

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2025
with
REPORT OF INDEPENDENT AUDITORS**

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Cloyd & Associates, PSC

Certified Public Accountants

and

Business Advisors

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 (District), as of and for the year ended June 30, 2025, 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 District, as of June 30, 2025, 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, 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 the *Independent Auditor's Contract*. 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 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 opinions.

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 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.



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 and *Government 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 and *Government 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 policies used and the reasonableness of significant 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, 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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the 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 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 December 1, 2025, on our consideration of 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 solely 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 the effectiveness of the District's 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 the District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
December 1, 2025

**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2025**

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, 2025. 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 \$12,275,561 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 the sale of equipment, there was \$13,795,778 in General Fund expenditures.
- Governmental Capital Assets had a net decrease of \$51,646 during FY 2025. Business-type Capital Assets had a net decrease of \$620 during the current fiscal year.
- The District renovates and constructs facilities consistent with long-range facilities plan that is established with community input and keeping with the Department of Education stringent compliance regulations. The total amount expended for construction was \$175,652.

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.

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

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

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 the table of contents 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, 2025

Fiscal year 2025 government-wide net position compared to 2024 is as follows:

	2025	2024
Current and other assets	\$ 4,428,900	\$ 5,721,096
Capital assets	23,963,385	24,222,462
Total assets	<u>\$ 28,392,285</u>	<u>\$ 29,943,558</u>
Deferred outflow of resources	<u>\$ 2,702,104</u>	<u>\$ 2,990,438</u>
Current liabilities	\$ 1,475,732	\$ 1,665,332
Noncurrent liabilities	19,212,154	17,820,272
Total liabilities	<u>\$ 20,687,886</u>	<u>\$ 19,485,604</u>
Deferred inflow of resources	<u>\$ 2,965,777</u>	<u>\$ 3,793,939</u>
Net investment in capital assets, net of debt	\$ 11,097,482	\$ 11,288,255
Restricted net position	1,917,353	1,539,226
Unrestricted net position	(5,574,109)	(3,173,028)
Total net position	<u>\$ 7,440,726</u>	<u>\$ 9,654,453</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 \$7,192,405; proprietary assets exceeded liabilities by \$248,321 and total assets exceeded liabilities by \$7,440,726 at June 30, 2025.

The District had an overall decrease in unrestricted net position of \$2,401,081.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2025 and 2024.

	2025	2024
Revenues and other financing sources		
Local revenue sources	\$ 4,102,968	\$ 4,179,436
State revenue sources	10,275,155	8,956,610
Federal revenue	5,169,292	7,403,467
Total revenue	\$ 19,547,415	\$ 20,539,513
Expenditures and other financing uses		
Instruction	\$ 9,893,001	\$ 9,790,171
Student support services	2,151,253	2,108,729
Instructional support	1,867,189	1,791,617
District administration	1,091,264	931,593
School administration	912,107	915,028
Business operations	373,545	381,917
Plant operations and maintenance	1,882,344	1,491,190
Student transportation	998,444	848,558
Community services	396,089	390,614
Debt service	1,193,788	1,212,923
Site improvements	-	39,793
Building improvements	224,089	1,365,724
Student activities	469,498	467,778
Total expenditures	\$ 21,452,611	\$ 21,735,635
Excess revenues (expenditures)	\$ (1,905,196)	\$ (1,196,122)
Other financing sources (uses)		
Bond proceeds	\$ 685,000	\$ -
Sale of assets	4,638	
Transfers in	990,153	1,106,211
Transfers out	(924,901)	(1,041,421)
Total other financing sources (uses)	\$ 754,890	\$ 64,790
Net change in fund balance	\$ (1,150,306)	\$ (1,131,332)

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 \$330,765 in contingency. Significant variations

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
FOR THE YEAR ENDED JUNE 30, 2025

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, 2025, were \$12,275,561 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 \$3,709,771 more than budget or 43.3% more than budget. This is due primarily to recording on-behalf payments made by the State of Kentucky of \$3,595,502 that were not budgeted. When these are eliminated, revenues compared to budget were \$114,269 or 0.031 % more than anticipated.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2025, was \$13,795,778.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$2,401,524 more than budget or 21.1% 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, 2025

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,892,069	\$ 621,567	\$ 3,513,636
Accounts receivable:			
Taxes	154,038	-	154,038
Local accounts	35,202	-	35,202
Intergovernmental - State	83	-	83
Intergovernmental - Federal	468,934	61,858	530,792
Inventory	-	88,811	88,811
Net OPEB asset	82,461	23,877	106,338
Capital Assets, net			
Nondepreciable	2,255,088	-	2,255,088
Depreciable	21,310,493	397,804	21,708,297
Total assets	27,198,368	1,193,917	28,392,285
DEFERRED OUTFLOW OF RESOURCES			
Deferred outflows from bond refundings	14,056	-	14,056
Deferred outflows from pensions	842,023	243,828	1,085,851
Deferred outflows from OPEB	264,775	76,671	341,446
Deferred outflows from OPEB - KTRS	1,260,751	-	1,260,751
	2,381,605	320,499	2,702,104
LIABILITIES			
Accounts payable	158,090	18,966	177,056
Accrued expense	32,120	10,670	42,790
Unearned revenue	248,925	-	248,925
Current portion of lease obligations	61,681	-	61,681
Current maturities of bond obligations	751,000	-	751,000
Current portion of compensated absences	93,602	-	93,602
Interest payable	100,678	-	100,678
Net pension liability - noncurrent	2,850,266	825,362	3,675,628
Net OPEB - KTRS liability - noncurrent	1,666,000	-	1,666,000
Noncurrent portion of lease obligations	139,278	-	139,278
Noncurrent maturities of bond obligations	11,928,000	-	11,928,000
Noncurrent portion of compensated absences	1,803,248	-	1,803,248
Total liabilities	19,832,888	854,998	20,687,886
DEFERRED INFLOW OF RESOURCES			
Deferred inflows from pension	508,011	147,106	655,117
Deferred inflows from OPEB - CERS	911,669	263,991	1,175,660
Deferred inflows from OPEB - KTRS	1,135,000	-	1,135,000
	2,554,680	411,097	2,965,777
NET POSITION			
Net investment in capital assets	10,699,678	397,804	11,097,482
Restricted for:			
Capital expenditures	780,286	-	780,286
Other	1,137,067	-	1,137,067
Unrestricted	(5,424,626)	(149,483)	(5,574,109)
Total net position	\$ 7,192,405	\$ 248,321	\$ 7,440,726

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

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2025

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
Governmental activities							
Instruction	\$ 10,372,714	\$ -	\$ 3,659,084	\$ -	\$ (6,713,630)	\$ -	\$ (6,713,630)
Student	2,164,102	-	763,405	-	(1,400,697)	-	(1,400,697)
Instructional support	1,867,189	-	658,667	-	(1,208,522)	-	(1,208,522)
District administration	1,103,925	-	389,419	-	(714,506)	-	(714,506)
School administration	912,107	-	321,754	-	(590,353)	-	(590,353)
Business support	373,545	-	131,771	-	(241,774)	-	(241,774)
Plant operations and maintenance	2,102,105	-	741,535	-	(1,360,570)	-	(1,360,570)
Student transportation	1,104,243	-	389,532	-	(714,711)	-	(714,711)
Community services	396,529	-	139,859	-	(256,670)	-	(256,670)
Interest on long-term debt	446,940	-	-	2,645,439	2,198,499	-	2,198,499
Total governmental activities	20,843,399	-	7,195,026	2,645,439	(11,002,934)	-	(11,002,934)
Business-type activities							
Food service	1,332,132	69,842	1,587,140	-	-	324,850	324,850
Total business-type activities	1,332,132	69,842	1,587,140	-	-	324,850	324,850
Total primary government	\$ 22,175,531	\$ 69,842	\$ 8,782,166	\$ 2,645,439	(11,002,934)	324,850	(10,678,084)
General revenues							
Taxes:							
Property					2,301,947	-	2,301,947
Motor vehicle					280,342	-	280,342
Utility					658,293	-	658,293
Earnings on investments					166,791	32,333	199,124
State grants					5,603,983	-	5,603,983
Other local amounts					695,595	-	695,595
Gain/(loss) on disposal of assets					4,638	-	4,638
Transfers					65,252	(65,252)	-
Total general revenues					9,776,841	(32,919)	9,743,922
Change in net position					(1,226,093)	291,931	(934,162)
Restated net position as of June 30, 2024					8,418,498	(43,610)	8,374,888
Net position as of June 30, 2025					\$ 7,192,405	\$ 248,321	\$ 7,440,726

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

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2025

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 2,111,783	\$ -	\$ 554,847	\$ 225,439	\$ 2,892,069
Accounts receivable:					
Taxes	154,038	-	-	-	154,038
Local accounts	-	35,202	-	-	35,202
Intergovernmental - State	-	83	-	-	83
Intergovernmental - Federal	-	468,934	-	-	468,934
Interfund receivable	<u>185,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>185,365</u>
Total assets	<u>\$ 2,451,186</u>	<u>\$ 504,219</u>	<u>\$ 554,847</u>	<u>\$ 225,439</u>	<u>\$ 3,735,691</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Interfund payable	\$ -	\$ 185,365	\$ -	\$ -	\$ 185,365
Accounts payable	120,234	37,856	-	-	158,090
Accrued expense	47	32,073	-	-	32,120
Unearned Revenue	<u>-</u>	<u>248,925</u>	<u>-</u>	<u>-</u>	<u>248,925</u>
Total liabilities	<u>120,281</u>	<u>504,219</u>	<u>-</u>	<u>-</u>	<u>624,500</u>
Fund balances					
Restricted	93,602	-	554,847	225,439	873,888
Assigned	1,043,465	-	-	-	1,043,465
Unassigned	<u>1,193,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,193,838</u>
Total fund balances	<u>2,330,905</u>	<u>-</u>	<u>554,847</u>	<u>225,439</u>	<u>3,111,191</u>
Total liabilities and fund balances	<u>\$ 2,451,186</u>	<u>\$ 504,219</u>	<u>\$ 554,847</u>	<u>\$ 225,439</u>	<u>\$ 3,735,691</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
JUNE 30, 2025

Total fund balances - governmental funds	\$ 3,111,191
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.	23,565,581
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.	2,381,605
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.	(12,679,000)
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.	(200,959)
The long term portion of compensated absences 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.	(1,896,850)
Net pension liabilities(assets) 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	(4,433,805)
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.	(2,554,680)
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>(100,678)</u>
Total net position - governmental activities	<u>\$ 7,192,405</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2025

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes					
Property	\$ 2,042,916	\$ -	\$ -	\$ 259,031	\$ 2,301,947
Motor vehicle	280,342	-	-	-	280,342
Utility	658,293	-	-	-	658,293
Earnings on investments	164,561	2,230	-	-	166,791
Other local	178,411	61,116	-	456,068	695,595
Intergovernmental - State	8,912,805	700,693	-	661,657	10,275,155
Intergovernmental - Federal	38,233	5,131,059	-	-	5,169,292
Total revenues	12,275,561	5,895,098	-	1,376,756	19,547,415
Expenditures					
Instruction	6,991,624	2,901,434	-	-	9,893,058
Student	1,381,387	769,866	-	-	2,151,253
Instructional support	1,032,956	834,233	-	-	1,867,189
District administration	1,065,537	25,727	-	-	1,091,264
School administration	909,753	2,354	-	-	912,107
Business support	297,377	76,168	-	-	373,545
Plant operations and maintenance	1,363,966	518,377	-	-	1,882,343
Student transportation	674,203	324,241	-	-	998,444
Community services	10,970	385,062	-	-	396,032
Student activity expenditures	-	-	-	469,498	469,498
Building improvements	-	48,437	175,652	-	224,089
Debt service	68,005	-	-	1,125,784	1,193,789
Total expenditures	13,795,778	5,885,899	175,652	1,595,282	21,452,611
Excess (deficit) of revenues over (under) expenditures	(1,520,217)	9,199	(175,652)	(218,526)	(1,905,196)
Other financing sources (uses)					
Proceeds of bonds	-	-	685,000	-	685,000
Sale of assets	4,638	-	-	-	4,638
Transfers in	67,460	18,974	25,965	877,754	990,153
Transfers out	(264,997)	(28,173)	-	(631,731)	(924,901)
Total other financing sources (uses)	(192,899)	(9,199)	710,965	246,023	754,890
Net change in fund balance	(1,713,116)	-	535,313	27,497	(1,150,306)
Fund balance as of June 30, 2024	4,044,021	-	19,534	197,942	4,261,497
Fund balance as of June 30, 2025	<u>\$ 2,330,905</u>	<u>\$ -</u>	<u>\$ 554,847</u>	<u>\$ 225,439</u>	<u>\$ 3,111,191</u>

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, 2025**

Net change in total fund balances - governmental funds	\$ (1,150,306)
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.	(51,648)
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 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.	767,360
Bond and lease proceeds are recognized as revenue in the governmental fund financial statements, but are increases in liabilities in the statement of net position	(685,000)
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.	(20,512)
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.	517,739
Compensated absences are 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>(589,670)</u>
Change in net position - governmental activities	<u>\$ (1,226,093)</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2025

	<u>Food Service Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 621,567
Accounts receivable	61,858
Net OPEB asset	23,877
Inventory	<u>88,811</u>
Total current assets	<u>796,113</u>
Noncurrent assets	
Capital assets	1,048,828
Less accumulated depreciation	<u>(651,024)</u>
Total noncurrent assets	<u>397,804</u>
Total assets	<u>1,193,917</u>
Deferred outflow of resources	
Deferred outflows from pensions	243,828
Deferred outflows from OPEB - CERS	<u>76,671</u>
	<u>320,499</u>
LIABILITIES	
Current liabilities	
Accounts payable	18,966
Accrued expenses	<u>10,670</u>
Total current liabilities	<u>29,636</u>
Noncurrent liabilities	
Net pension liability	825,362
Net OPEB liability	<u>-</u>
Total noncurrent liabilities	<u>825,362</u>
Total liabilities	<u>854,998</u>
Deferred inflow of resources	
Deferred inflows related to pension	147,106
Deferred inflows related to OPEB	<u>263,991</u>
	411,097
NET POSITION	
Net investment in capital assets	397,804
Restricted for:	
Other	<u>-</u>
Unrestricted	<u>(149,483)</u>
Total net position	<u>\$ 248,321</u>

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

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2025

	Food Service Fund
Operating revenues	
Lunchroom sales	\$ 69,842
Total operating revenues	69,842
Operating expenses	
Salaries and wages	597,969
Employee benefits	108,733
Pension expense (credit)	(114,167)
Materials and supplies	670,977
Depreciation	68,620
Total operating expenses	1,332,132
Operating income/(loss)	(1,262,290)
Nonoperating revenues	
Federal grants	1,409,747
State grants	118,361
Donated commodities	59,032
Interest income	32,333
Total nonoperating revenues/(expenses)	1,619,473
Income before contributions, transfers, and special items	357,183
Transfers out	(65,252)
Change in net position	291,931
Net position as of June 30, 2024	(43,610)
Net position as of June 30, 2025	\$ 248,321

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
YEAR ENDED JUNE 30, 2025

	<u>Food Service Fund</u>
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 121,662
Cash paid to/for:	
Employees	(701,729)
Supplies	(614,168)
Net cash used in operating activities	<u>(1,194,235)</u>
Cash flows from non-capital financing activities	
Grants received	1,528,108
Purchase of capital assets	(68,000)
Transfers to general fund	(65,252)
Net cash used in non-capital financing activities	<u>1,394,856</u>
Cash flows from investing activities	
Interest received on investments	<u>32,333</u>
Net cash used in capital and related activities	<u>32,333</u>
Net increase in cash and cash equivalents	232,954
Cash and cash equivalents as of June 30, 2024	<u>388,613</u>
Cash and cash equivalents as of June 30, 2025	<u><u>\$ 621,567</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income/ (loss)	\$ (1,262,290)
Adjustments to reconcile change in net position to net cash used in operating activities:	
(Increase)/decrease in accounts receivable	51,820
(Increase)/decrease in inventory	-
Increase/(decrease) in accounts payable	(2,223)
Increase/(decrease) in accrued expenses	4,973
Net change in pension expense	(114,167)
Donated commodities	59,032
Depreciation	<u>68,620</u>
Net cash used in operating activities	<u><u>\$ (1,194,235)</u></u>
Schedule of non-cash transactions:	
Depreciation	\$ 68,620
Donated commodities	<u>59,032</u>
Total non-cash transactions	<u><u>\$ 127,652</u></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 funds 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 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, 2025, to finance the General Fund operations were \$.503 per \$100 valuation for real property, \$.515 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.

Compensated Absences

Compensated absences consist of unpaid accumulated annual sick leave and vacation.

Sick leave eligibility and accumulation is specified in individual employment contracts. Upon retirement, employees may contractually receive a payment based on unused accumulated sick leave. District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

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

Consistent with GASB Statement 101, *Accounting for Compensated Absences*, the liability has been calculated using the more than likely than not to be used as leave or settled at separation method and an accrual for that liability is in the Government-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year end.

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

The Board establishes (and modifies and rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes). The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified 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, 2025, 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(asset) changes.

Pensions and Other Post-employment Benefits

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

Other Post-employment Benefits (OPEB)

For purposes of measuring the liability(asset), 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.

Leases

GASB Statement No. 87 improves 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. DEPOSITS AND INVESTMENTS

Deposits

The District's deposits (demand deposit accounts) are carried at a cost which approximates fair value. At June 30, 2025, the book balance of the District's bank deposits and the bank balances were as follows:

	<u>Bank Balance</u>	<u>Book Balance</u>
First State Bank	\$ 4,971,875	\$ 3,513,636
	<u>\$ 4,971,875</u>	<u>\$ 3,513,636</u>

3. DEPOSITS AND INVESTMENTS – CONTINUED

Breakdown per financial statements is as follows:

Governmental funds	\$	2,892,069
Proprietary funds		621,567
	\$	<u>3,513,636</u>

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

Custodial Credit Risk

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, 2025, 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.

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, 2025, 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. Investments reported on the financial statements are nonparticipating interest-earning investment contracts purchased from a bank in the form of a Certificate of Deposit. Therefore, under GASB Statement No 72, *Fair Value Measurement & Application*, these types of investments are exempt from fair value measurements.

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2025 was as follows:

See table on next page

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
YEAR ENDED JUNE 30, 2025

4. CAPITAL ASSETS - CONTINUED

	June 30, 2024			June 30, 2025
	Balance	Additions	Retirements	Balance
Governmental Activities				
Land & land improvements	\$ 832,843	\$ -	\$ -	\$ 832,843
Buildings	30,316,324	-	-	30,316,324
Technology equipment	1,952,895	-	-	1,952,895
Vehicles	2,369,042	301,395	-	2,670,437
General equipment	835,294	8,458	-	843,752
Construction work in progress	1,901,829	175,652	-	2,077,481
Total historical cost	38,208,227	485,505	-	38,693,732
Less accumulated depreciation	14,591,000	537,151	-	15,128,151
Governmental capital assets, net	<u>\$ 23,617,227</u>	<u>\$ (51,646)</u>	<u>\$ -</u>	<u>\$ 23,565,581</u>
Business-type Activities				
Technology equipment	\$ 27,058	\$ -	\$ -	\$ 27,058
Vehicles	126,330	-	-	126,330
Food service and equipment	827,441	68,000	-	895,441
Total historical cost	980,829	68,000	-	1,048,829
Less accumulated depreciation	582,405	68,620	-	651,025
Business-type capital assets, net	<u>\$ 398,424</u>	<u>\$ (620)</u>	<u>\$ -</u>	<u>\$ 397,804</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	\$ 199,698
Student	12,849
District administrative	12,661
Plant operation and maintenance	205,704
Student transportation	105,799
Community services	440
	<u>\$ 537,151</u>

5. LONG-TERM DEBT

Leases Payable

The District has entered into a 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 lease activity for the year ended June 30, 2025:

See table on next page

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
YEAR ENDED JUNE 30, 2025

5. LONG-TERM DEBT - CONTINUED

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2024	Debt Issued	Debt Paid	Balance June 30, 2025	Due Within One Year
KISTA:								
2016	March, 2026	2.00-2.625%	\$ 172,963	\$ 31,486	\$ -	\$ 15,532	\$ 15,954	\$ 15,954
2017	March, 2027	2.00-2.625%	113,844	37,236	-	13,513	23,723	11,711
2019	March, 2029	3.0%	97,937	47,939	-	10,205	37,734	10,500
2020	March, 2030	2.0%	129,332	76,379	-	12,898	63,481	13,170
2021	March, 2031	2.0%	91,842	70,279	-	10,212	60,067	10,346
			<u>\$ 605,918</u>	<u>\$ 263,319</u>	<u>\$ -</u>	<u>\$ 62,360</u>	<u>\$ 200,959</u>	<u>\$ 61,681</u>

The following table presents a schedule by years of the future minimum lease payments under lease as of June 30, 2024:

Year	Principal	Interest	Total
2025-26	\$ 61,681	\$ 4,221	\$ 65,902
2026-27	46,757	2,796	49,553
2027-28	32,416	1,765	34,181
2028-29	30,599	1,115	31,714
2029-30	20,533	501	21,034
2030-31	8,973	135	9,108
Totals	<u>\$ 200,959</u>	<u>\$ 10,533</u>	<u>\$ 211,492</u>
	Less: amounts representing interest		<u>(10,533)</u>
	Net lease liability		<u>\$ 200,959</u>

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	Final Maturity
2015R	\$ 1,825,000	1.00% - 2.30%	2027
2015 School Energy	\$ 1,425,000	1.90% - 3.30%	2035
2015	\$ 3,690,000	2.00% - 3.50%	2035
2017	\$ 4,635,000	1.17% - 3.45%	2038
2019	\$ 395,000	3.25% - 3.40%	2040
2021	\$ 307,000	1.00% - 2.375%	2042
2022	\$ 294,000	4.00%	2043
2023	\$ 2,600,000	4.00%	2043

The District, through the General Fund, including utility taxes, the FSPK Building Fund, 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, 2025

5. LONG-TERM DEBT - CONTINUED

In 1987, the District entered "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 table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

Generally, all bonds issued are secured by a statutory mortgage lien on the respective school buildings and appurtenant properties, including any subsequent additions thereto. The agreements contain a provision that in the event of default, action can be taken to compel specific performance. 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, 2025 for debt service (principal and interest) are as follows:

Year	Kentucky School Facility Construction Commission		Middlesboro Independent School District		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2025-26	\$ 186,662	\$ 84,609	\$ 564,338	\$ 332,843	\$ 751,000	\$ 417,452
2026-27	184,263	81,569	583,737	317,685	768,000	399,254
2027-28	167,749	76,260	601,251	301,716	769,000	377,976
2028-29	173,036	70,973	626,964	282,827	800,000	353,800
2029-30	178,490	65,519	648,510	263,079	827,000	328,598
2030-31	184,118	59,891	678,882	242,517	863,000	302,409
2031-32	190,010	53,999	703,990	220,802	894,000	274,801
2032-33	196,234	47,775	734,766	197,639	931,000	245,414
2033-34	202,753	41,257	765,247	173,349	968,000	214,605
2034-35	209,708	34,302	794,292	147,210	1,004,000	181,511
2035-36	137,089	27,069	613,911	116,329	751,000	143,398
2036-37	141,853	22,304	631,147	94,356	773,000	116,660
2037-38	134,018	17,552	655,982	71,370	790,000	88,922
2038-39	89,070	13,686	247,930	54,695	337,000	68,381
2039-40	86,390	10,610	256,610	44,804	343,000	55,415
2040-41	66,986	7,898	266,014	34,552	333,000	42,450
2041-42	66,545	5,176	279,455	23,842	346,000	29,018
2042-43	47,868	3,329	288,132	12,691	336,000	16,020
2043-44	33,193	1,708	11,807	1,192	45,000	2,900
2044-45	26,105	522	23,895	478	50,000	1,000
	<u>\$ 2,702,140</u>	<u>\$ 726,009</u>	<u>\$ 9,976,860</u>	<u>\$ 2,933,975</u>	<u>\$ 12,679,000</u>	<u>\$ 3,659,984</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
YEAR ENDED JUNE 30, 2025

5. LONG-TERM DEBT-CONTINUED

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2025 is as follows:

School Building Revenue Bonds	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
2015R	\$ 470,000	\$ -	\$ 155,000	\$ 315,000
2015 School Energy	1,090,000	-	60,000	1,030,000
2015	4,040,000	-	225,000	3,815,000
2017	3,645,000	-	180,000	3,465,000
2019	333,000	-	17,000	316,000
2021	282,000	-	13,000	269,000
2022	284,000	-	10,000	274,000
2023	2,555,000	-	45,000	2,510,000
2024	-	685,000	-	685,000
Net Pension Liability (Asset)	3,580,348	95,280	-	3,675,628
Net OPEB Liability (Asset) - CERS	(77,037)	-	29,301	(106,338)
Net OPEB Liability (Asset) - KTRS	1,810,000	-	144,000	1,666,000
Compensated absences	1,307,180	589,670	-	1,896,850
	<u>\$ 19,319,491</u>	<u>\$ 1,369,950</u>	<u>\$ 878,301</u>	<u>\$ 19,811,140</u>

The change in compensated absences is presented as net change.

6. 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 Public Pension Authority (KPPA), 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:

6. RETIREMENT PLANS - CONTINUED

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
	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

Participating employees become eligible to receive 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 19.71% of the employee's total compensation subject to contribution. Pension has a contribution rate of 19.71% and OPEB has a contribution rate of 0.00%.

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

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

Benefits provided—TRS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees become vested when they complete five (5) years of credited service. For retirement purposes, employees are grouped into four tiers, based on hire date:

TRS 1	Participation Date	Before July 1, 2002
	Unreduced retirement	27 years service or at least 5 years service and 60 years old
	Reduced retirement	At least 5 years service and 55 years old with a reduction in retirement of 5% for each year under age 60 or under 27 years of service, whichever is less (up to 25%)

6. RETIREMENT PLANS - CONTINUED

	Retirement factors	2.5% per year of service up to 30, 3.0% per year of service for each year over 30
	Final average salary	Average of the 5 highest annual salaries until a member reaches At least 27 years service and age 55, when the highest 3 annual Salaries are used
TRS 2	Participation Date	July 1, 2002 – June 30, 2008
	Unreduced retirement	27 years service or at least 5 years service and 60 years old
	Reduced retirement	At least 5 years service and 55 years old with a reduction in retirement of 5% for each year under age 60 or under 27 years of service, whichever is less (up to 25%)
	Retirement factors	2.0 - 2.5% per year of service up to 30, 3.0% per year of service for each year over 30
TRS 3	Participation Date	July 1, 2008 – December 31, 2021
	Unreduced retirement	27 years service or at least 5 years service and 60 years old
	Reduced retirement	At least 10 years service and 55 years old with a reduction in retirement of 6% for each year under age 60 or under 27 years of service, whichever is less (up to 30%)
	Retirement factors	1.7 - 2.5% per year of service up to 30, 3.0% per year of service for each year over 30
	Final average salary	Average of the 5 highest annual salaries until a member reaches At least 27 years service and age 55, when the highest 3 annual Salaries are used
TRS 4	Participation Date	On or after January 1, 2022 – Present
	Unreduced retirement	Age 57 with 30 years service or at least 10 years service and 60 years old or at least 5 years service and 65 years old
	Reduced retirement	At least 10 years service and 57 years old with a reduction in retirement of 6% for each year under age 60 or under 27 years of service, whichever is less (up to 18%)
	Retirement factors	1.7 - 2.5% per year of service up to 30, 2.2 – 2.4% per year of service for each year over 30
	Final average salary	Average of the 5 highest annual salaries

KTRS also provides disability benefits for vested employees at a rate of sixty (60) percent of their final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees in TRS 1, TRS 2, and TRS 3 are required to contribute 12.855% of their salaries to the System. Non-university employees in TRS 4 are required to contribute 14.750% 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 in TRS 1 and TRS 2, 14.105% for those in TRS 3, and 10.750% of salaries for employees in TRS 4.

6. RETIREMENT PLANS - CONTINUED

For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries for employees in TRS 1 and TRS 2, 17.105% of salaries for employees in TRS 3, and 10.750% of salaries for employees in TRS 4. 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 (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2025, the District reported a liability(asset) of \$3,675,628 for its proportionate share of the net pension liability(asset) for CERS. The District did not report a liability(asset) for the District's proportionate share of the net pension liability(asset) 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(asset), the related Commonwealth support, and the total portion of the net pension liability(asset) that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability (asset)	\$	3,675,628
Commonwealth's proportionate share of the KTRS net pension liability (asset) associated with the District		<u>23,800,394</u>
	\$	<u>27,476,022</u>

The net pension liability(asset) for each plan was measured as of June 30, 2024, and the total pension liability(asset) used to calculate the net pension liability(asset) was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability(asset) for CERS was based on the actual liability(asset) of the employees and former employees relative to the total liability(asset) of the System as determined by the actuary. At June 30, 2024, the District's proportion was 0.061461%.

For the year ended June 30, 2025, the District recognized pension expense(credit) of \$229,401 related to CERS and \$1,546,950 related to KTRS. The District also recognized revenue of \$1,546,950 for KTRS support provided by the Commonwealth. At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

See table on next page

6. RETIREMENT PLANS - CONTINUED

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 177,907	\$ -
Changes of assumptions	-	166,066
Net difference between projected and actual earnings on pension plan investments	252,433	488,756
Changes in proportion and differences between District contributions and proportionate share of contributions	225,623	295
District contributions subsequent to the measurement date	<u>429,888</u>	<u>-</u>
Total	<u>\$ 1,085,851</u>	<u>\$ 655,117</u>

The \$429,888 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(asset) in the year ended June 30, 2025. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2025	\$ (10,723)
2026	155,082
2028	(90,845)
2029	(52,668)
	<u>\$ 846</u>

Actuarial assumptions—The total pension liability(asset) in the June 30, 2024, 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	3.30-10.30%	3.0-7.50%
Investment rate of return, net of investment expense & inflation	6.50%	7.10%
Municipal bond index rate	3.97%	3.94%
Siongle equalivant interest rate		7.10%

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

6. RETIREMENT PLANS - CONTINUED

Discount rate—For CERS, the discount rate used to measure the total pension liability(asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability. For KTRS, the discount rate used to measure the total pension liability(asset) 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 3.94% 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(asset).

Sensitivity of CERS and KTRS proportionate share of net pension liability(asset) to changes in the discount rate—The following table presents the net pension liability(asset) of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability(asset) 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	5.50%	6.50%	7.50%
District's proportionate share of net pension liability (asset)	<u>\$ 4,738,485</u>	<u>\$ 3,675,628</u>	<u>\$ 2,793,737</u>
KTRS	6.10%	7.10%	8.10%
District's proportionate share of net pension liability (asset)	<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, 2025, 2024, and 2023 was \$1,602,456, \$1,625,857, and \$1,537,681, respectively. The District's contributions CERS (both withholding and match) for the years ended June 30, 2025, 2024, and 2023 were \$541,681, \$610,843, and \$599,758, respectively. The District met their contribution requirements.

7. 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 (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2025, the District reported a liability(asset) of \$1,666,000 for its proportionate share of the collective net OPEB liability(asset) that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability(asset) was measured as of June 30, 2024, and the total OPEB liability(asset) used to calculate the collective net OPEB liability(asset) 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, 2024 the District's proportion was 0.074740%. The amount recognized by the District as its proportionate share of the OPEB liability(asset), the related State support, and the total portion of the net OPEB liability(asset) that was associated with the District were as follows:

District's proportionate share of the KTRS net OPEB liability (asset)	\$	1,666,000
Commonwealth's proportionate share of the KTRS net OPEB liability (asset) associated with the District		<u>1,484,000</u>
	\$	<u><u>3,150,000</u></u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
YEAR ENDED JUNE 30, 2025

7. OTHER POST-EMPLOYMENT BENEFITS PLAN – CONTINUED

For the year ended June 30, 2025, the District recognized OPEB expense (credit) of \$123,480 and revenue of \$123,480 for support provided by the State. At June 30, 2025, 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	\$ -	\$ 500,000
Changes of assumptions	424,000	-
Net difference between projected and actual earnings on pension plan investments	-	53,000
Changes in proportion and differences between District contributions and proportionate share of contributions	337,000	582,000
District contributions subsequent to the measurement date	<u>499,751</u>	<u>-</u>
Total	<u>\$ 1,260,751</u>	<u>\$ 1,135,000</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:

Year ended June 30:	
2026	\$ (148,000)
2027	(26,000)
2028	(43,000)
2029	(92,000)
2030	(67,000)
Thereafter	<u>2,000</u>
	<u>\$ (374,000)</u>

Actuarial assumptions – The total OPEB liability(asset) in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.00-7.50%, including inflation
Inflation rate	2.50%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Healthcare cost trend rates	
Under 65	6.50% for FY 2024 decreasing to an ultimate rate of 4.50% by FY 2031
Medicare Part B	5.92% for FY 2024 with an ultimate rate of 4.50% by 2035
Municipal Bond Index Rate	3.94%
Discount Rate	7.10%

7. OTHER POST-EMPLOYMENT BENEFITS PLAN – CONTINUED

Single Equivalent Interest Rate	7.10%, net of OPEB plan investment expense, including inflation
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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 weighing 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(asset) 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(asset).

The following table presents the District's proportionate share of the collective net OPEB liability(asset) 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(asset) 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	\$ 2,213,000	\$ 1,666,000	\$ 1,212,000

Sensitivity of the District's proportionate share of the collective net OPEB liability(asset) to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability(asset), as well as what the District's proportionate share of the collective net OPEB liability(asset) 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 (asset)	\$ 1,125,000	\$ 1,666,000	\$ 2,338,000

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

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.

7. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED

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.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2025, the District did not report a liability(asset) for its proportionate share of the collective net OPEB liability/assets) 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/assets) that was associated with the District were as follows:

District's proportionate share of the KTRS net OPEB	
Life Insurance Plan liability (asset)	\$ -
Commonwealth's proportionate share of the KTRS net	
OPEB Life Insurance liability (asset) associated with the District	<u>34,000</u>
	<u>\$ 34,000</u>

For the year ended June 30, 2025, the District recognized OPEB expense (credit) of \$2,267 and revenue of \$2,267 for support provided by the State.

Actuarial assumptions – The total OPEB liability(asset) in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.00-7.50%, including inflation
Inflation rate	2.50%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Municipal Bond Index Rate	3.94%
Discount Rate	7.10%
Single Equivalent Interest Rate	7.10%, 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, 2024, valuation were based on a review of recent plan experience done concurrently with the June 30, 2024 valuation.

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.

7. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED

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:

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%

7. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2025, the District reported a liability(asset) of (\$106,338) for its proportionate share of the collective net OPEB liability(asset) that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability(asset) was measured as of June 30, 2024, and the total OPEB liability(asset) used to calculate the collective net OPEB liability(asset) 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, 2024 the District's proportion was .061475%.

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

District's proportionate share of the CERS net	
OPEB liability (asset)	\$ (106,338)
	<u>\$ (106,338)</u>

For the year ended June 30, 2025, the District recognized OPEB expense (credit) of (\$279,027). At June 30, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 58,996	\$ 836,683
Changes of assumptions	96,356	75,034
Net difference between projected and actual earnings on pension plan investments	93,475	190,516
Changes in proportion and differences between District contributions and proportionate share of contributions	92,619	73,427
District contributions subsequent to the measurement date	-	-
Total	<u>\$ 341,446</u>	<u>\$ 1,175,660</u>

Of the total amount reported as deferred outflows of resources related to OPEB, there were no amounts 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(asset) in the year ended June 30, 2025. 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:

See table on next page

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
YEAR ENDED JUNE 30, 2025

7. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED

Year ended June 30:	
2025	\$ (342,040)
2026	(279,780)
2027	(214,530)
2028	2,136
Thereafter	-
	<u>\$ (834,214)</u>

Actuarial assumptions - The total OPEB liabilities (assets) in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.50%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.30-10.30%, including inflation
Inflation Rate	2.30%
Payroll Growth Rate	2.00%
Healthcare cost trend rates	
Pre 65	6.20% for FY 2024 with an ultimate rate of 4.05% by FY 2035
Post 65	9.00% for FY 2024 with an ultimate rate of 4.05% by FY 2035
Municipal bond index rate	3.97%
Discount rate	
Hazardous	6.02%
Non-Hazardous	5.99%

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(asset) was 5.99%. 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(asset).

The following table presents the District's proportionate share of the collective net OPEB liability(asset) of the System, calculated using the discount rate of 5.99%, as well as what the District's proportionate share of the collective net OPEB liability(asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (4.99%) or 1-percentage-point higher (6.99%) than the current rate:

See table on next page

7. OTHER POST-EMPLOYMENT BENEFITS PLAN-CONTINUED

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	4.99%	5.99%	6.99%
District's proportionate share of net OPEB liability (asset)	\$ 143,783	\$ (106,338)	\$ (316,643)

Sensitivity of the District's proportionate share of the collective net OPEB liability(asset) to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability(asset), as well as what the District's proportionate share of the collective net OPEB liability(asset) 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 (asset)	\$ (255,840)	\$ (106,338)	\$ 67,818

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

8. 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.

9. 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.

10. 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, 2025, 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, 2025

11. 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.

12. 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 *Litigation* 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.

13. 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 of a substantial loss. There were no instances of noncompliance noted.

14. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	KETS	\$ 18,974
Operating	General	Debt Service	Debt Service	\$ 246,023
Operating	Special Revenue	General	Reclass	\$ 2,208
Operating	Special Revenue	Construction	Construction	\$ 25,965
Operating	Capital Outlay	Debt Service	Debt Service	\$ 95,345
Operating	Building	Debt Service	Debt Service	\$ 536,386
Operating	Food Service	General	Indirect Cost	\$ 65,252

15. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2025, the Special Revenue owes the General Fund an amount of \$185,365.

16. 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:

See table on next page

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
YEAR ENDED JUNE 30, 2025

16. ON-BEHALF PAYMENTS - CONTINUED

Retirement contributions to the Teachers'		
Retirement System of Kentucky	\$	1,546,950
OPEB contributions to the Teachers'		
Retirement System of Kentucky		142,403
Health and Life insurance		1,898,132
Other Less Federal		(266,893)
Technology		26,880
Debt Service		248,030
		<u>3,595,502</u>

17. FUND BALANCE DESIGNATIONS

The following funds had restricted fund balances:

Fund	Amount	Purpose
General	\$ 93,602	Restricted Sick Leave Retirement Benefit
Construction	\$ 554,847	Future Construction/Grants
FSPK	\$ 85,276	Future Construction/Grants
Student Activity Fund	\$ 140,163	Student Activities

The following funds had assigned fund balances:

Fund	Amount	Purpose
General	\$ 1,043,465	Purchase obligations

18. CHANGE IN ACCOUNTING PRINCIPLE

The District has adopted GASB Statement No. 101, Compensated Absences, effective July 1, 2024. Statement 101 aligns recognition and measurement guidance for all types of compensated absences under a unified model which will result in governments recognizing a liability that more appropriately reflects when they incur an obligation for compensated absences. The model also will lead to greater consistency in application and improved comparability across governments.

19. PRIOR PERIOD ADJUSTMENTS

The adoption of GASB Statement No. 101 has resulted in a prior period adjustment to the beginning net position for government-wide activities. The beginning net position for government wide activities decreased by \$1,279,565. Details of this adjustment are \$1,072,755 due to the change in compensated absences, and \$206,810 due to an error correction regarding construction-in-progress account within fixed assets.

20. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through December 1, 2025, 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.

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, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 2,008,500	\$ 2,008,500	2,042,916	\$ 34,416
Motor vehicle	275,000	275,000	280,342	5,342
Utility	600,000	600,000	658,293	58,293
Earnings on investments	175,000	175,000	164,561	(10,439)
Other local	180,000	180,000	178,411	(1,589)
Intergovernmental - State	5,277,290	5,277,290	8,912,805	3,635,515
Intergovernmental - Federal	50,000	50,000	38,233	(11,767)
Total revenues	8,565,790	8,565,790	12,275,561	3,709,771 *
Expenditures				
Current:				
Instruction	5,100,935	5,100,935	6,991,624	(1,890,689)
Student	911,687	911,687	1,381,387	(469,700)
Instructional support	718,233	718,233	1,032,956	(314,723)
District administration	971,386	971,386	1,065,537	(94,151)
School administration	755,319	755,319	909,753	(154,434)
Business support	228,587	228,587	297,377	(68,790)
Plant operations and maintenance	1,603,193	1,603,193	1,363,966	239,227
Student transportation	692,248	692,248	674,203	18,045
Community services	13,839	13,839	10,970	2,869
Contingency	330,765	330,765	-	330,765
Debt service	68,006	68,006	68,005	1
Total expenditures	11,394,198	11,394,198	13,795,778	(2,401,580) *
Excess (deficit) of revenues over (under) expenditures	(2,828,408)	(2,828,408)	(1,520,217)	1,308,191
Other financing sources (uses)				
Gain on sale of asset	-	-	4,638	4,638
Transfers in	66,491	66,491	67,460	969
Transfers out	(272,330)	(272,330)	(264,997)	7,333
Total other financing sources (uses)	(205,839)	(205,839)	(192,899)	8,302
Net change in fund balance	(3,034,247)	(3,034,247)	(1,713,116)	1,321,131
Fund balance as of June 30, 2024	-	-	4,044,021	4,044,021
Fund balance as of June 30, 2025	<u>\$ (3,034,247)</u>	<u>\$ (3,034,247)</u>	<u>\$ 2,330,905</u>	<u>\$ 5,365,152</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, 2025**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ 146,028	\$ 146,028	\$ 61,116	\$ (84,912)
Earnings on investments	500	500	2,230	1,730
Intergovernmental - State	690,420	690,420	700,693	10,273
Intergovernmental - Federal	4,076,195	4,076,195	5,131,059	1,054,864
Total revenues	4,913,143	4,913,143	5,895,098	981,955
Expenditures				
Current:				
Instruction	3,019,492	3,019,492	2,901,434	118,058
Student	246,267	246,267	769,866	(523,599)
Instructional support	1,100,817	1,100,817	834,233	266,584
District administration	15,043	15,043	25,727	(10,684)
School administration	6,900	6,900	2,354	4,546
Business support	78,916	78,916	76,168	2,748
Plant operations and maintenance	-	-	518,377	(518,377)
Student transportation	14,297	14,297	324,241	(309,944)
Building improvements	-	-	48,437	(48,437)
Community services	425,844	425,844	385,062	40,782
Total expenditures	4,907,576	4,907,576	5,885,899	(978,323)
Deficit of revenues under expenditures	5,567	5,567	9,199	3,632
Other financing sources				
Operating transfers in	30,000	30,000	18,974	(11,026)
Operating transfers out	(35,624)	(35,624)	(28,173)	7,451
Total other financing sources	(5,624)	(5,624)	(9,199)	(3,575)
Net change in fund balance	(57)	(57)	-	-
Fund balance as of June 30, 2024	-	-	-	-
Fund balance as of June 30, 2025	\$ (57)	\$ (57)	\$ -	\$ -

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGET AND ACTUAL - GENERAL FUND AND SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2025

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 could have 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 (ASSET)
COUNTY EMPLOYEES RETIREMENT SYSTEM
JUNE 30, 2025

	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
2025	0.06%	\$ 3,675,628	\$ 1,974,663	186.14%	61.61%
2024	0.06%	\$ 3,580,348	\$ 1,973,760	181.40%	57.48%
2023	0.06%	\$ 4,024,247	\$ 1,821,628	248.16%	52.42%
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%

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
COUNTY EMPLOYEES RETIREMENT SYSTEM
YEAR ENDED JUNE 30, 2025

	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
2025	\$ 460,886	\$ 460,886	\$ -	\$ 1,974,663	19.71%
2024	\$ 460,676	\$ 460,676	\$ -	\$ 1,973,760	23.34%
2023	\$ 379,461	\$ 379,461	\$ -	\$ 1,621,628	23.40%
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%

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION FUND
YEAR ENDED JUNE 30, 2025

Changes of Benefit Terms

None.

Changes of Assumptions

The assumed rate of inflation was decreased from 2.50% to 2.30%.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY (ASSET) - COUNTY EMPLOYEES RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN
JUNE 30, 2025

	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
2025	0.06%	\$ (106,340)	\$ 1,974,663	-5.39%	104.89%
2024	0.06%	\$ (77,037)	\$ 1,973,760	-3.90%	104.20%
2023	0.06%	\$ 1,098,438	\$ 1,621,628	67.74%	60.95%
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 - COUNTY EMPLOYEES RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN
YEAR ENDED JUNE 30, 2025

	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
2025	\$ -	\$ -	\$ -	\$ 1,974,663	0.00%
2024	\$ -	\$ -	\$ -	\$ 1,973,780	0.00%
2023	\$ 54,973	\$ 54,973	\$ -	\$ 1,621,628	3.39%
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, 2025

Changes of Benefit Terms

None.

Changes of Assumptions

The single discount rate changed from 5.93% to 5.99%.
Healthcare trend rates for Pre-65 decreased from 6.80% to 6.20%.
Healthcare trend rates for Post-65 increased from 8.50% to 9.00%.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
KENTUCKY TEACHERS' RETIREMENT SYSTEM
JUNE 30, 2025

	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
2025	100%	\$ 23,800,394	60.36%
2024	100%	\$ 23,819,017	57.68%
2023	100%	\$ 23,857,563	56.41%
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%

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATE CONTRIBUTIONS - KENTUCKY TEACHERS' RETIREMENT SYSTEM
YEAR ENDED JUNE 30, 2025

	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)
2025	\$ 1,546,950	\$ 1,546,950	\$ -
2024	\$ 3,163,761	\$ 3,163,761	\$ -
2023	\$ 2,176,796	\$ 2,176,796	\$ -
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	\$ -

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
KENTUCKY TEACHERS RETIREMENT SYSTEM
YEAR ENDED JUNE 30, 2025

Changes of Benefit Terms

None.

Changes of Assumptions

The municipal bond index rate increased from 3.66% to 3.94%.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY (ASSET) - KENTUCKY TEACHERS' RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN
JUNE 30, 2025

	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
2025	0.07%	\$ 1,666,000	\$ 1,484,000	\$ 8,456,372	19.70%	47.12%
2024	0.07%	\$ 1,810,000	\$ 1,525,000	\$ 7,890,808	22.94%	52.97%
2023	0.07%	\$ 2,543,000	\$ 835,000	\$ 7,133,678	35.65%	47.75%
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%	\$ 2,882,000	\$ 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 - KENTUCKY TEACHERS' RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN
YEAR ENDED JUNE 30, 2025

	<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>
2025	\$ 253,691	\$ 253,691	\$ -	\$ 8,456,372	3.00%
2024	\$ 236,724	\$ 236,724	\$ -	\$ 7,890,808	3.00%
2023	\$ 214,019	\$ 214,019	\$ -	\$ 7,133,978	3.00%
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, 2025

Changes of Benefit Terms

None.

Changes of Assumptions

The municipal bond index rate increased from 3.66% to 3.94%.

Health care cost trends decreased from 6.75% to 6.50%.

Health care cost trends for Medicare Part B Premiums increased from 1.55% to 5.92%.

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATE'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY (ASSET) - KENTUCKY TEACHERS' RETIREMENT SYSTEM - LIFE INSURANCE PLAN
JUNE 30, 2025

	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 OPEB liability
2025	100%	\$ 34,000	80.56%
2024	100%	\$ 38,000	76.91%
2023	100%	\$ 42,000	73.97%
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 - KENTUCKY TEACHERS' RETIREMENT SYSTEM - LIFE INSURANCE PLAN****YEAR ENDED JUNE 30, 2025**

	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>
2025	\$ 4,139	\$ 4,139	\$ -
2024	\$ 3,755	\$ 3,755	\$ -
2023	\$ 3,171	\$ 3,171	\$ -
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.
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MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
KENTUCKY TEACHERS' RETIREMENT SYSTEM - LIFE INSURANCE PLAN
YEAR ENDED JUNE 30, 2025

Changes of Benefit Terms

None.

Changes of Assumptions

The municipal bond index rate increased from 3.66% to 3.94%.

OTHER SUPPLEMENTARY INFORMATION

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2025

	Student Activity Fund	SEEK Capital Outlay Fund	Facility Support Building Fund (FSPK)	Debt Service Fund	Total Non-major Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 140,163	\$ -	\$ 85,276	\$ -	\$ 225,439
Total assets	\$ 140,163	\$ -	\$ 85,276	\$ -	\$ 225,439
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Fund Balances:					
Restricted	140,163	-	85,276	-	225,439
Total liabilities and fund balances	\$ 140,163	\$ -	\$ 85,276	\$ -	\$ 225,439

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2025**

	Student Activity Fund	SEEK Capital Outlay Fund	Facility Support Building Fund (FSPK)	Debt Service Fund	Total Non-major Governmental Funds
Revenues					
From local sources:					
Property tax	\$ -	\$ -	\$ 259,031	\$ -	\$ 259,031
Student activity revenue	456,068	-	-	-	456,068
Intergovernmental - State	-	95,345	318,282	248,030	661,657
Total revenues	456,068	95,345	577,313	248,030	1,376,756
Expenditures					
Student activity expenditures	469,498	-	-	-	469,498
Debt service	-	-	-	1,125,784	1,125,784
Total expenditures	469,498	-	-	1,125,784	1,595,282
Other financing sources (uses)					
Transfers In	-	-	-	877,754	877,754
Transfers out	-	(95,345)	(536,386)	-	(631,731)
Total other financing sources (uses)	-	(95,345)	(536,386)	877,754	246,023
Net change in fund balance	(13,430)	-	40,927	-	27,497
Fund balance as of June 30, 2024	153,593	-	44,349	-	197,942
Fund balance as of June 30, 2025	\$ 140,163	\$ -	\$ 85,276	\$ -	\$ 225,439

MIDDLESBORO INDEPENDENT SCHOOLS**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2025**

<u>School Activity Fund</u>	<u>Cash and Equivalents June 30, 2024</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2025</u>	<u>Accounts Receivable June 30, 2025</u>	<u>Accounts Payable June 30, 2025</u>	<u>Balances June 30, 2025</u>
Middlesboro Elementary	\$ 26,216	\$ 57,464	\$ 56,197	\$ 27,483	\$ -	\$ -	\$ 27,483
Middlesboro Middle School	<u>67,270</u>	<u>89,763</u>	<u>93,665</u>	<u>63,368</u>	<u>-</u>	<u>-</u>	<u>63,368</u>
Totals	<u>\$ 93,486</u>	<u>\$ 147,227</u>	<u>\$ 149,862</u>	<u>\$ 90,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,851</u>

MIDDLESBORO INDEPENDENT SCHOOLS

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES - MIDDLESBORO INDEPENDENT HIGH SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2025

	Balances June 30, 2024	Receipts	Disbursements	Transfers in/(out)	Cash and cash equivalents June 30, 2025	Accounts Receivable June 30, 2025	Accounts Payable June 30, 2025	Balances June 30, 2025
Athletics	\$ 23,969	\$ 200,369	\$ 211,091	\$ -	13,247	\$ -	\$ -	\$ 13,247
Band	986	7,838	8,038	-	786	-	-	786
Beta Club	338	934	969	-	303	-	-	303
Choir	1,927	1,481	2,033	-	1,375	-	-	1,375
DECA	255	-	238	-	17	-	-	17
FBLA	6	-	-	-	6	-	-	6
General	9,654	65,820	65,440	-	10,034	-	-	10,034
Golf 4 Grants	18	1,039	1,053	-	4	-	-	4
JROTC	1,637	1,175	1,671	-	1,141	-	-	1,141
Journalism	17,638	5,251	9,201	-	13,688	-	-	13,688
Library	486	11,505	11,203	-	788	-	-	788
Prom	2,241	10,764	6,060	-	6,945	-	-	6,945
Teachers	527	2,165	2,039	-	653	-	-	653
AP/PSAT	408	500	600	-	308	-	-	308
JAG Club/Car Asso	17	-	-	-	17	-	-	17
Total accounts	\$ 60,107	\$ 308,841	\$ 319,636	\$ -	\$ 49,312	\$ -	\$ -	\$ 49,312

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

Federal Grantor Pass-Through Grantor Program Title	Assistance Listing Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
Fresh Fruit and Vegetable Program	10.582	7720012-24	\$ 39,814
State Administrative Expenses for Child Nutrition	10.560	7721032-24	7,290
Child & Adult Care Food Program	10.558	7721012-24	107,963
			<u>155,067</u>
<i>Child Nutrition Cluster</i>			
National School Lunch Program	10.555	7750002-24	716,657
National School Lunch Program - Commodities	10.555	7750002-24	59,032
School Breakfast Program	10.553	7760005-24	417,141
Summer Food Service Program for Children	10.559	7760005-24	120,882
			<u>1,313,712</u>
<i>Child Nutrition Cluster Total</i>			
			<u>\$ 1,468,779</u>
Total US Department of Agriculture			
US Department of Education			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	3100002-24	\$ 20,945
Title I Grants to Local Educational Agencies	84.010	3100002-25	1,359,755
			<u>1,380,700</u>
<i>Special Education Cluster</i>			
Special Education_Grants to States	84.027	3810002-25	374,857
Special Education_Grants to States	84.027	3810002-25	2,216
Special Education_Preschool Grants	84.173	3800002-25	21,915
			<u>398,988</u>
<i>Special Education Cluster Total</i>			
Supporting Effective Instruction State Grant	84.367	3230002-25	114,251
			<u>114,251</u>
Twenty-First Century Community Learning Centers	84.287	2-550X	71,490
			<u>71,490</u>
Rural Education	84.358	2-350X	3,362
			<u>3,362</u>
<i>Education Stabilization Fund</i>			
American Rescue Plan Elementary and Secondary School Emergency Relief Fund - Homeless Children and Youth (COVID-19)	84.425W	476X	16,081
American Rescue Plan Elementary and Secondary School Emergency Relief Fund (COVID-19)	84.425U	473G	1,119,807
			<u>1,135,888</u>
Student Support and Academic Enrichment Program	84.424	220-552X	137,876
			<u>137,876</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		
	84.334	3160002-25	286,473
			<u>286,473</u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2025

Federal Grantor/ Pass-Through Grantor/ Program Title	Assistance Listing Number	Pass-Through Grantor's Number	Expenditures
Innovative Approaches to Literacy	84.215		
Fiscal Year 25		2-518X	478,510
Fiscal Year 25		2-610X	752,667
Fiscal Year 25		2-645X	2,271
			<u>1,233,448</u>
Career and Technical Education - Basic Grants to States	84.048		
Fiscal Year 25		24621032 25	25,582
			<u>25,582</u>
Total US Department of Education			<u>\$ 4,788,058</u>
U.S. Department of Justice			
Direct Program			
Public Safety Partnership and Community Policing Grants	16.710		
Fiscal Year 25		220-437X	\$ 261,026
			<u>261,026</u>
Total U.S. Department of Justice			<u>\$ 261,026</u>
U.S. Department of Defense			
Direct Program			
ROTC	12.000		
Fiscal Year 25		220-504X	\$ 69,496
			<u>69,496</u>
Total U.S. Department of Defense			<u>\$ 69,496</u>
U.S. Department of Health and Human Services			
Direct Program			
Child Care and Development Block Grant	93.575		
Fiscal Year 25		220-658X	\$ 12,479
			<u>12,479</u>
Total U.S. Department of Health and Human Services			<u>\$ 12,479</u>
Total Expenditure of Federal Awards			<u><u>\$ 6,599,838</u></u>

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

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, 2025 is \$59,032.

3. CLUSTER PROGRAMS

The following ALN 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*

**INDEPENDENT AUDITOR'S 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**

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 *Independent Auditor's Contract*, 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 (District), as of and for the year ended June 30, 2025, 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 December 1, 2025.

Report on Internal Control over Financial Reporting

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

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

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



Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 with specific state statutes or regulations identified in the *Independent Auditor's Contract-State Audit Requirements*.

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
December 1, 2025



Cloyd & Associates, PSC

*Certified Public Accountants
and
Business Advisors*

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

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 (District) 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 the District's major federal programs for the year ended June 30, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the 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, 2025.

Basis for Opinion on Each Major Federal 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; 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 the *Independent Auditor's Contract-State Audit Requirements*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

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, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified. 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.

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
December 1, 2025

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:			
Material weaknesses identified	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/>	No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	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)?	<input type="checkbox"/>	Yes <input checked="" type="checkbox"/>	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>ALN</u>
Title I Grants to Local Educational Agencies	84.010
Education Stabilization Fund:	
American Rescue Plan Elementary and Secondary School Emergency Relief Fund	84.425U
American Rescue Plan Elementary and Secondary School Relief Fund – Homeless Children and Youth	84.425W
Dollar threshold used to distinguish between Type A and Type B program	\$750,000
Auditee qualified as low risk	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

(continued)

MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
YEAR ENDED JUNE 30, 2025

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, 2025

Status of Prior Year Findings

There were no prior year findings

MANAGEMENT LETTER COMMENTS



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, 2025, 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.

If during our audit, we noted matters that are opportunities for strengthening internal controls and operating efficiency then the memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report thereon dated December 1, 2025, 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
December 1, 2025



**MIDDLESBORO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
YEAR ENDED JUNE 30, 2025**

Prior Year Comments – School Activity Funds

No prior year comments.

Current Year Comments –School Activity Funds

No current year comments.