

**MCCREARY COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the McCreary County Board of Education and
State Committee for School District Audits
Stearns, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules for the General Fund and Special Revenue Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note Q to the financial statements, in 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other 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 additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information and the schedule

of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

White & Associates, P.C.

Richmond, Kentucky
November 12, 2015

MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
For the year ended June 30, 2015

As management of the McCreary County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The fund balance (prior fiscal year actual revenues less the prior fiscal year actual expenses) becomes the beginning balance for the next fiscal year. The General Fund beginning balance for fiscal year 2014-2015 was \$1,141,601. It increased by \$578,367 as compared to the beginning balance for fiscal year 2013-2014.
- The final SEEK calculation for 2014-2015 was based upon a guaranteed base per pupil amount of \$3,911. The guaranteed base per pupil increased \$84 as compared to the previous fiscal year's guaranteed base per pupil amount of \$3,827. The school district also experienced an increased in adjusted average daily attendance (AADA) of 5.00 in which the prior year end of year AADA for 2013-2014 was 2,584.
- The District made bond principal and interest payments during FY2014-2015 totaling \$1,052,228. The payments consisted of transfers to the Debt Service Fund from the Capital Outlay Fund in the amount of \$82,509 and the Building Fund in the amount of \$969,720. The District transferred the remaining available balance of \$176,428 from the Capital Outlay Fund to the General Fund during fiscal year 2014-2015 to cover the cost of annual insurance premium expenses.
- The District recorded \$5,967,730 in revenues and expenses for on-behalf payments during 2014-2015. The on-behalf payments are payments made on behalf of the school district by various state entities including the employer's portion of health benefits, Kentucky Teacher Retirement System (KTRS), technology, and debt service.
- The District transferred \$62,146 from the General Fund to the Special Revenue Fund to match the states Kentucky Education Technology System (KETS) offers during 2014-2015. The KETS funding is used to maintain technology operating costs for the district.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)

For the year ended June 30, 2015

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

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

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

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

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

The statement of net activities provides a summary of all the assets in the District from governmental and business-type activities.

**MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)**
For the year ended June 30, 2015

The following schedule is a summary of the District's net position for fiscal year 2014 and fiscal year 2015:

**Table 1
Net Position**

	Total School District		Total Percentage Change
	2014	2015	2014-2015
Assets:			
Current and Other Assets	\$2,593,317	\$4,322,671	67%
Capital Assets	\$24,510,692	\$24,071,019	-2%
Total Assets	\$27,104,009	\$28,393,690	5%
Deferred Outflows	\$319,571	\$946,664	
	\$319,571	\$946,664	
Liabilities:			
Current Liabilities	\$1,959,324	\$2,312,600	18%
Noncurrent Liabilities	\$16,981,753	\$21,027,655	24%
Total Liabilities	\$18,941,077	\$23,340,255	23%
Deferred Inflows	\$0	\$578,000	
Net Position:			
Invested in Capital Assets			
Net of Debt	\$7,300,263	\$7,856,019	8%
Restricted	\$980,839	\$1,702,726	74%
Unrestricted Net Position	\$201,401	(\$4,136,645)	-2154%
Total Net Position	\$8,482,503	\$5,422,100	-36%

The net position at the end of fiscal year 2014 was \$8,482,503 and \$5,422,100 at the end of fiscal year 2015 – a decrease of \$3,060,403.

MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)
For the year ended June 30, 2015

The following schedule is a summary of the District's statement of activities for fiscal year 2014 and fiscal year 2015:

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2014-2015
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	
	Revenues:						
Charges for services	212,885		61,469		274,354	0	-100%
Operating grants and contributions	5,544,220	14,636,956			5,544,220	14,636,956	164%
Capital grants and contributions	959,992				959,992	0	-100%
General revenues	<u>22,283,258</u>	<u>3,472,448</u>	<u>2,318,023</u>	<u>-150,112</u>	<u>24,601,281</u>	<u>3,322,336</u>	-86%
Total revenue	<u>29,000,355</u>	<u>18,109,404</u>	<u>2,379,492</u>	<u>(150,112)</u>	<u>31,379,847</u>	<u>17,959,292</u>	-43%
Expenses:							
Instruction	16,535,000	11,603,288			16,535,000	11,603,288	-30%
Student	1,672,574	954,267			1,672,574	954,267	-43%
Instructional staff	926,103	596,167			926,103	596,167	-36%
District administration	859,621	439,706			859,621	439,706	-49%
School administration	1,415,492	876,150			1,415,492	876,150	-38%
Business	754,210	444,764			754,210	444,764	-41%
Plant operation & maintenance	2,537,705	340,359			2,537,705	340,359	-87%
Student transportation	1,768,431	961,714			1,768,431	961,714	-46%
Land Improvements					0	0	0%
Facilities acquisition and construction	12,230				12,230	0	100%
Community services operations	388,447	220,039			388,447	220,039	-43%
Amortization	17,754	17,754			17,754	17,754	0%
Depreciation	2,710,230	1,408,630	95,027	(27,042)	2,805,257	1,381,588	-51%
Interest on long-term debt	621,830	(268,823)			621,830	(268,823)	-143%
Debt service							0%
Food Service Operations			1,942,499	211,883	1,942,499	211,883	-89%
Extraordinary Item					0	0	0%
Total Expenses	<u>30,219,627</u>	<u>17,594,015</u>	<u>2,037,526</u>	<u>184,841</u>	<u>32,257,153</u>	<u>17,778,856</u>	-45%
Change in net position	-1,219,272	515,389	341,966	34,729	-877,306	550,117	163%
Net Position, Beginning	9,516,203	8,482,503	640,452	982,418	10,156,655	9,464,922	
Prior Period Adjustment	185,572	-5,001,534		-163,215	185,572	-5,164,749	
Prior Period Adjustment		516,594		55,217		571,811	
Restated net position - beginning		<u>3,997,563</u>		<u>874,420</u>		<u>4,871,983</u>	
Net Position, Ending	<u>8,482,503</u>	<u>4,512,952</u>	<u>982,418</u>	<u>909,149</u>	<u>9,464,921</u>	<u>5,422,101</u>	

**MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)**

For the year ended June 30, 2015

CAPITAL ASSETS

At the end of fiscal 2015, the District had \$24,071,019 invested in capital assets, including land and land improvements, buildings, buses, computers and other general equipment. This amount represents a net decrease (including additions, asset retirements, and depreciation) of \$1,106,937 over fiscal year 2014.

Capital Assets at Year-End
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	814,437	814,437	0	0	814,437	814,437
Land and Improvements	524,563	483,669	0	0	524,563	483,669
Buildings & Improvements	22,698,591	21,625,381	0	0	22,698,591	21,625,381
Technology Equipment	47,885	58,182	0	0	47,885	58,182
Vehicles	743,776	550,363	0	0	743,776	550,363
General Equipment	198,035	167,882	150,670	123,628	348,705	291,510
Construction In Progress	0	247,478	0	0	0	247,478
Totals	25,027,286	23,947,391	150,670	123,628	25,177,956	24,071,019

The net decrease in capital assets in the Governmental and Business-type Activities is primarily due to the depreciation expense exceeding the cost of assets.

DEBT

The Debt Service Fund is used to account for the accumulation of resources for, and 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.

Outstanding Debt at Year-End

	Government Activities	
	2014	2015
Capital Lease Obligations	\$ 0	\$ 276,261
General Obligation Bonds	<u>17,530,000</u>	<u>16,215,000</u>
Total Obligations	\$ <u>17,530,000</u>	\$ <u>16,491,261</u>

**MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)**

For the year ended June 30, 2015

The District made bond principal and interest payments during fiscal year 2015 totaling \$1,052,228. The payments consisted of transfers to the Debt Service Fund from the Capital Outlay Fund in the amount of \$82,509 and the Building Fund in the amount of \$969,720.

The SFCC made bond payments on behalf of the District in the amount of \$848,777 during fiscal year 2015.

COMMENTS ON BUDGET COMPARISONS

- The actual revenue received from local sources was more than the District's budgeted amounts. The property taxes and revenue in lieu of taxes showed unfavorable amounts in comparison to the actual amount of revenue received. On the other hand, the motor vehicle, unmined minerals, utility tax and telecommunication tax all had favorable variances. Overall, revenues were approximately 103.9 % of the budgeted amounts.
- The actual revenue received from intergovernmental – state sources was more than the budgeted amount.
- The District received \$62,494 more from intergovernmental – federal sources in comparison to the budgeted amount. The intergovernmental – federal revenues consists of federal reimbursements for the ARMY ROTC program, as well as, federal reimbursements for Medicaid.
- The General Fund expenditures were approximately 2.3% less than budgeted amounts received. The ending fund balance for fiscal year 2014 was \$1,141,601 which was transferred to the beginning balance revenues for fiscal year 2015. The ending balance for 2015 increased to \$1,719,969. This amount will be transferred to the 2016 beginning balance.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency.

**MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A) (CONTINUED)**

For the year ended June 30, 2015

The following table presents a summary of revenues and expenses for the fiscal year ended June 30, 2015, for selected funds:

REVENUES & EXPENDITURES

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	2,653,573	3,508		249,087			62,921
State Revenue Sources	19,604,294	1,505,321	258,937	720,633			174,647
Federal Revenue Sources	157,674	3,097,099					2,174,516
Other	398,307	0					
Transfers	393,603	62,146			170,872	1,052,228	
TOTALS	23,207,451	4,668,073	258,937	969,720	170,872	1,052,228	2,412,085
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	12,831,033	3,767,051					
Student Support Services	1,626,838	93,367					
Instructional Staff Support Services	842,467	233,536					
District Admin Support	796,410	0					
School Admin Support	1,563,645	0					
Business Support Services	783,694	0					
Plant Operation & Management	2,331,246	49,053					
Student Transportation	1,615,490	83,638					
Food Service Operations	-	0					2,209,383
Community Services	5,152	383,235					
Debt Service	0	0				1,052,228	
Site Improvement	90	0			247,478		
Transfers	233,018	58,194	249,945	969,720			167,973
TOTALS	22,629,084	4,668,073	249,945	969,720	247,478	1,052,228	2,377,356
Excess / (Deficit)	578,367	0	8,992	0	(76,606)	0	34,728

FINANCIAL CONTACT INFORMATION

Questions regarding this report should be directed to Michael M. Cash, Superintendent or Michelle King, Director of Finance by mail at McCreary County Board of Education, 120 Raider Way, Stearns, KY 42647.

McCreary County School District
Statement of Net Position
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,240,918	\$ 895,217	\$ 3,136,135
Restricted cash and cash equivalents	19,357		19,357
Receivables (net)	1,099,798	46,429	1,146,227
Inventories		20,952	20,952
Capital assets:			
Land, improvements, and construction in progress	1,061,915		1,061,915
Other capital assets, net of depreciation	22,885,476	123,628	23,009,104
Total capital assets	23,947,391	123,628	24,071,019
Total assets	27,307,465	1,086,226	28,393,691
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	624,978	19,869	644,847
Deferred savings from refunding bonds	301,817		301,817
Total deferred outflows of resources	926,795	19,869	946,664
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	28,234,260	1,106,095	29,340,355
LIABILITIES			
Accounts payable and accrued expenses	309,258	15,141	324,399
Accrued interest payable	119,615		119,615
Accrued salaries and benefits payable	1,951		1,951
Unearned revenue	462,907		462,907
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,350,000		1,350,000
Capital lease obligations	29,946		29,946
KSBIT payable	23,782		23,782
Total due within 1 year	1,403,728	-	1,403,728
Due in more than 1 year:			
Bond obligations	14,865,000		14,865,000
Capital lease obligations	246,315		246,315
KSBIT payable	569,513		569,513
Sick leave	171,827		171,827
Net pension liability	5,011,461	163,539	5,175,000
Total due in more than 1 year	20,864,116	163,539	21,027,655
Total liabilities	23,161,574	178,680	23,340,255
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	559,734	18,266	578,000
NET POSITION			
Net Investment in capital assets	7,732,391	123,628	7,856,019
Restricted for:			
Capital projects	860,445		860,445
Other purposes	56,760		56,760
Food services		785,521	785,521
Deficit	(4,136,645)		(4,136,645)
Total net position	4,512,952	909,149	5,422,100
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 28,234,260	\$ 1,106,095	\$ 29,340,355

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 18,960,055	\$ -	\$ 7,356,768	\$ -	\$ (11,603,288)		\$ (11,603,288)
Support Services							
Student	1,727,763	16,584	756,911		(954,267)		(954,267)
Instructional Staff	1,060,961		464,794		(596,167)		(596,167)
District Administration	782,517		342,811		(439,706)		(439,706)
School Administration	1,559,229		683,079		(876,150)		(876,150)
Business	791,519		346,754		(444,764)		(444,764)
Plant Operation & Maintenance	2,348,994		1,029,065	979,570	(340,359)		(340,359)
Student Transportation	1,711,501		749,787		(961,714)		(961,714)
Community Services Operations	391,589		171,550		(220,039)		(220,039)
Amortization	17,754				(17,754)		(17,754)
Depreciation	1,408,630				(1,408,630)		(1,408,630)
Interest on long term debt	579,953			848,777	268,823		268,823
Total governmental activities	<u>31,340,466</u>	<u>16,584</u>	<u>11,901,520</u>	<u>1,828,347</u>	<u>(17,594,015)</u>		<u>(17,594,015)</u>
Business-type activities:							
Food service operations	2,182,341	45,060	2,349,163			\$ 211,883	211,883
Depreciation	<u>27,042</u>					<u>(27,042)</u>	<u>(27,042)</u>
Total business-type activities	<u>2,209,383</u>	<u>45,060</u>	<u>2,349,163</u>	<u>-</u>	<u>-</u>	<u>184,840</u>	<u>184,840</u>
Total primary government	\$ <u>33,549,849</u>	\$ <u>61,644</u>	\$ <u>14,250,683</u>	\$ <u>1,828,347</u>	<u>(17,594,015)</u>	<u>184,840</u>	<u>(17,409,175)</u>
General revenues:							
Taxes:							
Property taxes					1,583,808		1,583,808
Motor vehicle taxes					185,641		185,641
Unmined minerals tax					4,045		4,045
Utilities					806,163		806,163
Telecommunications tax					23,521		23,521
Revenue in lieu of taxes					299,482		299,482
State and formula grants					14,636,956		14,636,956
Sale of equipment					5,360		5,360
Other local revenue					320,101		320,101
Unrestricted investment earnings					76,354	17,861	94,215
Transfers					167,973	(167,973)	-
Total general revenues and transfers					<u>18,109,404</u>	<u>(150,112)</u>	<u>17,959,292</u>
Change in net position					515,389	34,728	550,117
Net Position - beginning					8,482,503	982,419	9,464,922
Change in Accounting Principle - Prior period adjustment-1 See Note Q					(5,001,534)	(163,215)	(5,164,749)
Prior period adjustment-2					516,594	55,217	571,811
Restated net position - beginning					<u>3,997,563</u>	<u>874,420</u>	<u>4,871,983</u>
Net Position - ending					\$ <u>4,512,952</u>	\$ <u>909,149</u>	\$ <u>5,422,100</u>

See the accompanying notes to the financial statements.

McCreary County School District
Balance Sheet
Governmental Funds
June 30, 2015

	Governmental Funds					
	General	Special Revenue	Debt Service	Construction	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 1,661,806	\$ -	\$ -	\$ 760,904	\$ 107,691	\$ 2,530,401
Restricted cash and cash equivalents	19,357					19,357
Receivables, net						
Taxes-current	14,180					14,180
Taxes-delinquent	8,407					8,407
Accounts	209,566					209,566
Intergovernmental-state		22,719				22,719
Intergovernmental-federal	13,638	831,288				844,926
Total assets	1,926,955	854,007	-	760,904	107,691	3,649,557
LIABILITIES						
Accounts payable	205,036	101,617			2,605	309,258
Accrued salaries & benefits payable	1,951					1,951
Cash shortage		289,483				289,483
Unearned revenue		462,907				462,907
Total liabilities	206,986	854,007	-	-	2,605	1,063,599
FUND BALANCE						
Restricted				760,904	99,541	860,445
Committed					5,545	5,545
Assigned	51,216					51,216
Unassigned	1,668,753					1,668,753
Total fund balance	1,719,969	-	-	760,904	105,085	2,585,958
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,926,955	\$ 854,007	\$ -	\$ 760,904	\$ 107,691	\$ 3,649,557

See the accompanying notes to the financial statements.

McCreary County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2015

Fund balances-total governmental funds	\$	2,585,958
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		23,947,391
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus</p>		301,817
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Accrued interest payable		(119,615)
Bond and capital obligations		(16,491,261)
KSBIT payable		(593,295)
Sick leave liability		(171,827)
Other		0
Net pension liability		(5,011,461)
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds</p>		
Deferred outflows of resources related to employer 2015 contributions to pensions		624,978
Deferred inflows of resources related to pensions		<u>(559,734)</u>
Net position of governmental activities	\$	<u><u>4,512,952</u></u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Construction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From local sources						
Taxes						
Property	\$ 1,334,721	\$ -	\$ -	\$ -	\$ 249,087	\$ 1,583,808
Motor vehicle	185,641					185,641
Unmined minerals	4,045					4,045
Utility tax	806,163					806,163
Telecommunications tax	23,521					23,521
Revenue in lieu of taxes	299,482					299,482
Earnings on investments	76,354					76,354
Other local revenue	316,593	3,508				320,101
Student activities					16,584	16,584
Intergovernmental - state	19,604,294	1,505,321	848,777		979,570	22,937,962
Intergovernmental - federal	157,674	3,097,099				3,254,772
Total revenues	<u>22,808,488</u>	<u>4,605,927</u>	<u>848,777</u>	<u>-</u>	<u>1,245,241</u>	<u>29,508,433</u>
EXPENDITURES						
Instruction	12,831,033	3,767,051			4,796	16,602,881
Support services						
Student	1,626,838	93,367				1,720,205
Instructional staff	842,467	233,536			4,169	1,080,171
District administration	796,410					796,410
School administration	1,563,645					1,563,645
Business	783,694					783,694
Plant operation & maintenance	2,331,246	49,053			2,075	2,382,374
Student transportation	1,615,490	83,638				1,699,127
Community services operations	5,152	383,235				388,387
Building acquisitions & construction	90			247,478		247,568
Debt service			1,901,005			1,901,005
Total expenditures	<u>22,396,065</u>	<u>4,609,880</u>	<u>1,901,005</u>	<u>247,478</u>	<u>11,040</u>	<u>29,165,468</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	412,423	(3,952)	(1,052,229)	(247,478)	1,234,202	342,966
OTHER FINANCING SOURCES (USES)						
Sale of equipment	5,360					5,360
Operating transfers in	393,603	62,146	1,052,229	170,872		1,678,850
Operating transfers (out)	(233,018)	(58,194)			(1,219,665)	(1,510,877)
Total other financing sources and (uses)	<u>165,945</u>	<u>3,952</u>	<u>1,052,229</u>	<u>170,872</u>	<u>(1,219,665)</u>	<u>173,333</u>
NET CHANGE IN FUND BALANCE	578,367	0	-	(76,605)	14,537	516,299
FUND BALANCE-BEGINNING	<u>1,141,601</u>	<u>-</u>	<u>-</u>	<u>837,510</u>	<u>90,549</u>	<u>2,069,659</u>
FUND BALANCE-ENDING	<u>\$ 1,719,969</u>	<u>\$ 0</u>	<u>\$ -</u>	<u>\$ 760,904</u>	<u>\$ 105,085</u>	<u>\$ 2,585,958</u>

See the accompanying notes to the financial statements.

McCreary County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities**
For the year ended June 30, 2015

Net change in fund balances-total governmental funds	\$	516,299
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		55,317
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		(1,079,895)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(17,754)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		
		1,038,739
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		6,052
Other		0
Noncurrent sick leave payable		(3,369)
		(3,369)
Change in net position of governmental activities	\$	515,389

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources				
Taxes				
Property	\$ 1,393,000	\$ 1,393,000	\$ 1,334,721	\$ (58,279)
Motor vehicle	160,000	160,000	185,641	25,641
Unmined minerals			4,045	4,045
Utility tax	800,000	800,000	806,163	6,163
Telecommunication tax	15,300	15,300	23,521	8,221
Revenue in lieu of taxes	300,000	300,000	299,482	(518)
Earnings on investments	60,000	60,000	76,354	16,354
Other local revenue		39,390	316,593	277,203
Intergovernmental - state	19,194,629	19,093,165	19,604,294	511,129
Intergovernmental - federal	95,180	95,180	157,674	62,494
Total revenues	<u>22,018,109</u>	<u>21,956,035</u>	<u>22,808,488</u>	<u>852,453</u>
EXPENDITURES				
Instruction	12,988,465	12,905,433	12,831,033	74,399
Support services				
Student	1,672,444	1,672,444	1,626,838	45,606
Instructional staff	778,798	788,157	842,467	(54,310)
District administration	957,028	962,513	796,410	166,103
School administration	1,498,912	1,498,573	1,563,645	(65,072)
Business	711,312	714,162	783,694	(69,532)
Plant operation & maintenance	2,482,511	2,485,011	2,331,246	153,765
Student transportation	1,880,218	1,894,218	1,615,490	278,728
Community services operations	91	5,091	5,152	(61)
Building acquisitions & construction			90	(90)
Total expenditures	<u>22,969,780</u>	<u>22,925,602</u>	<u>22,396,065</u>	<u>529,537</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(951,671)	(969,567)	412,423	1,381,990
OTHER FINANCING SOURCES (USES)				
Sale of equipment			5,360	5,360
Operating transfers in	310,070	305,700	393,603	87,903
Operating transfers (out)	(50,000)	(50,000)	(233,018)	(183,018)
Total other financing sources and (uses)	<u>260,070</u>	<u>255,700</u>	<u>165,945</u>	<u>(89,755)</u>
NET CHANGE IN FUND BALANCE	(691,601)	(713,867)	578,367	1,292,234
FUND BALANCE-BEGINNING	<u>1,141,601</u>	<u>1,141,601</u>	<u>1,141,601</u>	<u>(0)</u>
FUND BALANCE-ENDING	<u>\$ 450,000</u>	<u>\$ 427,734</u>	<u>\$ 1,719,969</u>	<u>\$ 1,292,234</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Other local revenue	\$ 7,950	\$ 15,700	\$ 3,508	\$ (12,192)
Intergovernmental - state	1,605,815	1,660,351	1,505,321	(155,030)
Intergovernmental - federal	3,165,479	3,347,854	3,097,099	(250,755)
Total revenues	<u>4,779,244</u>	<u>5,023,904</u>	<u>4,605,927</u>	<u>(417,977)</u>
EXPENDITURES				
Instruction	3,953,489	4,232,344	3,767,051	465,293
Support Services				
Student	100,147	110,618	93,367	17,251
Instructional Staff	208,822	179,504	233,536	(54,032)
Plant Operation & Maintenance	50,816	48,089	49,053	(964)
Student Transportation	84,890	83,638	83,638	-
Community Services Operations	383,816	384,595	383,235	1,360
Total expenditures	<u>4,781,980</u>	<u>5,038,787</u>	<u>4,609,880</u>	<u>428,907</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,736)	(14,882)	(3,952)	10,930
OTHER FINANCING SOURCES (USES)				
Operating transfers in	50,000	62,146	62,146	-
Operating transfers out	(47,264)	(47,264)	(58,194)	(10,930)
Total other financing sources and (uses)	<u>2,736</u>	<u>14,882</u>	<u>3,952</u>	<u>(10,930)</u>
NET CHANGE IN FUND BALANCE	-	-	0	0
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ 0</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

	School Food Services
ASSETS	
Cash and cash equivalents	\$ 895,217
Receivables, net	46,429
Inventories	20,952
Capital assets:	
Other capital assets, net of depreciation	123,628
Total assets	1,086,226
DEFERRED OUTFLOWS OF RESOURCES	
District pension contributions subsequent to the measurement date	19,869
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,106,095
LIABILITIES	
Accounts payable	15,141
Net pension liability	163,539
Total Liabilities	178,680
DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual earnings on pension plan investments	18,266
NET POSITION	
Net Investment in capital assets	123,628
Restricted for:	
Expendable Restricted for Food Service	785,521
Total net position	909,149
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET PENSION	\$ 1,106,095

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2015

	<u>School Food Services</u>
OPERATING REVENUES	
Lunchroom sales	\$ 45,060
Total operating revenues	<u>45,060</u>
OPERATING EXPENSES	
Depreciation	27,042
Food service operations	
Salaries and benefits	666,365
Operational	<u>1,515,975</u>
Total operating expenses	<u>2,209,383</u>
Operating income (loss)	(2,164,323)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	2,174,516
State grants	174,647
Transfers (out)	(167,973)
Earnings from investments	<u>17,861</u>
Total nonoperating revenues	<u>2,199,052</u>
CHANGE IN NET POSITION	34,728
NET POSITION-BEGINNING	982,419
PRIOR PERIOD ADJUSTMENT-1	(163,215)
PRIOR PERIOD ADJUSTMENT-2	55,217
RESTATED NET POSITION-ENDING	<u>874,420</u>
NET POSITION-ENDING	<u>\$ 909,149</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2015

	<u>School Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 45,060
Payments to suppliers	(1,518,222)
Payments to employees	(666,365)
Net cash provided (used) by operating activities	<u>(2,139,528)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating grants and contributions	2,349,163
Pension	(1,279)
Indirect cost transfer	(167,973)
Net cash provided (used) by noncapital financing activities	<u>2,179,912</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	17,861
Net cash provided (used) by investing activities	<u>17,861</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	58,245
CASH AND CASH EQUIVALENTS-BEGINNING	<u>836,972</u>
CASH AND CASH EQUIVALENTS-ENDING	<u>\$ 895,217</u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (2,164,323)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	27,042
Changes in assets and liabilities:	
Receivables	(46,429)
Inventory	29,040
Accrued liabilities	15,141
Net cash used by operating activities	<u>\$ (2,139,528)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES	

During the year, the district received \$106,303 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$155,498 provided by state government.

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	<u>School Activity Funds</u>	<u>Private Purpose Trust Fund</u>	<u>Fiduciary Fund Total</u>
ASSETS			
Cash and cash equivalents	\$ 206,416	\$ -	\$ 206,416
Accounts receivable	502	-	502
Investments	-	82,070	82,070
	<u>206,918</u>	<u>82,070</u>	<u>288,988</u>
Total Assets	<u>206,918</u>	<u>82,070</u>	<u>288,988</u>
LIABILITIES			
Accounts payable	2,323	-	2,323
Due to student groups	204,595	-	204,595
	<u>206,918</u>	<u>-</u>	<u>206,918</u>
Total Liabilities	<u>206,918</u>	<u>-</u>	<u>206,918</u>
NET POSITION HELD IN TRUST	<u>-</u>	<u>82,070</u>	<u>82,070</u>
TOTAL LIABILITIES AND NET POSITION HELD IN TRUST	<u>\$ 206,918</u>	<u>\$ 82,070</u>	<u>\$ 288,988</u>

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Changes in Net Position
Fiduciary Funds
June 30, 2015

		<u>Private Purpose Trust Fund</u>
Additions		
Trust activities	\$	5,700
Deductions		
Benefits paid		<u>8,389</u>
Increase in net position		(2,689)
Net position-beginning, June 30, 2014		<u>84,759</u>
Net position-ending	\$	<u><u>82,070</u></u>

See the accompanying notes to the financial statements.

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The McCreary County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the McCreary County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

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

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

Blended Component Unit

McCreary County Board of Education Finance Corporation

The Board authorized establishment of the McCreary County Board of Education Finance Corporation a non-stock, non-profit 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 of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the McCreary County Board of Education.

Basis of Presentation

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds 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 specified project periods as well as the state grant programs. Project accounting is employed to

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. KDE requires this fund to be a major fund.

(C) Special Revenue (District Activity) Fund

The Special Revenue (District Activity) Fund is a district activity fund at the school level. It includes activities such as picture sales, yearbook sales, student fees and donations.

(D) Capital Project Funds

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

SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

(E) Debt Service Fund

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. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

(A) Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The schools funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

(B) Private Purpose Trust Fund

The Private Purpose Trust Funds are maintained within MUNIS and account for revenues generated by trusts set up to benefit students in McCreary County.

Basis of Accounting

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.397 per \$100 valuation of real property, \$.397 per \$100 valuation for business personal property and \$.30 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.

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 government funds. These assets are reported in the government activities column of the government-wide financial 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 five thousand dollars and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Interfund Balances

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

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

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

Cash and Cash Equivalents

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

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are value at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Inventories

On government-wide financial statements, including the proprietary fund, inventories are stated at cost, on the first-in, first-out basis, using the accrual method of accounting.

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

Prepaid Assets

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

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

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Unassigned Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

Net Position

The statement of net position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net position are reported in three categories: 1) invested in capital assets net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or invested in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

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 particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Pensions

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

Estimates

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

New Accounting Pronouncements

Effective July 1, 2014, the District was required to adopt Governmental Accounting Standards Board (GASB) Statement no. 68, “Accounting and Financial Reporting for Pensions” (GASB 68). GASB 68 replaced the requirements of GASB 27, “Accounting for Pensions by State and Local Governmental Employers” and GASB 50, “Pension Disclosures”, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability to more comprehensively and comparably measure the annual costs of pension benefits. Cost-sharing governmental employers, such as the District, are required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan.

NOTE B – CASH AND INVESTMENTS

Deposits

The District’s cash and cash equivalents are interest bearing accounts with the local bank depository. Due to the liquidity nature of these accounts the carrying value is the fair market value.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District’s bank balance was not exposed to custodial credit risk as of June 30, 2015 as noted below:

SEE SCHEDULE NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Bank Balance</u>
	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	<u>5,645,935</u>
Bank balance	<u><u>\$ 5,895,935</u></u>
	<u>Book Balance</u>
	<u>Cash equivalents</u>
Governmental Activities	\$ 2,260,275
Business-type Activities	895,217
Agency funds	
School Activity	<u>206,416</u>
Total carrying amount	<u><u>\$ 3,361,908</u></u>

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund. Included within the cash equivalents for governmental activities is restricted cash for the “Rewards Program” totaling \$19,357.

Investments

June 30, 2015			
<u>PRIVATE PURPOSE TRUST INVESTMENTS</u>	<u>RATING</u>	<u>MATURITIES</u>	<u>FAIR VALUE</u>
Money Market	N/R	On Demand	\$ 1,700
Wells Fargo & Co Preferred Stock	A2	N/A	<u>80,370</u>
			<u><u>\$ 82,070</u></u>

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices. The District is not in compliance with the Kentucky Revised Statutes for investments.

Concentration of Credit Risk

The District places no limit on the amount the District may invest in any one issuer. More than five percent of the District's investments are in Wells Fargo & Co Preferred Stock. This investment is 100%.

Risks and Uncertainties

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

NOTE C – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Land	\$ 814,437	\$ -	\$ -	\$ 814,437
Land improvements	1,448,784	-	-	1,448,784
Buildings	44,313,958	-	-	44,313,958
Technology equipment	1,323,642	45,383	-	1,369,025
Vehicles	4,248,305	-	-	4,248,305
General equipment	521,792	35,874	-	557,666
Construction in progress	-	247,478	-	247,478
Total at historical cost	<u>\$ 52,670,918</u>	<u>\$ 328,735</u>	<u>\$ -</u>	<u>\$ 52,999,652</u>
Less: Accumulated depreciation				
Land improvements	\$ 924,221	\$ 40,895	-	\$ 965,115
Buildings	21,615,367	1,073,210	-	22,688,577
Technology equipment	1,275,757	35,086	-	1,310,843
Vehicles	3,504,529	193,413	-	3,697,942
General equipment	323,757	66,027	-	389,784
Total accumulated depreciation	<u>\$ 27,643,631</u>	<u>\$ 1,408,630</u>	<u>\$ -</u>	<u>\$ 29,052,261</u>
Governmental Activities				
Capital Assets-net	<u>\$ 25,027,286</u>	<u>\$ (1,079,895)</u>	<u>\$ -</u>	<u>\$ 23,947,391</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Business-Type Activities

	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
General equipment	\$ 664,323	\$ -	\$ -	\$ 664,323
Total at historical cost	\$ 664,323	\$ -	\$ -	\$ 664,323
Less: Accumulated depreciation				
General equipment	\$ 513,653	\$ 27,042	\$ -	\$ 540,695
Total accumulated depreciation	\$ 513,653	\$ 27,042	\$ -	\$ 540,695
Business-Type Activities				
Capital Assets-net	\$ 150,670	\$ (27,042)	\$ -	\$ 123,628

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE D– BONDED DEBT OBLIGATIONS

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the McCreary County School District Finance Corporation aggregating \$16,215,000, and \$1,350,000 is the portion due within one year.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the McCreary County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of outstanding issues, the issue dates, maturity dates, interest rates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014</u>			<u>2015</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2003R	\$ 2,700,000	8/1/2014	1.10-3.9%	\$ 75,000	\$ -	\$ 75,000	\$ -
2003R-2nd	4,655,000	8/1/2016	2-3.4%	1,835,000	-	550,000	1,285,000
1998	3,595,000	10/1/2010	4.125-4.45%	6,310,000	-	360,000	5,950,000
2008	\$ 11,095,000	5/1/2028	3.0-4.5%	9,310,000	-	330,000	8,980,000
Totals				\$ 17,530,000	\$ -	\$ 1,315,000	\$ 16,215,000

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Fiscal Year Ended 30-Jun	Principal		Interest		Principal Total	Interest Total
	Local	KSFCC	Local	KSFCC		
2016	\$ 776,380	\$ 573,620	\$ 276,608	\$ 269,709	\$ 1,350,000	\$ 546,318
2017	796,899	573,101	251,874	251,978	1,370,000	503,853
2018	813,868	591,132	237,341	233,946	1,405,000	471,288
2019	825,212	609,788	216,397	215,291	1,435,000	431,688
2020	845,910	629,090	195,099	195,989	1,475,000	391,088
2021-2025	3,471,600	2,903,400	614,100	653,162	6,375,000	1,267,263
2026-2028	1,318,767	1,486,233	120,327	135,723	2,805,000	256,050
	<u>\$ 8,848,636</u>	<u>\$ 7,366,364</u>	<u>\$ 1,911,747</u>	<u>\$ 1,955,799</u>	<u>\$ 16,215,000</u>	<u>\$ 3,867,546</u>

NOTE E – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

KISTA Issue	Original Amount	Maturity Date	Interest Rates	2014			2015
				Outstanding Balance	Additions	Retirements	Outstanding Balance
2015	\$ 276,261	3/1/2025	1.0 - 2.625%	\$ -	\$ 276,261	\$ -	\$ 276,261

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

Fiscal Year Ended 30-Jun	Principal Local	Interest Local	Total
2016	\$ 29,946	\$ 4,998	\$ 34,944
2017	30,051	4,856	34,907
2018	26,361	4,555	30,916
2019	26,782	4,160	30,942
2020	27,310	3,624	30,934
2021-2025	135,811	9,456	145,267
	<u>\$ 276,261</u>	<u>\$ 31,649</u>	<u>\$ 307,910</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total minimum lease payments	\$	307,910
Less: Amount representing interest		(31,649)
Present Value of Net Minimum Lease Payments	\$	276,261

NOTE F – OTHER LONG TERM OBLIGATIONS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2015 for accumulated sick leave is as follows:

	2014			2015		
	<u>Outstanding</u>		<u>Additions</u>	<u>Retirements</u>		<u>Outstanding</u>
	<u>Balance</u>					<u>Balance</u>
Sick Leave	\$ 168,458	\$ 3,369	\$ -	\$ -	\$ 171,827	
Totals	<u>\$ 168,458</u>	<u>\$ 3,369</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 171,827</u>	

The District elected to finance their Kentucky School Board Insurance Trust deficit (KSBIT) with the Kentucky Inter-local School Transportation Association (KISTA). The activity during fiscal year 2015 for the worker’s compensation and property and liability deficit are as follows:

<u>KISTA Issues</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest</u>	2014			2015	
				<u>KISTA</u>			<u>KISTA</u>	
	<u>Amount</u>	<u>Date</u>	<u>Rates</u>	<u>Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>	
KSBIT	\$ 593,295	8/15/2029	2.0 - 4.0%	\$ -	\$ 593,295	\$ -	\$ 593,295	

The minimum payments are as follows:

	Fiscal		
	<u>Year Ended</u>	<u>Local</u>	<u>Total</u>
	<u>June 30th</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 23,782	\$ 26,462	\$ 50,244
2017	33,744	17,960.18	51,704
2018	34,425	17,278	51,703
2019	35,147	16,556	51,703
2020	35,911	15,793	51,704
2021-2025	195,951	62,568	258,519
2026-2030	<u>234,335</u>	<u>24,183</u>	<u>258,518</u>
	<u>\$ 593,295</u>	<u>\$ 180,800</u>	<u>\$ 774,095</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE G – RETIREMENT PLANS

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

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

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

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of CERS net pension liability	\$	5,175,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		<u>85,470,424</u>
	\$	<u><u>9,645,424</u></u>

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportion was .159507% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$588,251 related to CERS and \$7,293,042 related to KTRS. The District also recognized revenue of \$7,293,042 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	578,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>644,847</u>	<u>-</u>
	\$ <u><u>644,847</u></u>	\$ <u><u>578,000</u></u>

\$644,847 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		<u>Year Ended June 30,</u>
2016	\$	128,969
2017		128,969
2018		128,969
2019		128,969
2020		<u>128,969</u>
	\$	<u><u>644,847</u></u>

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.75%	7.50%

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 5.23%. 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 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	5,842,744	5,175,002	4,507,260
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

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

NOTE H – COMMITMENTS

The District has commitments of \$2,611,817 as of June 30, 2015 for future construction projects. The District Activity Fund contains committed funds of \$5,545 as of June 30, 2015.

NOTE I - CONTINGENCIES

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

NOTE J - LITIGATION

The District is currently involved in pending litigation for which the outcome cannot be determined at this time.

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

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

NOTE M – DEFICIT OPERATING BALANCES

The following funds had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Construction	\$ (76,605)
Private Purpose Trust	\$ (2,689)

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Special Revenue Fund	KETS \$	62,146
Operating	Special Revenue Fund	General Fund	Operating Expenditures	58,194
Operating	Food Service Fund	General Fund	Indirect Cost	167,973
Operating	Capital Outlay Fund	General Fund	Operating Expenditures	167,436
Operating	General Fund	Construction Fund	Construction	170,872
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt Payments	82,509
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments \$	969,720

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P – ON-BEHALF PAYMENTS

For fiscal year 2015, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 2,014,137
Health Insurance	3,257,645
Life Insurance	5,616
Administrative Fee	38,455
HRA/Dental/Vision	86,188
Federal Reimbursement	(353,607)
Technology	70,521
SFCC Debt Service Payments	<u>848,777</u>
Total	<u>\$ 5,967,730</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE Q – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$5,164,749 reduction in beginning net position on the Statement of Activities and an increase of \$691,251 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE R – PRIOR PERIOD ADJUSTMENTS

Due to removal of capital assets in the prior year, adjustments were made that resulted in understatement of capital assets and net position. Therefore, a prior period adjustment was made in the governmental activities and the business-type activities/proprietary fund as noted below as prior period adjustment 2:

	Governmental	Business-Type Activities/ Proprietary Fund	<u>Total</u>
	<u>Activities</u>	<u>Proprietary Fund</u>	
Net Position/Fund Balance July 1, 2014	\$ 8,482,503	\$ 982,419	\$ 9,464,922
Prior Period Adjustment 1 (See Note Q)	(5,001,534)	(163,215)	(5,164,749)
Prior Period Adjustment 2	<u>516,594</u>	<u>55,217</u>	<u>571,811</u>
Restated Net Position/Fund Balance July 1, 2014	<u>\$ 3,997,563</u>	<u>\$ 874,420</u>	<u>\$ 4,871,983</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE S – RESTRICTED FUNDS

The following funds had restricted fund balances:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Capital Outlay	\$ 99,541	School Facilities Construction Commission
Construction	760,904	Future Construction
Food Service	\$ 785,521	Food Service Operations

NOTE T – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 12, 2015, the date the financial statements were available to be issued.

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.16%
District's proportionate share of the net pension liability	\$ 5,175,000
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 5,175,000
District's covered-employee payroll	\$ 3,668,536
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.06%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:	
Districts' proportion of the net pension liability	0.416%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	85,470,424
Total	\$ 85,470,424
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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

See the accompanying notes to the required supplementary information.

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 644,847	\$ 693,017
Contributions in relation to the contractually required contribution	644,847	\$ 693,017
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,649,689	\$ 3,668,536
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.67%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

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

See the accompanying notes to the required supplementary information.

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2015

Changes to benefit terms – None

Changes to assumptions - None

McCreary County School District
Combining Balance Sheet-Nonmajor Governmental Funds
 June 30, 2015

	Other Governmental Funds			
	Capital Outlay	FSPK	District Activity	Total
Assets				
Cash and Cash Equivalents	\$ 99,541	\$ -	\$ 8,150	\$ 107,691
Total Assets	99,541	-	8,150	107,691
Liabilities				
Accounts Payable			2,605	2,605
Total Liabilities	-	-	2,605	2,605
Fund Balance				
Restricted	99,541	-		99,541
Committed		-	5,545	5,545
Total Fund Balance	99,541	-	5,545	105,085
Total Liabilities and Fund Balance	\$ 99,541	\$ -	\$ 8,150	\$ 107,691

See the accompanying notes to the financial statements.

McCreary County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2015

	Other Governmental Funds			
	Capital Outlay	FSPK	District Activity	Total
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ 249,087	\$ -	\$ 249,087
Student activities			16,584	16,584
Intergovernmental - State	258,937	720,633		979,570
Total Revenues	258,937	969,720	16,584	1,245,241
Expenditures				
Instruction			4,796	4,796
Support Services				
Instructional Staff			4,169	4,169
Plant Operation & Maintenance			2,075	2,075
Total Expenditures	-	-	11,040	11,040
Excess (Deficit) of Revenues Over Expenditures	258,937	969,720	5,545	1,234,202
Other Financing Sources (Uses)				
Operating transfers (out)	(249,945)	(969,720)		(1,219,665)
Total Other Financing Sources (Uses)	(249,945)	(969,720)	-	(1,219,665)
Net Change in Fund Balances	8,992	-	5,545	14,537
Fund Balance Beginning	90,549	-		90,549
Fund Balance Ending	\$ 99,541	\$ -	\$ 5,545	\$ 105,085

See the accompanying notes to the financial statements.

McCreary County School District
Combining Balance Sheet Fiduciary Fund- School Activity Funds, Private Purpose Trust Fund
As of June 30, 2015

	SCHOOL ACTIVITY FUNDS				
	MCCREARY CENTRAL HIGH SCHOOL	MCCREARY COUNTY MIDDLE SCHOOL	MCCREARY COUNTY PRESCHOOL	PINE KNOT INTERMEDIATE	PINE KNOT PRIMARY
ASSETS					
Cash and cash equivalents	\$ 89,533	\$ 33,775	\$ 6,533	\$ 19,406	\$ 23,967
Accounts receivable	200	267	-	-	-
Investments	-	-	-	-	-
Total Assets	<u>89,733</u>	<u>34,042</u>	<u>6,533</u>	<u>19,406</u>	<u>23,967</u>
LIABILITIES					
Accounts payable	-	120	-	2,104	-
FUND BALANCE					
School activities	<u>89,733</u>	<u>33,923</u>	<u>6,533</u>	<u>17,302</u>	<u>23,967</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 89,733</u>	<u>\$ 34,042</u>	<u>\$ 6,533</u>	<u>\$ 19,406</u>	<u>\$ 23,967</u>

See the accompanying notes to the financial statements.

McCreary County School District
Combining Balance Sheet Fiduciary Fund- School Activity Funds, Private Purpose Trust Fund
As of June 30, 2015

	SCHOOL ACTIVITY FUNDS				
	WHITLEY CITY ELEMENTARY	MCCREARY CO. BD OF EDUCATION CONCESSIONS	MCCREARY CO. BUS GARAGE	PRIVATE PURPOSE TRUST FUND	FIDUCIARY FUNDS TOTAL
ASSETS					
Cash and cash equivalents	\$ 32,653	\$ 359	\$ 190	\$ -	\$ 206,416
Accounts receivable	-	-	35	-	502
Investments	-	-	-	82,070	82,070
Total Assets	32,653	359	224	82,070	288,988
LIABILITIES					
Accounts payable	-	100	-	-	2,323
FUND BALANCE					
School activities	32,653	259	224	82,070	286,664
TOTAL LIABILITIES AND FUND BALANCE	\$ 32,653	\$ 359	\$ 224	\$ 82,070	\$ 288,988

See the accompanying notes to the financial statements.

McCreary County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds, Private Purpose Trust Fund
 For the period ended June 30, 2015

	SCHOOL ACTIVITY FUNDS				
	MCCREARY CENTRAL HIGH SCHOOL	MCCREARY COUNTY MIDDLE SCHOOL	MCCREARY COUNTY PRESCHOOL	PINE KNOT INTERMEDIATE	PINE KNOT PRIMARY
Revenues					
Student/Trust revenues	\$ 248,091	\$ 104,637	\$ 6,358	\$ 48,781	\$ 42,836
Expenses					
Student/Trust activities	243,674	92,178	3,805	41,298	46,994
Excess (Deficit) of Revenues Over Expenses	4,417	12,459	2,553	7,483	(4,158)
Fund Balance-Beginning	85,315	21,464	3,980	9,819	28,125
Fund Balance-Ending	\$ 89,733	\$ 33,923	\$ 6,533	\$ 17,302	\$ 23,967

See the accompanying notes to the financial statements.

McCreary County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity Funds, Private Purpose Trust Fund
 For the period ended June 30, 2015

	SCHOOL ACTIVITY FUNDS				
	WHITLEY CITY ELEMENTARY	MCCREARY CO. BD OF EDUCATION CONCESSIONS	MCCREARY CO. BUS GARAGE	PRIVATE PURPOSE TRUST FUND	FIDUCIARY FUND BALANCES
Revenues					
Student/Trust revenues	\$ 68,622	\$ 1,082	\$ 522	\$ 5,700	\$ 526,108
Expenses					
Student/Trust activities	63,931	958	498	8,389	501,226
Excess (Deficit) of Revenues Over Expenses	4,692	125	24	(2,689)	24,882
Fund Balance-Beginning	27,962	134	200	84,759	261,558
Fund Balance-Ending	\$ 32,653	\$ 259	\$ 224	\$ 82,070	\$ 286,664

See the accompanying notes to the financial statements.

McCreary County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - McCreary County High School
For the period ended June 30, 2015

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
GENERAL FUND	\$ 805	\$ 2,420	\$ 5,190	\$ 3,471	\$ 1,506
ATTENDANCE INCENTIVES	8,390	1,000	6,448	-	2,942
ADOPT B	-	261	-	1,922	2,183
PARKING	1,886	2,800	-	(4,686)	-
TEXTBOOKS	810	-	-	(810)	-
SPEC ED OFFICE	1,022	-	-	(1,022)	-
SCIENCE SUPPLIES	250	240	20	-	470
DRAMA	1,313	1,484	1,881	(245)	671
FCA	13	-	-	-	13
TECHNOLOGY STUDENT	117	-	-	(117)	-
MCHS ACADEMY	256	313	569	-	-
MCHS ACADEMY ATTENDANCE	2,500	-	2,500	-	-
STUDENT VENDING	2,224	1,216	8,273	7,343	2,511
SCHOLARSHIP FUND	27	-	-	(27)	-
FACULTY FUND	833	4,884	5,621	(61)	35
MCHS DANCE TEAM	469	-	-	(469)	-
RAIDERS CRUSADERS	-	3,296	2,462	(617)	217
FLOWER FUND	91	-	50	(40)	1
MADRIGAL CALENDAR A	521	-	145	-	376
ENGINEERING CLUB	-	690	323	-	367
CROSS COUNTRY	362	-	275	-	87
BASEBALL	3,502	7,403	6,659	-	4,246
BOYS BASKETBALL	8,721	19,429	17,732	3,192	13,610
FOOTBALL	1,070	12,621	8,700	(2,226)	2,766
GIRLS BASKETBALL	1,309	7,413	9,335	681	68
BOYS/GIRLS CONCESSIONS	973	5,869	2,969	(3,873)	-
WRESTLING	46	1,898	1,570	-	374
GOLF	1,813	1,738	3,217	-	334
CHEERLEADERS	238	13,986	14,048	-	176
VOLLEYBALL	1,351	5,533	4,546	-	2,337
GIRLS SOFTBALL	1,535	16,681	13,423	-	4,793
FFA GREENHOUSE	-	8,477	3,062	(2,254)	3,162
TENNIS	136	250	381	-	5
ACADEMIC TEAM	168	250	91	-	327
FBLA	300	-	-	(300)	-
UNITE (CHAMPION AGAIN	79	-	-	-	79
DECA	9,408	6,395	5,877	(522)	9,404
DECA OFFICE	280	-	-	(280)	-
FFA	4,833	8,118	14,655	2,209	505
HOSA	63	15,692	14,711	(152)	892
MADRIGALS	218	100	-	-	318
MATH CLUB	364	360	-	-	724
NATIONAL HONOR SOCIETY	11	-	-	-	11
SPANISH CLUB	52	898	573	-	377
SR BETA	254	165	221	-	199
STUDENT COUNCIL	160	-	-	(160)	-
STUDENT GOVERNMENT	70	-	-	160	230
PEER TUTORING	872	2,796	2,606	669	1,731
YOUTH SERVICE CENTER	17	100	-	(17)	100
AUTO MECHANICS	1,385	11,027	7,303	208	5,316
SOCCER	124	2,001	1,821	-	304
BAND	4	13,008	13,346	545	211
CARPENTRY	75	-	-	-	75
CHORUS	24	70	-	150	244
ROTC	3,354	12,386	12,974	-	2,766
SKILLS USA	1,239	175	423	-	991
PRINTING	283	-	-	(283)	-
JR CLASS	8,350	11,458	7,636	(4,168)	8,004
SENIOR CLASS 2013	-	664	1,846	1,182	-
SENIOR CLASS	-	18,231	21,577	5,751	2,404
SENIOR CLASS TRIP	-	13,097	14,737	1,640	-
TRIP	212	-	-	(212)	-
FRESHMAN CLASS	-	1,032	-	-	1,032
SOPHMORE CLASS	4,212	3,493	1,497	(3,596)	2,613
ANNUAL	2,941	5,912	1,891	90	7,052
COUNSELING	302	760	490	-	572
LIBRARY	1,922	-	-	(1,922)	-
PICTURES	1,154	-	-	(1,154)	-
DAF ACCOUNT	-	-	-	-	-
DAF ACCOUNT	-	-	-	-	-
Totals	\$ <u>85,315</u>	\$ <u>248,091</u>	\$ <u>243,674</u>	\$ <u>0</u>	\$ <u>89,733</u>

See the accompanying notes to the financial statements.

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the McCreary County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had received food commodities totaling \$106,303.

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/ Pass-Through Agency/ Program Title	Federal CFDA Number	Pass-Through Grantors Number	Program or Award Amount	Total Expenditures
U.S. Department of Agriculture Passed through State Department of Agriculture Food Donation-Commodities Fiscal Year 15	10.565	510.4950	\$ N/A	\$ 106,303
Passed through State Department of Education National School Lunch Program Fiscal Year 14	10.555	7750002 14	N/A	254,249
Fiscal Year 15		7750002 15	N/A	1,030,449
School Breakfast Program Fiscal Year 14	10.553	7760005 14	N/A	132,956
Fiscal Year 15		7760005 15	N/A	541,404
Child Nutrition Cluster Subtotal				<u>1,959,058</u>
Fruit and Vegetable Program Fiscal Year 14	10.582	7720012 14	N/A	7,886
Fiscal Year 15		7720012 15	N/A	54,841
				<u>62,727</u>
Total U.S. Department of Agriculture				<u>2,128,088</u>
U.S. Department of Education Passed through State Department of Education				
* Title I Grants to Local Educational Agencies Fiscal Year 12	84.010A	3100002 12		
Fiscal Year 13		3100002 13	2,099,877	24,394
Fiscal Year 14		3100002 14	1,992,646	304,874
Fiscal Year 14M		3100002 14	103,534	2,385
Fiscal Year 15		3100002 15	1,932,864	1,467,139
Fiscal Year 15M		3100002 15	100,618	88,340
				<u>1,887,132</u>
* Title I Grants to Local Education Agencies, Recovery Act Fiscal Year 09-ARRA	84.389A	3100002 09	2,173,584	58,194
Title I Cluster Subtotal				<u>1,945,326</u>
* Special Education Grants to States Fiscal Year 13	84.027A	3810001 13	680,476	135
Fiscal Year 14		3810001 14	647,597	255,006
Fiscal Year 15		3810001 15	668,254	262,009
* Special Education - Preschool Grants Fiscal Year 13	84.173A	3800002 13	57,706	7,706
Fiscal Year 14		3800002 14	57,295	50,534
Special Education Cluster Subtotal				<u>575,389</u>
Vocation Education - Basic Grants to States (Perkins) Fiscal Year 14	84.048	4610910 14	52,477	32,919
Fiscal Year 14A		4610910 14	2,095	2,095
Fiscal Year 15		4610910 15	51,730	42,178
				<u>77,192</u>
Rural Education Fiscal Year 15	84.358B	3140002 15	60,923	60,923
* Improving Teacher Quality State Grants Fiscal Year 14	84.367A	3230002 14	314,198	73,354
Fiscal Year 15		3230002 15	314,320	215,830
				<u>289,184</u>
Race to the Top Fiscal Year 11	84.413A	3960002 11	93,694	60,682
Passed through Morehead State University Appalachian Higher Education Network (KY AHED) Fiscal Year 14	23.011	6884	3,991	471
Fiscal Year 15		688A	2,790	2,897
				<u>3,368</u>
Passed through Berea College Gaining Early Awareness and Readiness for Undergraduate Programs Fiscal Year 15A	84.334A	379AA	66,500	33,098
Fiscal Year 15B		379AB	52,911	45,282
Fiscal Year 15L		379AL	7,090	4,500
Fiscal Year 15P		379AP	1,346	1,346
				<u>84,225</u>
Passed through Workforce Development Cabinet Community Based Work Transition Fiscal Year 15	84.002	371A	24,869	24,869
Total U.S. Department of Education				<u>3,121,158</u>
U.S Department of Justice Passed Through UNITE Operation UNITE Fiscal Year 15	16.753	300A	\$ 4,250	1,498
Total US Bureau of Justice Administration				<u>1,498</u>
Grand Totals of All Federal Programs				<u>\$ 5,250,743</u>
* Major program				

See notes to the expenditures of federal awards.

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

To the McCreary County Board of Education and
State Committee for School District Audits
Stearns, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise McCreary County School District's basic financial statements, and have issued our report thereon dated November 12, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCreary County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the McCreary County School District, in a separate letter dated November 12, 2015.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

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.

White & Associates, PSC

Richmond, Kentucky
November 12, 2015

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

To the McCreary County Board of Education and
State Committee for School District Audits
Stearns, Kentucky

Report on Compliance for Each Major Federal Program

We have audited McCreary County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Pikeville Independent School District's major federal programs for the year ended June 30, 2015. McCreary County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of McCreary County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCreary County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, McCreary County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of McCreary County School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered McCreary County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McCreary County School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

White & Associates, P.C.

Richmond, Kentucky
November 12, 2015

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2015

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title I [CFDA 84.010A, 84.389A] Special Education Cluster [CFDA 84.027A, 84.173A] Improving Teacher Quality [84.367A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings at the major federal award programs level.

MCCREARY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

2014-001

Significant Deficiency

Statement of Condition: The designee at the Elementary School allowed an outside non-profit organization (TPO) to collect school activity money received from ballgames without board approval.

Criteria for the Condition: The board is responsible to see designees at each school keep financial records on funds raised by students according to state guidelines on school activity accounting; as well as allowing outsourcing of financial accounting responsibilities.

Cause of the Condition: Designees at the elementary school did not ask for board approval to outsource accounting for certain school activities.

Effect of the Condition: The board did not authorize and was unaware of the outsourcing of certain school activity accounting at the elementary school.

Subsequent Review: The finding was resolved.