about the Kentucky Teachers' Retirement System of the State of Kentucky (TRS)

Plan description—Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS) – a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). 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 <https://trs.ky.gov/financial-reports-information>.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

#### Medical Insurance Plan

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

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

*Funding policy*—In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three and three quarters percent (3.75%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and three percent (3.00%) from the employer.

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2022, the District reported a liability of \$1,775,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the collective net OPEB liability was based on projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021 the District's proportion was .082708<sup>^</sup>.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

*See table on next page*

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**9. OTHER POST-EMPLOYMENT BENEFITS PLAN -- CONTINUED**

District's proportionate share of the KTRS net OPEB liability	\$ 1,775,000
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District	<u>1,441,000</u>
	<u>\$ 3,216,000</u>

For the year ended June 30, 2022, the District recognized OPEB expense of \$122,161 and revenue of \$122,161 for support provided by the State. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,055,000
Changes of assumptions	464,000	-
Net difference between projected and actual earnings on pension plan investments	-	189,000
Changes in proportion and differences between District contributions and proportionate share of contributions	29,000	53,000
District contributions subsequent to the measurement date	<u>525,584</u>	<u>-</u>
Total	<u>\$ 1,018,584</u>	<u>\$ 1,297,000</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year ended June 30:</u>	
2022	\$ (197,000)
2023	(198,000)
2024	(191,000)
2025	(179,000)
2026	(43,000)
Thereafter	4,000
	<u>\$ (804,000)</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.50-7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**9. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED**

Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.50% for FY 2019 decreasing to an ultimate rate of 5% by FY 2024
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5% by FY 2022
Medicare Part B	2.63% for FY 2019 with an ultimate rate of 5% by 2031
Municipal Bond Index Rate	2.19%
Discount Rate	5.68%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distributions analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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.

*Discount rate* – The Discount rate used to measure the total OPEB liability was 7.10%. 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 OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.10%, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
KTRS	6.10%	7.10%	8.10%
District's proportionate share of net OPEB liability	<u>\$ 2,272,000</u>	<u>\$ 1,775,000</u>	<u>\$ 1,363,000</u>

Sensitivity of the District’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District’s proportionate share of the collective net OPEB liability, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
KTRS	6.10%	7.10%	8.10%
District's proportionate share of net OPEB liability	<u>\$ 1,289,000</u>	<u>\$ 1,775,000</u>	<u>\$ 2,379,000</u>

OPEB plan fiduciary net position – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued TRS financial report.

**9. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED**

**Life Insurance Plan**

*Plan description* – Life Insurance Plan – TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

*Benefits provided* – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member’s estate or to a party designated by the member.

*Contributions* – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the state.

**OPED Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs**

At June 30, 2022, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability that was associated with the District were as follows:

District's proportionate share of the KTRS net OPEB Life Insurance Plan liability	\$ -
Commonwealth's proportionate share of the KTRS net OPEB Life Insurance liability associated with the District	19,000
	<u>19,000</u>
	<u>\$ 19,000</u>

For the year ended June 30, 2022, the District recognized OPEB expense of \$2,936 and revenue of \$2,936 for support provided by the State.

*Actuarial assumptions* – The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.50-7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	2.19%
Discount Rate	5.68%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2021 valuation were based on a review of recent plan experience done concurrently with the June 30, 2021 valuation.

**9. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED**

The long-term expected rate of return on OPEB 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 OPEB 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.

Discount rate – The Discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
KTRS	6.50%	7.50%	8.50%
State's proportionate share of net OPEB liability - Life Insur	<u>\$ 27,890</u>	<u>\$ 19,000</u>	<u>\$ 12,450</u>

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

**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 provided OPEBs through the County Employees Retirement System Non-Hazardous (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 hospital and medical insurance for eligible members receiving benefits from the pension plan. Employees are vested in the plan after five years' service. For plan purposes, employees are grouped into two groups, based on hire date. Members who reach a minimum vesting period of 10 years, and began participating on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. For members participating prior to July 1, 2003, are paid up to a maximum of \$13.18 per month for every year of earned service. The percentage of the maximum monthly benefit paid is based on years of service as follows:

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**9. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED**

Years of Service	Paid by Insurance Fund (%)
20+ years	100.00%
15-19 years	75.00%
10-14 years	50.00%
4-9 years	25.00%
Less than 4 years	0.00%

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

Tier 1	Participation date	Before September 1, 2008
	Contribution percentage	0.00%
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Contribution percentage	1%
Tier 3	Participation date	After December 31, 2013
	Contribution percentage	1%

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs**

At June 30, 2022, the District reported a liability of \$1,247,322 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the collective net OPEB liability was based on projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021 the District's proportion was .065169%.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$	1,247,322
net OPEB liability		
Commonwealth's proportionate share of the CERS net OPEB liability associated with the District		-
		<hr/>
	\$	<u>1,247,322</u>

For the year ended June 30, 2022, the District recognized OPEB expense of \$51,398. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

*See table on next page*

9. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 196,142	\$ 372,409
Changes of assumptions	330,689	1,160
Net difference between projected and actual earnings on pension plan investments	62,844	257,970
Changes in proportion and differences between District contributions and proportionate share of contributions	102,836	23,953
District contributions subsequent to the measurement date	<u>96,936</u>	<u>-</u>
Total	<u>\$ 789,447</u>	<u>\$ 655,492</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$96,936 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2022	\$ 50,029
2023	20,351
2024	16,868
2025	(50,229)
2026	-
	<u>\$ 37,019</u>

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distributions analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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.

*Discount rate* – The Discount rate used to measure the total OPEB liability was 5.20%. 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 OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.



**9. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED**

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.20%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20%) or 1-percentage-point higher (6.20%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.20%	5.20%	6.20%
District's proportionate share of net OPEB liability	<u>\$ 1,712,563</u>	<u>\$ 1,247,322</u>	<u>\$ 865,514</u>

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
CERS			
District's proportionate share of net OPEB liability	<u>\$ 897,923</u>	<u>\$ 1,247,322</u>	<u>\$ 1,669,051</u>

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

**10. DEFERRED COMPENSATION**

The District offers its employees participation in a deferred compensation program administered by the Kentucky Public Employees' Deferred Compensation Authority. This program offers a plan authorized by Section 457(b) of the Internal Revenue Code and a plan authorized by Section 401(k) of the Internal Revenue Code. Both plans are available to all employees and permit them to defer up to 25% of their compensation (subject to limits) until future years. The District makes no contributions to these plans.

**11. OPERATING LEASES**

The District has no operating leases requiring disclosure as right-of-use assets as defined by FASB Accounting Standards Codification Topic 842, Leases.

**12. CONTINGENCIES**

*Grants* - 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 on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2022, may be impaired. 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.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

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**13. LITIGATION**

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

**14. RISK MANAGEMENT**

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. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

**15. DEFICIT FUND BALANCES**

The Food Service Fund has a deficit net asset balance of \$222,179.

**16. 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. There were no instances of noncompliance noted.

**17. TRANSFER OF FUNDS**

The following transfers were made during the year:

Matching	General	Special Revenue	KETS	\$	20,774
Operating	General	Debt Service	Debt Service		165,552
Operating	General	Construction	Construction		26,422
Operating	Special Revenue	Construction	Construction		431,678
Operating	Capital Outlay	Debt Service	Debt Service		98,924
Operating	Building	Debt Service	Debt Service		448,491
Operating	Food Service	General	Indirect Cost		63,055
Operating	Construction	Construction	Construction		5,778

**18. INTERFUND RECEIVABLES AND PAYABLES**

At June 30, 2022, the Special Revenue owes the General Fund an amount of \$1,473,365.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
Year ended June 30, 2022

**19. ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of revenues, expenses, and changes in net position:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$	1,599,855
OPEB contributions to the Teachers' Retirement System of Kentucky		122,161
Health and Life insurance		1,413,003
Other Less Federal		(340,843)
Technology		81,828
Debt Service		237,870
	<u>\$</u>	<u>3,113,874</u>

**20. FUND BALANCE DESIGNATIONS**

The following funds had restricted fund balances:

Fund	Amount	Purpose
General	\$ 46,555	Restricted Sick Leave Retirement Benefit
Construction	\$ 301,475	Future Construction/Grants
FSPK	\$ 31,120	Future Construction/Grants
Student Activity Fund	\$ 139,254	Student Activities

The following funds had assigned fund balances:

Fund	Amount	Purpose
General	\$ 1,277,050	Purchase obligations

**21. COVID-19 PANDEMIC**

COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The continued spread of the disease represents a significant risk that operations could continue to be disrupted in the near future. The District current has measures in place to move to nontraditional instruction, if needed. The extent to which COVID-19 may impact the District will depend on future developments and governmental regulations, which are highly uncertain and cannot be predicted. As a result, the District has not yet determined the impact this disruption may have on its financial statements for the year ending June 30, 2022.

During the fiscal year, the District expended \$3,784,250 of federal grant funding under the COVID-19 Elementary and Secondary School Emergency Relief Fund. Also, the District expended \$40,839 in federal grant funding under the COVID-19 Governor's Emergency Education Relief Fund.

**23. SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through November 10, 2022, which was the date the audit report was available for release. No events that have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements. In March 2021, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic.

**REQUIRED SUPPLEMENTARY INFORMATION**

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 Year ended June 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Taxes:				
Property	\$ 1,915,200	\$ 1,915,200	\$ 2,007,469	\$ 92,269
Motor vehicle	213,000	213,000	258,039	45,039
Utility	560,000	560,000	595,132	35,132
Other	450	450	-	(450)
Earnings on investments	6,000	6,000	9,594	3,594
Other local	104,000	104,000	83,042	(20,958)
Intergovernmental - State	4,372,000	4,372,000	7,664,601	3,292,601
Intergovernmental - Federal	25,000	25,000	35,250	10,250
Total revenues	<u>7,195,650</u>	<u>7,195,650</u>	<u>10,653,127</u>	<u>3,457,477 *</u>
<b>Expenditures</b>				
Current:				
Instruction	3,971,852	3,971,852	5,474,589	(1,502,737)
Student	490,740	490,740	751,245	(260,505)
Instructional support	315,305	315,305	433,388	(118,083)
District administration	634,337	634,337	825,443	(191,106)
School administration	643,161	643,161	836,545	(193,384)
Business support	136,888	136,888	203,540	(66,652)
Plant operations and maintenance	645,276	645,276	648,846	(3,570)
Student transportation	497,952	497,952	482,020	15,932
Community services	31,077	31,077	42,920	(11,843)
Contingency	1,163,376	1,163,376	-	1,163,376
Debt service	84,198	84,198	84,198	-
Total expenditures	<u>8,614,162</u>	<u>8,614,162</u>	<u>9,782,734</u>	<u>(1,168,572) *</u>
Excess (deficit) of revenues over (under) expenditures	(1,418,512)	(1,418,512)	870,393	2,288,905
<b>Other financing sources (uses)</b>				
Sale of equipment	-	-	3,757	3,757
Transfers in	40,000	40,000	63,055	23,055
Transfers out	(190,973)	(190,973)	(212,749)	(21,776)
Total other financing sources (uses)	<u>(150,973)</u>	<u>(150,973)</u>	<u>(145,937)</u>	<u>5,036</u>
<b>Net change in fund balance</b>	(1,569,485)	(1,569,485)	724,456	2,293,941
Fund balance as of June 30, 2021	<u>1,569,485</u>	<u>1,569,485</u>	<u>2,392,214</u>	<u>822,729</u>
<b>Fund balance as of June 30, 2022</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,116,670</u>	<u>\$ 3,116,670</u>

\* Kentucky on-behalf revenues and expenditures were not budgeted during the fiscal year.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

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

Year ended June 30, 2022

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
<b>Revenues</b>				
From local sources:				
Other local	\$ 38,682	\$ 38,682	\$ 54,775	\$ 16,093
Earnings on investments	500	500	124	(376)
Intergovernmental - State	460,372	460,372	444,074	(16,298)
Intergovernmental - Federal	424,538	424,538	6,096,279	5,671,741
	<u>924,092</u>	<u>924,092</u>	<u>6,595,252</u>	<u>5,671,160</u>
<b>Expenditures</b>				
Current:				
Instruction	2,127,228	2,127,228	2,680,831	(553,603)
Student	150,536	150,536	1,049,577	(899,041)
Instructional support	974,488	974,488	533,052	441,436
District administration	12,949	12,949	100,469	(87,520)
School administration	6,900	6,900	44,957	(38,057)
Business support	73,169	73,169	183,107	(109,938)
Plant operations and maintenance	-	-	907,987	(907,987)
Student transportation	22,243	22,243	376,603	(354,360)
Food services	-	-	10,526	(10,526)
Building improvements	-	-	102,954	(102,954)
Community services	225,739	225,739	194,285	31,454
	<u>3,593,252</u>	<u>3,593,252</u>	<u>6,184,348</u>	<u>(2,591,096)</u>
Deficit of revenues under expenditures	<u>(2,669,160)</u>	<u>(2,669,160)</u>	<u>410,904</u>	<u>3,080,064</u>
<b>Other financing sources</b>				
Operating transfers in	30,000	30,000	20,774	(9,226)
Operating transfers out	(8,350)	(8,350)	(431,678)	(423,328)
Total other financing sources	<u>21,650</u>	<u>21,650</u>	<u>(410,904)</u>	<u>(432,554)</u>
<b>Net change in fund balance</b>	<u>(2,647,510)</u>	<u>(2,647,510)</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2021	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance as of June 30, 2022</b>	<u>\$ (2,647,510)</u>	<u>\$ (2,647,510)</u>	<u>\$ -</u>	<u>\$ -</u>



**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
BUDGET AND ACTUAL - GENERAL FUND AND SPECIAL REVENUE FUND**

**Year ended June 30, 2022**

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The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board amended the budget during the year.

The budgeted total revenues and expenditures was exceeded during the fiscal year.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 June 30, 2022

	District's proportion of net pension liability (asset)	District's proportionate share of the net pension liability (asset)	District's covered-employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total pension liability
2022	0.07%	\$ 4,155,035	\$ 1,685,281	246.55%	57.33%
2021	0.06%	\$ 4,490,890	\$ 1,776,047	252.86%	47.81%
2020	0.06%	\$ 4,256,399	\$ 1,570,234	271.07%	50.45%
2019	0.06%	\$ 3,644,803	\$ 1,526,551	238.76%	53.54%
2018	0.06%	\$ 3,464,807	\$ 1,483,275	233.59%	53.30%
2017	0.07%	\$ 3,019,089	\$ 1,441,224	209.48%	55.50%
2016	0.06%	\$ 2,609,115	\$ 1,462,758	178.37%	59.97%
2015	0.06%	\$ 1,958,000	\$ 1,436,154	136.34%	66.80%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 Year ended June 30, 2022

	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution deficiency (excess)	District's covered-employee payroll	- Contributions as a percentage of covered-employee payroll
2022	\$ 356,774	\$ 356,774	\$ -	\$ 1,685,281	21.17%
2021	\$ 342,777	\$ 342,777	\$ -	\$ 1,776,047	19.30%
2020	\$ 303,055	\$ 303,055	\$ -	\$ 1,570,234	19.30%
2019	\$ 247,607	\$ 247,607	\$ -	\$ 1,526,551	16.22%
2018	\$ 214,778	\$ 214,778	\$ -	\$ 1,483,275	14.48%
2017	\$ 269,221	\$ 269,221	\$ -	\$ 1,441,224	18.68%
2016	\$ 249,547	\$ 249,547	\$ -	\$ 1,462,758	17.06%
2015	\$ 250,236	\$ 250,236	\$ -	\$ 1,436,154	17.42%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION FUND  
Year ended June 30, 2022

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Changes of Benefit Terms

None.

Changes of Assumptions

None.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
 NET OPEB LIABILITY - MEDICAL INSURANCE PLAN  
 County Employees Retirement System  
 June 30, 2022

	District's proportion of net OPEB liability (asset)	District's proportionate share of the net OPEB liability (asset)	District's covered-employee payroll	District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2022	0.06%	\$ 1,247,322	\$ 1,685,281	74.01%	62.91%
2021	0.06%	\$ 1,413,442	\$ 1,776,047	79.58%	51.67%
2020	0.06%	\$ 1,017,650	\$ 1,570,234	64.81%	60.44%
2019	0.06%	\$ 1,062,518	\$ 1,526,551	69.60%	57.62%
2018	0.06%	\$ 1,190,002	\$ 1,483,275	80.23%	52.39%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - MEDICAL INSURANCE PLAN

County Employees Retirement System

Year ended June 30, 2022

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2022	\$ 97,409	\$ 97,409	\$ -	\$ 1,685,281	5.78%
2021	\$ 84,539	\$ 84,539	\$ -	\$ 1,776,047	4.76%
2020	\$ 74,743	\$ 74,743	\$ -	\$ 1,570,234	4.76%
2019	\$ 80,297	\$ 80,297	\$ -	\$ 1,526,551	5.26%
2018	\$ 69,714	\$ 69,714	\$ -	\$ 1,483,275	4.70%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
COUNTY EMPLOYEES RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN  
Year ended June 30, 2022**

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Changes of Benefit Terms

None.

Changes of Assumptions

None.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**KENTUCKY TEACHERS' RETIREMENT SYSTEM**  
 June 30, 2022

	State's proportion of net pension liability (asset)	State's proportionate share of the net pension liability (asset)	Plan fiduciary net position as a percentage of the total pension liability
2022	100%	\$ 20,042,386	65.59%
2021	100%	\$ 21,800,268	58.27%
2020	100%	\$ 21,587,009	58.80%
2019	100%	\$ 21,016,893	59.30%
2018	100%	\$ 42,792,204	39.83%
2017	100%	\$ 47,651,524	35.22%
2016	100%	\$ 38,299,426	42.49%
2015	100%	\$ 37,951,853	45.59%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF STATE CONTRIBUTIONS  
 KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 Year ended June 30, 2022

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)
2022	\$ 1,599,855	\$ 1,599,855	\$ -
2021	\$ 1,577,947	\$ 1,577,947	\$ -
2020	\$ 1,062,584	\$ 1,062,584	\$ -
2019	\$ 1,138,274	\$ 1,138,274	\$ -
2018	\$ 1,130,717	\$ 1,130,717	\$ -
2017	\$ 784,064	\$ 784,064	\$ -
2016	\$ 894,348	\$ 894,348	\$ -
2015	\$ 792,086	\$ 792,086	\$ -

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
KENTUCKY TEACHERS RETIREMENT SYSTEM  
Year ended June 30, 2022**

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Changes of Benefit Terms

None.

Changes of Assumptions

Inflation, changed from 3.00% to 2.50%.

Real Wage Growth decreased from 0.50% to 0.25%.

Wage Inflation decreased from 3.50% to 2.75%.

Salary Increases, including wage inflation, changed from 3.50-7.20% to 3.00-7.50%.

Long-Term Investment Rate of Return, net of pension expense, including inflation, changed from 7.50% to 7.10%.

Municipal Bond Index Rate changed from 2.19% to 2.13%.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE  
 NET OPEB LIABILITY - MEDICAL INSURANCE PLAN  
 Kentucky Teachers' Retirement System  
 June 30, 2022

	District's proportion of net OPEB liability (asset)	District's proportionate share of the net OPEB liability (asset)	State's proportionate share of the net OPEB liability (asset)	District's covered-employee payroll	District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2022	0.08%	\$ 1,775,000	\$ 1,441,000	\$ 6,874,460	25.82%	51.74%
2021	0.08%	\$ 2,088,000	\$ 1,672,000	\$ 6,515,250	32.05%	39.05%
2020	0.08%	\$ 2,474,000	\$ 1,998,000	\$ 6,412,184	38.58%	32.58%
2019	0.08%	\$ 2,883,000	\$ 2,483,000	\$ 6,137,300	46.96%	25.50%
2018	0.08%	\$ 2,983,000	\$ 2,437,000	\$ 6,196,047	48.14%	21.18%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS - MEDICAL INSURANCE PLAN  
 Kentucky Teachers' Retirement System  
 Year ended June 30, 2022

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2022	\$ 206,234	\$ 206,234	\$ -	\$ 6,874,460	3.00%
2021	\$ 195,376	\$ 195,376	\$ -	\$ 6,515,250	3.00%
2020	\$ 192,366	\$ 192,366	\$ -	\$ 6,412,184	3.00%
2019	\$ 184,119	\$ 184,119	\$ -	\$ 6,137,300	3.00%
2018	\$ 185,881	\$ 185,881	\$ -	\$ 6,196,047	3.00%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

## MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Kentucky Teachers' Retirement System - Medical Insurance Plan

Year ended June 30, 2022

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#### Changes of Benefit Terms

None.

#### Changes of Assumptions

Inflation, changed from 3.00% to 2.50%.

Real Wage Growth decreased from 0.50% to 0.25%.

Wage Inflation decreased from 3.50% to 2.75%.

Salary Increases, including wage inflation, changed from 3.50-7.20% to 3.00-7.50%.

Long-Term Investment Rate of Return, net of pension expense, including inflation, changed from 7.50% to 7.10%.

Municipal Bond Index Rate changed from 2.19% to 2.13%.

Single Equivalent Interest Rate, net of pension expense, including inflation, changed from 7.50% to 7.10%.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF STATE'S PROPORTIONATE SHARE OF THE  
NET OPEB LIABILITY - LIFE INSURANCE PLAN**

Kentucky Teachers' Retirement System

June 30, 2022

	State's proportion of net OPEB liability (asset)	State's proportionate share of the net OPEB liability (asset)	Plan fiduciary net position as a percentage of the total OBEP liability
2022	100%	\$ 19,000	89.15%
2021	100%	\$ 51,000	71.57%
2020	100%	\$ 46,000	73.40%
2019	100%	\$ 43,000	75.00%
2018	100%	\$ 33,000	79.99%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF STATE CONTRIBUTIONS - LIFE INSURANCE PLAN**

Kentucky Teachers' Retirement System

Year ended June 30, 2022

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	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>
2022	\$ 2,936	\$ 2,936	\$ -
2021	\$ 2,061	\$ 2,061	\$ -
2020	\$ 2,034	\$ 2,034	\$ -
2019	\$ 2,034	\$ 2,034	\$ -
2018	\$ 1,750	\$ 1,750	\$ -

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

## MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION KENTUCKY TEACHERS' RETIREMENT SYSTEM - LIFE INSURANCE PLAN Year ended June 30, 2022

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#### Changes of Benefit Terms

None.

#### Changes of Assumptions

Inflation, changed from 3.00% to 2.50%.

Real Wage Growth decreased from 0.50% to 0.25%.

Wage Inflation decreased from 3.50% to 2.75%.

Salary Increases, including wage inflation, changed from 3.50-7.20% to 3.00-7.50%.

Long-Term Investment Rate of Return, net of pension expense, including inflation, changed from 7.50% to 7.10%.

Municipal Bond Index Rate changed from 2.19% to 2.13%.

Single Equivalent Interest Rate, net of pension expense, including inflation, changed from 7.50% to 7.10%.



MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2022

	Student Activity Fund	SEEK Capital Outlay Fund	Facility Support Building Fund (FSPK)	Construction Fund	Debt Service Fund	Total Non-major Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 139,254	\$ -	\$ 31,120	\$ 43,576	\$ -	\$ 213,950
Accounts receivable	-	-	-	275,966	-	275,966
<b>Total assets</b>	<b>\$ 139,254</b>	<b>\$ -</b>	<b>\$ 31,120</b>	<b>\$ 319,542</b>	<b>\$ -</b>	<b>\$ 489,916</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ -	\$ -	\$ -	\$ 18,067	\$ -	\$ 18,067
<b>Fund Balances:</b>						
Restricted	139,254	-	31,120	301,475	-	471,849
Unassigned	-	-	-	-	-	-
<b>Total liabilities and fund balances</b>	<b>\$ 139,254</b>	<b>\$ -</b>	<b>\$ 31,120</b>	<b>\$ 319,542</b>	<b>\$ -</b>	<b>\$ 489,916</b>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS  
Year ended June 30, 2022

	Student Activity Fund	SEEK Capital Outlay Fund	Facility Support Building Fund (FSPK)	Construction Fund	Debt Service Fund	Total Non-major Governmental Funds
<b>Revenues</b>						
From local sources:						
Property tax	\$ -	\$ -	\$ 237,305	\$ -	\$ -	\$ 237,305
Student activity revenue	428,457	-	-	-	-	428,457
Intergovernmental - State	-	98,924	215,884	-	237,870	552,678
Total revenues	428,457	98,924	453,189	-	237,870	1,218,440
<b>Expenditures</b>						
Student activity expenditures	427,295	-	-	-	-	427,295
Building improvements	-	-	-	1,123,855	-	1,123,855
Debt service	-	-	-	-	950,837	950,837
Total expenditures	427,295	-	-	1,123,855	950,837	2,501,987
<b>Other financing sources (uses)</b>						
Bond principal proceeds	-	-	-	601,000	-	601,000
Transfers In	-	-	-	463,878	712,967	1,176,845
Transfers out	-	(98,924)	(448,491)	(5,778)	-	(553,193)
Total other financing sources (uses)	-	(98,924)	(448,491)	1,059,100	712,967	1,224,652
<b>Net change in fund balance</b>	1,162	-	4,698	(64,755)	-	(58,895)
Fund balance as of June 30, 2021	138,092	-	26,422	366,230	-	530,744
<b>Fund balance as of June 30, 2022</b>	\$ 139,254	\$ -	\$ 31,120	\$ 301,475	\$ -	\$ 471,849

**Middleboro Independent Schools**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS**  
**Year Ended June 30, 2022**

<u>School Activity Fund</u>	<u>Cash and Equivalents June 30, 2021</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2022</u>	<u>Accounts Receivable June 30, 2022</u>	<u>Accounts Payable June 30, 2022</u>	<u>Balances June 30, 2022</u>
Middleboro Elementary	\$ 21,665	\$ 38,682	\$ 37,061	\$ 23,286	\$ -	\$ -	\$ 23,286
Middleboro Middle School	<u>43,991</u>	<u>59,654</u>	<u>62,776</u>	<u>40,869</u>	<u>-</u>	<u>-</u>	<u>40,869</u>
Totals	<u>\$ 65,656</u>	<u>\$ 98,336</u>	<u>\$ 99,837</u>	<u>\$ 64,155</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,155</u>

Middlesboro Independent Schools  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -**  
**HIGH SCHOOL ACTIVITY FUND**  
 Year ended June 30, 2022

	Balances June 30, 2021	Receipts	Disbursements	Transfers in/(out)	Cash and cash equivalents June 30, 2022	Accounts Receivable June 30, 2022	Accounts Payable June 30, 2022	Balances June 30, 2022
Activity Allotment	\$ 454	\$ -	\$ -	\$ -	\$ 454	\$ -	\$ -	\$ 454
Athletics	31,870	265,512	264,649	-	32,733	-	-	32,733
Band	3,569	1,250	3,411	-	1,408	-	-	1,408
Beta Club	393	-	-	-	393	-	-	393
Choir	685	1,348	348	-	1,685	-	-	1,685
Drama	459	-	-	-	459	-	-	459
FBLA	168	-	-	-	168	-	-	168
General	19,750	45,320	50,596	-	14,474	-	-	14,474
JROTC	689	3,061	2,874	-	876	-	-	876
Journalism	6,195	7,162	2,578	-	10,779	-	-	10,779
Library	162	25	25	-	162	-	-	162
Parking	14	-	-	-	14	-	-	14
Prom	6,371	3,060	617	-	8,814	-	-	8,814
Student Council	872	-	-	-	872	-	-	872
Teachers	342	2,732	1,839	-	1,235	-	-	1,235
Technology	23	-	-	-	23	-	-	23
AP/PSAT	264	651	521	-	394	-	-	394
JAG Club/Car Asso	154	-	-	-	154	-	-	154
<b>Total accounts</b>	<b>\$ 72,434</b>	<b>\$ 330,121</b>	<b>\$ 327,458</b>	<b>\$ -</b>	<b>\$ 75,097</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 75,097</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year ended June 30, 2022

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program Fiscal Year 22	10.582	7720012-22	\$ 51,685
State Administrative Expenses for Child Nutrition Fiscal Year 22	10.560	7721032-22	1,922
Child & Adult Care Food Program Fiscal Year 22	10.558	7721012-22	49,989
			<u>103,596</u>
<i>Child Nutrition Cluster</i>			
National School Lunch Program Fiscal Year 22	10.555	7750002-22	626,365
School Breakfast Program Fiscal Year 22	10.553	776005-22	216,108
Summer Food Service Program for Children Fiscal Year 22	10.559	7760005-22	237,208
Passed Through State Department of Agriculture:			
National School Lunch Program Fiscal Year 22	10.555	77500002-22	62,151
<i>Child Nutrition Cluster Total</i>			<u>1,141,832</u>
Total US Department of Agriculture			<u>1,245,428</u>
US Department of Education			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies Fiscal Year 22 Fiscal Year 21	84.010	3100002-22 3100002-21	784,529 436,669
			<u>1,221,198</u>
<i>Special Education Cluster</i>			
Special Education Grants to States Fiscal Year 22	84.027	3810002-22	283,490
Special Education Preschool Grants Fiscal Year 22	84.173	3800002-22	13,879
<i>Special Education Cluster Total</i>			<u>297,369</u>
Supporting Effective Instruction State Grant Fiscal Year 22	84.367	3230002-22	110,054
			<u>110,054</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

Year ended June 30, 2022

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Twenty-First Century Community Learning Centers Fiscal Year 22	84.287	2-550X	109,863 <u>109,863</u>
Rural Education Fiscal Year 22	84.358	2-350X	51,095 <u>51,095</u>
Education Stabilization Fund			
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D	554X	2,378,818
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D	613X	18,019
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425U	473G	1,387,413
COVID-19 Governor's Emergency Education Relief Fund	84.425C	633X	40,839 <u>3,825,089</u>
Career & Technical Education - Basic Grants to States Fiscal Year 22	84.048	3401002-22	9,232 <u>9,232</u>
Striving Readers Comprehensive Literacy Program Fiscal Year 22	84.371	3402002-22	26,057 <u>26,057</u>
Student Support and Academic Enrichment Program Fiscal Year 22	84.424	220-552X	89,980 <u>89,980</u>
Gaining Early Awareness and Readiness for Undergraduate Programs Fiscal Year 22	84.334	3160002-22	129,268 <u>129,268</u>
Innovative Approaches to Literacy Fiscal Year 22	84.215G	2-610X	154,256 <u>154,256</u>
Total US Department of Education			<u>6,023,461</u>
U.S. Department of Defense			
Direct Program			
ROTC Fiscal Year 22	12.000	220-504X	72,818 <u>72,818</u>
Total U.S. Department of Defense			<u>72,818</u>
Total Expenditure of Federal Awards			\$ <u>7,341,707</u>

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2022

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Middlesboro Independent School District and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. IN-KIND COMMODITIES**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2022 is \$62,151.

**3. CLUSTER PROGRAMS**

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559

**4. INDIRECT COST RATES**

The District has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.





**Cloyd & Associates, PSC**

Certified Public Accountants  
and  
Business Advisors

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

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Middlesboro Independent School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Middlesboro Independent School District's basic financial statements, and have issued our report thereon dated November 10, 2022.

**Internal Control over Financial Reporting**

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

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

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**Cloyd & Associates, PSC**

*Certified Public Accountants  
and  
Business Advisors*

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 Middlesboro Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our test disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract-State Audit Requirements*.

We noted other matters involving the internal control over financial reporting that we have reported to the management of Middlesboro Independent School District in a separate letter dated November 10, 2022.

**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.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 10, 2022





**Cloyd & Associates, PSC**

Certified Public Accountants  
and  
Business Advisors

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

**Independent Auditor's Report**

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

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

We have audited Middlesboro Independent School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Middlesboro Independent School District's major federal programs for the year ended June 30, 2022. The Middlesboro Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Middlesboro Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

***Basis for Opinion on Each Major Program***

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; Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards and 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 Middlesboro Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance with each major federal program. Our audit does not provide legal determination of the Middlesboro Independent School District's compliance.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, contracts, and grants agreements applicable to the District's federal programs.





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**Cloyd & Associates, PSC**

Certified Public Accountants  
and  
Business Advisors

***Auditor's Responsibilities for the Audit of Compliance***

Our responsibility is to obtain reasonable assurance about whether material noncompliance with the with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Middlesboro Independent School District's Compliance 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; Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards and 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 Middlesboro Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**Report on Internal Control over Compliance**

Management of Middlesboro Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Middlesboro Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Middlesboro Independent School District's internal control over compliance.

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

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



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**Cloyd & Associates, PSC**

*Certified Public Accountants  
and  
Business Advisors*

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

**Purpose of this Report**

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.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 10, 2022



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year ended June 30, 2022

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors’ report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statement noted	_____	Yes	<input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Type of auditors’ report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section of 200.516(a)?	_____	Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425D
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425U
COVID-19 Governor’s Emergency Education Relief Fund	84.425C
Title I Grants to Local Educational Agencies	84.010

Dollar threshold used to distinguish between Type A and Type B program	\$750,000
Auditee qualified as low risk	<input checked="" type="checkbox"/> Yes _____ No

(continued)

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED  
Year ended June 30, 2022

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

None



**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year ended June 30, 2022

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**Status of Prior Year Findings**

There were no prior year findings

**MANAGEMENT LETTER COMMENTS**



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**Cloyd & Associates, PSC**  
*Certified Public Accountants  
and  
Business Advisors*

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

In planning and performing our audit of the basic financial statements of Middlesboro Independent School District for the year ended June 30, 2022, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

During our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report thereon dated November 10, 2022 on the basic financial statements of Middlesboro Independent School District.

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

Respectfully,

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 10, 2022

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT LETTER COMMENTS  
For the year ended June 30, 2022

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**Prior Year Comments – School Activity Funds**

No prior year comments

**Current Year Comments –School Activity Funds**

No current year comments