

**ESTILL 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 Estill County Board of Education and
State Committee for School District Audits
Irvine, 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 Estill 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 R 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 5, 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 5, 2015

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2015

As management of the Estill County School 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. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The General Fund ending balance on June 30, 2015 was \$ 2,548,636. The ending balance of all funds for the District was \$ 4,211,848. The General Fund balance was down \$ 629,298. This can be attributed to several factors including an unfunded state mandated raise, KSBIT payment, an additional KETS offer, no Capital Funds Request, property purchase, and two school nurses.
- Local property (both real and intangible) tax rates were levied at 44.9 plus .2 for exonerations for a total of 45.1. This was the compensating rate. Motor vehicle and watercraft tax rates remained at 54.8. The board continued to add an additional nickel to the Building Fund.
- The District chose to pay the KSBIT assessment in six installments with zero interest for a total of \$430,175. The first payment was made this year.
- The District matched three KETS offers of assistance for a total of \$52,128.
- The District's 2010 Build America Bonds were retired and refunding bonds sold to achieve approximately \$170,000 in savings.
- The District continued to participate in the Community Eligibility Provision. This enabled all students to eat at no charge, both breakfast and lunch.
- The District purchased one new school bus.
- Two construction projects were approved; one to replace the roof and modify the kitchen at South Irvine P-K Center, and one to replace the bleachers and scoreboards at the High School.
- Randall Christopher was appointed Interim Superintendent after Superintendent Bert Hensley announced his retirement effective December 31, 2014. Jeff Saylor was employed as Superintendent on June 24, 2015.
- One new board was elected, L.W. Beckley. Jon Bicknell was also re-elected.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements.

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2015

The District's basic financial statements comprise three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The statement of net position presents information on all of the District's assets and liabilities and deferred inflows and outflows, with the difference between them being 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 expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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Fund Financial Statements: A fund is a grouping related account 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 food service operations. All other activities of the district are included in the governmental funds. The basic governmental funds financial statement can be found on pages 14-23 of this report.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-23 of this report.

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2015

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of Estill County Schools, assets plus deferred outflows exceeded liabilities by \$11,686,544 for Governmental Activities and \$ 123,346 for Business Type Activities as of June 30, 2015.

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

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

Table 1
Net Position (in Millions)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2014	2015	2014	2015	2014	2015	2014-2015
Assets:							
Current and Other Assets	5.65	5.43	0.29	0.28	5.94	5.71	-4%
Capital Assets	35.94	35.53	0.04	0.03	35.98	35.56	-1%
Total Assets	41.59	40.96	0.33	0.31	41.92	41.27	-2%
Deferred Outflows	0.13	0.67	0.00	0.02	0.13	0.69	431%
Liabilities:							
Current Liabilities	1.41	2.92	0.01	0.01	1.42	2.93	107%
Noncurrent Liabilities	23.79	26.53	0.17	0.00	23.96	26.53	11%
Total Liabilities	25.20	29.45	0.18	0.01	25.38	29.46	16%
Deferred Inflows	0.00	0.49	0.00	0.19	0.00	0.68	100%
Net Position:							
Invested in Capital Assets							
Net of Debt	11.77	12.64	0.04	0.03	11.81	12.67	7%
Restricted	1.70	0.83	0.28	0.09	1.98	0.92	-53%
Unrestricted Net Position	1.95	-1.78	0.00	0.00	1.95	-1.78	-191%
Total Net Position	15.42	11.69	0.32	0.12	15.74	11.81	-25%

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2015

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	2014	2015	2014	2015	2014	2015	2014-2015
Revenues:							
Charges for services	\$ 0.06	\$ 0.00	\$ 0.13	\$ 0.12	\$ 0.19	\$ 0.12	-33%
Operating grants and contributions	3.50	9.18	1.44	1.51	4.94	8.88	80%
Capital grants and contributions	2.04	2.04	-	-	2.04	2.04	0%
General revenues	17.67	14.56	-	-	17.67	14.56	-18%
Total revenue	23.26	25.78	1.57	1.63	24.83	27.41	10%
Expenses:							
Instruction	12.11	14.16	-	-	12.11	14.16	17%
Student	1.34	1.49	-	-	1.34	1.49	11%
Instructional staff	1.32	1.04	-	-	1.32	1.04	-21%
District administration	0.73	0.98	-	-	0.73	0.98	33%
School administration	1.28	1.29	-	-	1.28	1.29	0%
Business	0.66	0.73	-	-	0.66	0.73	10%
Plant operation & maintenance	1.77	1.62	-	-	1.77	1.62	-9%
Student transportation	1.88	1.89	-	-	1.88	1.89	1%
Land Improvements	-	-	-	-	-	-	0%
Facilities acquisition and construction	-	-	-	-	-	-	100%
Community services operations	0.26	0.31	-	-	0.26	0.31	20%
Amortization	0.01	0.01	-	-	0.01	0.01	0%
Depreciation	0.66	0.62	0.01	0.01	0.67	0.63	-7%
Interest on long-term debt	1.01	0.96	-	-	1.01	0.96	-4%
Food Service Operations	0.04	0.06	1.65	1.65	1.69	1.71	1%
Total Expenses	\$ 23.07	\$ 25.16	\$ 1.66	\$ 1.66	\$ 24.73	\$ 25.16	1.7%
Change in net position	\$ 0.20	\$ 0.63	\$ (0.09)	\$ (0.02)	\$ 0.10	\$ 0.61	-493%

CAPITAL ASSETS

At the end of fiscal 2015, the District had \$35.5 million invested in capital assets, including land, building, buses, computers and other equipment.

**ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**

Year ended June 30, 2015

Capital Assets at Year-End						
(Net of depreciation)						
	Governmental Activities		Business Type Activities		Totals	
	2014	2015	2014	2015	2014	2015
Land	442,930	462,930	-	-	442,930	462,930
Land and Improvements	378,238	343,759	-	-	378,238	343,759
Buildings & Improvements	33,991,096	33,715,008	-	-	33,991,096	33,715,008
Technology Equipment	327,702	199,914	24,031	19,555	351,733	219,468
Vehicles	110,827	73,360	-	-	110,827	73,360
General Equipment	200,467	161,177	14,700	10,424	215,167	171,601
Construction In Progress	487,811	569,981	-	-	487,811	569,981

Debt

Outstanding Debt at Year-End			
(in Millions)			
	Government Activities		
	2014	2015	
Capital Lease Obligations	\$ 0.38	\$ 0.33	
General Obligation Bonds	23.91	22.56	
Total Obligations	\$ 24.29	\$ 22.89	

Food Service Activity

Operating Revenue for Food Service Fund totals \$ 123,959 and non-operating revenues total \$1,509,887 of June 30, 2015. Operating Expenditures for Food Service Fund total \$1,657,148 as of June 30, 2015. Expense exceeds revenue by \$23,302.

The District's Funds

The majority of general fund revenue, (85%) net of other financing sources is derived from state funding with local taxes making up 15% of revenue. Instructional expense comprised 55% of expenditures in 2015, other support functions 25%, transportation 10% and plant operation and maintenance 9%.

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2015

REVENUE	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Local Revenue Sources	2,696,377	27,368	-	523,576	441	7,645	124,440
State Revenue Sources	15,232,043	1,009,563	220,635	564,490	-	843,979	115,435
Federal Revenue Sources	19,539	2,415,072	-	-	-	412,564	1,393,970
Other	6,833	-	-	-	-	5,339,596	-
Transfers	-	52,128	-	-	-	1,188,115	-
TOTALS	17,954,791	3,504,130	220,635	1,088,066	441	7,791,900	1,633,845
EXPENDITURES	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Instruction	10,214,992	2,285,760	-	-	-	-	-
Student Support Services	1,060,494	417,111	-	-	-	-	-
Instructional Staff Support Services	657,663	395,463	-	-	-	-	-
District Admin Support	965,594	20,000	-	-	-	-	-
School Admin Support	1,294,214	-	-	-	-	-	-
Business Support Services	661,187	59,178	-	-	-	-	-
Plant Operation & Management	1,642,770	28,603	-	-	-	-	-
Student Transportation	1,873,918	-	-	-	-	-	-
Food Service Operations	59,708	(382)	-	-	-	-	1,657,148
Community Services	7,790	298,397	-	-	-	-	-
Land/Site Acquisitions	20,000	-	-	-	-	-	-
Land Improvements	-	-	-	-	-	-	-
Building Acquisitions/Construct.	-	-	-	-	100,598	-	-
Building Improvements	-	-	-	-	44,557	-	-
Other-Facilities	-	-	-	-	2,194	-	-
Debt Service	64,968	-	-	-	-	7,711,401	-
Transfers	52,128	-	220,635	967,480	-	-	-
TOTALS	18,575,426	3,504,130	220,635	967,480	147,348	7,711,401	1,657,148
Excess / (Deficit)	(620,634)	-	-	120,586	(146,908)	80,499	(23,303)

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 to 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 2.0% contingency in the Working Budget. The contingency was above the minimum for 2015. The district continues to leave the two unfunded days in the instructional calendar. This continues to have an impact on district funds.

Issues that continue to impact future budgets include:

- federal funding not maintaining the pace of mandated pay increases, insurance, and retirement costs,
- insufficient funding of the state transportation formula,

ESTILL COUNTY PUBLIC SCHOOL DISTRICT – IRVINE, KENTUCKY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

Year ended June 30, 2015

- loss of local funding due to the 4% cap on increases in property taxes, which in turn results in penalty to the District in the state SEEK funding formula.

Questions regarding this report should be directed to the Superintendent, Mr. Jeff Saylor or the Director of Finance/Treasurer, Ms. Angela D. Howell at (606) 723-2181 or by mail at P.O. Box 930, Irvine, KY 40336

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,932,693	\$ 265,987	\$ 4,198,680
Receivables (net)	1,497,800		1,497,800
Inventories		10,018	10,018
Capital assets:			
Land, improvements, and construction in progress	1,032,911		1,032,911
Other capital assets, net of depreciation	34,493,217	29,979	34,523,196
Total capital assets	<u>35,526,127</u>	<u>29,979</u>	<u>35,556,106</u>
Total assets	<u>40,956,620</u>	<u>305,984</u>	<u>41,262,604</u>
DEFERRED OUTFLOWS OF RESOURCES			
District pension contributions subsequent to the measurement date	552,524	16,368	568,892
Deferred savings from refunding bonds	116,670		116,670
Total deferred outflows of resources	<u>669,194</u>	<u>16,368</u>	<u>685,562</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>41,625,814</u>	<u>322,352</u>	<u>41,948,166</u>
LIABILITIES			
Accounts payable and accrued expenses	241,795	9,147	250,942
Payroll taxes payable	179,253		179,253
Accrued interest payable	168,237		168,237
Unearned revenue	797,597		797,597
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,403,000		1,403,000
Capital lease obligations	57,559		57,559
KSBIT payable	76,806		76,806
Total due within 1 year	<u>1,537,365</u>	<u>-</u>	<u>1,460,559</u>
Due in more than 1 year:			
Bond obligations	21,156,000		21,156,000
Capital lease obligations	272,246		272,246
KSBIT payable	226,081		226,081
Sick leave	514,556		514,556
Net pension liability	4,359,217	170,783	4,530,000
Total due in more than 1 year	<u>26,528,100</u>	<u>170,783</u>	<u>26,698,883</u>
Total liabilities	<u>29,452,346</u>	<u>179,930</u>	<u>29,555,470</u>
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual earnings on pension plan investments	486,924	19,076	506,000
NET POSITION			
Net Investment in capital assets	12,637,322	29,979	12,667,301
Restricted for:			
Capital projects	314,763		314,763
Debt service	314,060		314,060
Trusts	1,721		1,721
Food Service		93,367	93,367
Deficit	<u>(1,581,322)</u>		<u>(1,581,322)</u>
Total net position	<u>11,686,544</u>	<u>123,346</u>	<u>11,809,890</u>
TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 41,625,814</u>	<u>\$ 322,352</u>	<u>\$ 41,871,360</u>

See the accompanying notes to the financial statements.

Estill 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	\$ 14,156,173	\$ 1,483	\$ 6,208,592	\$ -	\$ (7,946,098)		\$ (7,946,098)
Support services							
Student	1,485,799		469,124		(1,016,676)		(1,016,676)
Instructional staff	1,041,044		328,698		(712,347)		(712,347)
District administration	975,814		308,102		(667,712)		(667,712)
School administration	1,289,599		407,176		(882,423)		(882,423)
Business	729,516		230,336		(499,180)		(499,180)
Plant operation & maintenance	1,618,921		511,155	785,125	(322,640)		(322,640)
Student transportation	1,894,531		598,176		(1,296,355)		(1,296,355)
Food service operations	59,536		18,798		(40,738)		(40,738)
Community services operations	308,232		97,321		(210,911)		(210,911)
Amortization	13,568				(13,568)		(13,568)
Depreciation	620,612				(620,612)		(620,612)
Interest on long-term debt	962,400			1,256,544	294,143		294,143
Total governmental activities	<u>25,155,745</u>	<u>1,483</u>	<u>9,177,477</u>	<u>2,041,669</u>	<u>(13,935,117)</u>		<u>(13,935,117)</u>
Business-type activities:							
Food service operations	1,648,396	123,959	1,509,405			\$ (15,032)	(15,032)
Depreciation	8,752					(8,752)	(8,752)
Total business-type activities	<u>1,657,148</u>	<u>123,959</u>	<u>1,509,405</u>	<u>-</u>	<u>-</u>	<u>(23,784)</u>	<u>(23,784)</u>
Total primary government	\$ <u>26,812,893</u>	\$ <u>125,442</u>	\$ <u>10,686,881</u>	\$ <u>2,041,669</u>	<u>(13,935,117)</u>	<u>(23,784)</u>	<u>(13,958,901)</u>
General revenues:							
Taxes:							
Property taxes					1,867,586		1,867,586
Motor vehicle taxes					375,743		375,743
Franchise					242,863		242,863
Utility taxes					721,116		721,116
State and formula grants					11,303,376		11,303,376
Unrestricted investment earnings					16,498	482	16,980
Other local revenue					30,465		30,465
Loss compensation					6,833		6,833
Total general revenues					<u>14,564,480</u>	<u>482</u>	<u>14,564,962</u>
Change in net position					629,363	(23,303)	606,060
Net position - beginning					15,416,193	317,188	15,733,380
Prior period adjustment-1					(4,350,347)	(170,539)	(4,520,886)
Prior period adjustment-2					(8,665)		(8,665)
Restated net position - beginning					<u>11,057,181</u>	<u>146,649</u>	<u>11,203,830</u>
Net position - ending					\$ <u>11,686,544</u>	\$ <u>123,346</u>	\$ <u>11,809,890</u>

See the accompanying notes to the financial statements.

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

	Governmental Funds					
	General	Special Revenue	FSPK	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 2,842,083	\$ -	\$ 832,294	\$ 314,060	\$ 520,815	\$ 4,509,252
Receivables, net						
Taxes-current	85,842					85,842
Taxes-delinquent	6,662					6,662
Accounts	11,494	4,795				16,289
Intergovernmental-state		31,011				31,011
Intergovernmental-federal		1,357,996				1,357,996
Total assets	2,946,082	1,393,801	832,294	314,060	520,815	6,007,052
LIABILITIES						
Accounts payable	218,194	19,644			3,957	241,795
Cash shortage		576,560				576,560
Payroll taxes payable	179,253					179,253
Unearned revenue		797,597				797,597
Total liabilities	397,447	1,393,801	-	-	3,957	1,795,204
FUND BALANCE						
Nonspendable					200,374	200,374
Restricted			832,294	314,060	316,484	1,462,838
Unassigned	2,548,636					2,548,636
Total fund balance	2,548,636	-	832,294	314,060	516,859	4,211,848
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,946,082	\$ 1,393,801	\$ 832,294	\$ 314,060	\$ 520,815	\$ 6,007,052

See the accompanying notes to the financial statements.

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

Fund balances-total governmental funds	\$	4,211,848
Amounts reported for governmental activities in the statement of net position are different because:		
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.		35,526,127
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		116,670
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		
Accrued interest payable		(168,237)
Bonds payable		(22,888,805)
KSBIT payable		(302,887)
Sick leave liability		(514,556)
Net pension liability		(4,359,217)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to employer 2015 contributions to pensions		552,524
Deferred inflows of resources related to pensions		(486,924)
		(486,924)
Net position of governmental activities	\$	11,686,544

See the accompanying notes to the financial statements.

Estill 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>FSPK</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 1,344,010	\$ -	\$ 523,576	\$ -	\$ -	\$ 1,867,586
Motor vehicle	375,743					375,743
Franchise	242,863					242,863
Utilities	721,116					721,116
Tuition		1,483				1,483
Earnings on investments	7,779	286		7,645	788	16,498
Other local revenue	4,866	25,598				30,465
Intergovernmental - state	15,232,043	1,009,563	564,490	843,979	220,635	17,870,710
Intergovernmental - federal	19,539	2,415,072		412,564		2,847,175
Total revenues	<u>17,947,959</u>	<u>3,452,002</u>	<u>1,088,066</u>	<u>1,264,189</u>	<u>221,423</u>	<u>23,973,638</u>
EXPENDITURES						
Instruction	10,214,992	2,285,760				12,500,751
Support Services						
Student	1,060,494	417,111				1,477,605
Instructional staff	657,663	395,463				1,053,126
District administration	965,594	20,000				985,594
School administration	1,294,214					1,294,214
Business	661,187	59,178				720,364
Plant operation & maintenance	1,642,770	28,603				1,671,373
Student transportation	1,873,918					1,873,918
Food service operations	59,708	(382)				59,326
Community services operations	7,790	298,397				306,187
Land site acquisitions	20,000					20,000
Building acquisitions & construction					100,598	100,598
Building improvements					44,557	44,557
Other facilities					2,194	2,194
Debt service	64,968			2,421,484		2,486,453
Total expenditures	<u>18,523,298</u>	<u>3,504,130</u>	<u>-</u>	<u>2,421,484</u>	<u>147,348</u>	<u>24,596,260</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(575,339)	(52,128)	1,088,066	(1,157,295)	74,074	(622,622)
OTHER FINANCING SOURCES (USES)						
Loss compensation	6,833					6,833
Bond principal proceeds				5,295,000		5,295,000
Bond premium				44,596		44,596
Payment to escrow				(5,289,916)		(5,289,916)
Operating transfers in		52,128		1,188,115		1,240,243
Operating transfers (out)	(52,128)		(967,480)		(220,635)	(1,240,243)
Total other financing sources and (uses)	<u>(45,295)</u>	<u>52,128</u>	<u>(967,480)</u>	<u>1,237,795</u>	<u>(220,635)</u>	<u>56,513</u>
NET CHANGE IN FUND BALANCE	(620,634)	-	120,586	80,499	(146,561)	(566,109)
FUND BALANCE - BEGINNING	3,177,934	-	711,708	233,560	663,419	4,786,622
PRIOR PERIOD ADJUSTMENT	(8,665)					(8,665)
RESTATED FUND BALANCE - BEGINNING	<u>3,169,270</u>	<u>-</u>	<u>711,708</u>	<u>233,560</u>	<u>663,419</u>	<u>4,777,957</u>
FUND BALANCE - ENDING	<u>\$ 2,548,636</u>	<u>\$ -</u>	<u>\$ 832,294</u>	<u>\$ 314,060</u>	<u>\$ 516,859</u>	<u>\$ 4,211,848</u>

See the accompanying notes to the financial statements.

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

Net change in fund balances-total governmental funds	\$	(566,109)
<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		56,730
<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>		
		(412,943)
<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>		
		(13,568)
<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>		
		1,408,173
<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		66,199
KSBIT payable		127,288
Noncurrent sick leave payable		(36,407)
		629,363
Change in net position of governmental activities	\$	<u>629,363</u>

See the accompanying notes to the financial statements.

Estill 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>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 1,205,000	\$ 1,205,000	\$ 1,344,010	\$ 139,010
Motor vehicle	400,000	400,000	375,743	(24,257)
Franchise			242,863	242,863
Utilities	700,000	700,000	721,116	21,116
Earnings on investments	9,000	9,000	7,779	(1,221)
Other local revenue	1,005	1,005	4,866	3,861
Intergovernmental - state	13,418,604	13,418,604	15,232,043	1,813,439
Intergovernmental - federal	10,000	10,000	19,539	9,539
Total revenues	<u>15,743,609</u>	<u>15,743,609</u>	<u>17,947,959</u>	<u>2,204,350</u>
EXPENDITURES				
Instruction	9,634,365	9,727,826	10,214,992	(487,166)
Support Services				
Student	(2,160,767)	917,179	1,060,494	(143,315)
Instructional Staff	792,723	793,086	657,663	135,423
District Administration	701,548	696,931	965,594	(268,662)
School Administration	1,178,011	1,178,211	1,294,214	(116,003)
Business	620,321	620,321	661,187	(40,866)
Plant Operation & Maintenance	1,768,641	1,768,641	1,642,770	125,871
Student Transportation	2,023,371	2,023,371	1,873,918	149,452
Food Service Operations	36,647	36,647	59,708	(23,061)
Community Services			7,790	(7,790)
Debt Service	77,932	77,932	64,968	12,964
Land site acquisitions			20,000	(20,000)
Total expenditures	<u>14,672,791</u>	<u>17,840,145</u>	<u>18,523,298</u>	<u>(683,153)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,070,818	(2,096,536)	(575,339)	1,521,197
OTHER FINANCING SOURCES (USES)				
Loss compensation	2,000	2,000	6,833	4,833
Operating transfers out	(50,000)	(50,000)	(52,128)	(2,128)
Total other financing sources and (uses)	<u>(48,000)</u>	<u>(48,000)</u>	<u>(45,295)</u>	<u>2,705</u>
NET CHANGE IN FUND BALANCE	1,022,818	(2,144,536)	(620,634)	1,523,902
FUND BALANCE - BEGINNING	3,075,746	3,075,746	3,177,934	102,188
PRIOR PERIOD ADJUSTMENT			(8,665)	(8,665)
RESTATED FUND BALANCE - BEGINNING	<u>3,075,746</u>	<u>3,075,746</u>	<u>3,169,270</u>	<u>93,524</u>
FUND BALANCE - ENDING	<u>\$ 4,098,564</u>	<u>\$ 931,210</u>	<u>\$ 2,548,636</u>	<u>\$ 1,617,425</u>

See the accompanying notes to the financial statements.

Estill 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>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Tuition	\$ -	\$ -	\$ 1,483	\$ 1,483
Earnings on investments			286	286
Other local revenue	1,650	19,188	25,598	6,410
Intergovernmental - state	952,505	990,386	1,009,563	19,177
Intergovernmental - federal	1,995,194	2,286,882	2,415,072	128,189
Total revenues	<u>2,949,350</u>	<u>3,296,457</u>	<u>3,452,002</u>	<u>155,545</u>
EXPENDITURES				
Instruction	625,598	1,741,829	2,285,760	(543,931)
Support Services				
Student	597,829	798,154	417,111	381,043
Instructional Staff	1,361,824	369,984	395,463	(25,479)
District Administration	20,000	20,000	20,000	-
Business	80,005	89,991	59,178	30,813
Plant Operation & Maintenance	28,276	28,751	28,603	148
Food Service Operations			(382)	382
Community Services Operations	275,818	293,788	298,397	(4,608)
Total expenditures	<u>2,989,350</u>	<u>3,342,497</u>	<u>3,504,130</u>	<u>(161,633)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(40,000)	(46,040)	(52,128)	(6,088)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	40,000	50,000	52,128	2,128
Total other financing sources and (uses)	<u>40,000</u>	<u>50,000</u>	<u>52,128</u>	<u>2,128</u>
NET CHANGE IN FUND BALANCE	-	3,960	-	(3,960)
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ 3,960</u>	<u>\$ -</u>	<u>\$ (3,960)</u>

See the accompanying notes to the financial statements.

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

		School Food Services
ASSETS		
Cash and cash equivalents	\$	265,987
Inventories		10,018
Capital assets:		
Other capital assets, net of depreciation		29,979
Total assets		<u>305,984</u>
 DEFERRED OUTFLOWS OF RESOURCES		
District pension contributions subsequent to the measurement date		<u>16,368</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		<u><u>322,352</u></u>
 LIABILITIES		
Accounts payable		9,147
Net pension liability		170,783
Total Liabilities		<u>179,930</u>
 DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual earnings on pension plan investments		19,076
 NET POSITION		
Net Investment in capital assets		29,979
Restricted for:		
Expendable Restricted for Food Service		93,367
Total net position		<u>123,346</u>
 TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET PENSION	\$	<u><u>322,352</u></u>

See the accompanying notes to the financial statements.

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

		School Food Services
OPERATING REVENUES		
Lunchroom sales	\$	123,959
Total operating revenues		123,959
OPERATING EXPENSES		
Depreciation		8,752
Food service operations		
Employee services		652,029
Operational expenses		996,367
Total operating expenses		1,657,148
Operating income (loss)		(1,533,189)
NONOPERATING REVENUES (EXPENSES)		
Federal grants		1,393,970
State grants		115,435
Earnings from investments		482
Total nonoperating revenues		1,509,887
CHANGE IN NET POSITION		(23,303)
NET POSITION, BEGINNING		317,188
PRIOR PERIOD ADJUSTMENT		(170,539)
RESTATED NET POSITION, BEGINNING		146,649
NET POSITION, ENDING	\$	123,346

See the accompanying notes to the financial statements.

Estill 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	\$ 123,959
Payments to suppliers	(993,771)
Payments to employees	(652,029)
Net cash provided (used) by operating activities	<u>(1,521,841)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental revenue	1,509,405
Net pension liability	2,952
Net cash provided (used) by noncapital financing activities	<u>1,512,357</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	482
Net cash provided (used) by investing activities	<u>482</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,002)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>274,989</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 265,987</u>
Reconciliation of operating income (loss) to net cash used	
by operating activities:	
Operating income (loss)	\$ (1,533,189)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation	8,752
Changes in assets and liabilities:	
Receivables	1,636
Inventories	(1,244)
Accounts Payable	2,204
Net cash used by operating activities	<u>\$ (1,521,841)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$97,673 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 \$100,854 provided by state government.

See the accompanying notes to the financial statements.

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

	<u>School Activity Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Fiduciary Fund Total</u>
ASSETS			
Cash and cash equivalents	\$ 188,614	\$ 42,406	\$ 231,020
TOTAL ASSETS	<u>188,614</u>	<u>42,406</u>	<u>231,020</u>
LIABILITIES			
Accounts payable	12,279	-	12,279
Due to student groups	<u>176,334</u>	<u>-</u>	<u>176,334</u>
TOTAL LIABILITIES	<u>188,614</u>	<u>-</u>	<u>188,614</u>
NET POSITION HELD IN TRUST	<u>-</u>	<u>42,406</u>	<u>42,406</u>
TOTAL LIABILITIES AND NET POSITION HELD IN TRUST	<u>\$ 188,614</u>	<u>\$ 42,406</u>	<u>\$ 231,020</u>

See the accompanying notes to the financial statements.

Estill County School District
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2015

		<u>Private Purpose Trust Funds</u>
Additions		
Trust Activities	\$	5,667
Earnings from investments		119
Total Additions		<u>5,786</u>
Deductions		
Benefits paid		<u>3,350</u>
Decrease in net position		2,436
Net position-beginning		<u>39,970</u>
Net position-ending	\$	<u><u>42,406</u></u>

See the accompanying notes to the financial statements.

ESTILL 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 Estill 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 Estill 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 Estill 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

Estill County Board of Education Finance Corporation

The Board authorized establishment of the Estill 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 Estill 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. Non-major 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 maintain integrity for the various sources of funds. The separate projects of federally-funded grant

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) 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. This is a major fund of the district.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(D) 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.

(E) Permanent Fund

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

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. The Food Service Fund is a major fund of the district.

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

Agency Funds

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Trust Funds

Trust Funds report resources that are contributed by various people, and organizations to be spent for students for purposes that support the reporting governments programs.

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 non-exchange 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. All taxes collected are initially deposited in the General Fund and then transferred to the appropriate fund.

The property tax rates (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.451 per \$100 valuation of real property, \$.451 per \$100 valuation for business personal property and \$.548 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 one thousand dollars with the exception of computers, digital cameras 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:

See Schedule on Next Page

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.

The District spent \$683,153 more than was approved in the budget for the General Fund. This was primarily a result of the District spending \$487,166 more than was approved for instruction. The District spent \$161,633 more than was approved in the budget for the Special Revenue Fund. This was primarily a result of the District spending \$543,931 more than was approved in the budget for instruction and \$381,043 less than was approved in the budget for student support services.

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.

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

Prepaid Assets

Payments made that will benefit periods beyond the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and 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 non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) net investment in capital assets – 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 net investment 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 non-operating 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 CASH EQUIVALENTS AND INVESTMENTS

The District’s cash and cash equivalents are interest bearing accounts with a local depository secured by FDIC and pledged assets of the bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. Investments are certificates of deposits with a local depository with a maturity greater than 90 days.

	<u>Bank Balance</u>	
<u>Citizens Guaranty Bank</u>		<u>Demand</u>
FDIC	\$	250,000
Securities pledged to district		<u>4,883,732</u>
Bank balance	\$	<u><u>5,133,732</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Book Balance</u>	
	<u>Cash & Cash Equivalents</u>	
Governmental Activities	\$	3,932,693
Business-type Activities		265,987
Fiduciary Funds		
School Activity Funds		188,614
Trust Fund		42,406
		<hr/>
Total carrying amount	\$	<u><u>4,429,700</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.

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	\$ 442,930	\$ 20,000	\$ -	\$ 462,930
Land improvements	1,170,421	-	-	1,170,421
Buildings	41,749,069	65,179	-	41,814,248
Technology equipment	3,251,515	40,320	-	3,291,835
Vehicles	2,631,438	-	-	2,631,438
General equipment	616,915	-	-	616,915
Construction in progress	<u>487,811</u>	<u>147,348</u>	<u>65,179</u>	<u>569,981</u>
Total at historical cost	\$ <u>50,350,100</u>	\$ <u>272,847</u>	\$ <u>65,179</u>	\$ <u>50,557,768</u>
Less: Accumulated depreciation				
Land improvements	\$ 792,183	\$ 34,479	\$ -	\$ 826,663
Buildings	7,757,973	341,267	-	8,099,240
Technology equipment	2,923,813	168,108	-	3,091,922
Vehicles	2,520,611	37,467	-	2,558,078
General equipment	<u>416,448</u>	<u>39,290</u>	<u>-</u>	<u>455,738</u>
Total accumulated depreciation	\$ <u>14,411,029</u>	\$ <u>620,612</u>	\$ <u>-</u>	\$ <u>15,031,641</u>
Governmental Activities				
Capital Assets-net	\$ <u>35,939,071</u>	\$ <u>(347,765)</u>	\$ <u>65,179</u>	\$ <u>35,526,127</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Business-Type Activities</u>	<u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2015</u>
Vehicles	\$ 109,961	\$ -	\$ -	\$ 109,961
Technology equipment	38,240	-	-	38,240
General equipment	<u>335,116</u>	<u>-</u>	<u>-</u>	<u>335,116</u>
Total at historical cost	\$ <u>483,317</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>483,317</u>
Less: Accumulated depreciation				
Vehicles	\$ 85,930	\$ 4,477	\$ -	\$ 90,407
Technology equipment	38,240	-	-	38,240
General equipment	<u>320,416</u>	<u>4,276</u>	<u>-</u>	<u>324,692</u>
Total accumulated depreciation	\$ <u>444,586</u>	\$ <u>8,752</u>	\$ <u>-</u>	\$ <u>453,338</u>
Business-Type Activities				
Capital Assets-net	\$ <u>38,731</u>	\$ <u>(8,752)</u>	\$ <u>-</u>	\$ <u>29,979</u>

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 for the bonds issued by the Estill County School District Finance Corporation aggregating \$22,559,000 and \$1,403,000 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 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 Date</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2014 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Outstanding Balance</u>
2007A Issue	\$ 6,275,000	1/1/2027	3.625-3.875%	\$ 4,565,000	\$ -	\$ 280,000.00	\$ 4,285,000
2010 BAB	5,630,000	9/1/2030	.7-5%	5,375,000		5,375,000.00	-
2010 QSCB	7,350,000	9/1/2027	4.94%	7,350,000			7,350,000
2012R	1,690,000	6/1/2024	1.0 - 2.25%	1,620,000		25,000.00	1,595,000
2013 Issue	1,555,000	11/1/2033	1.4 - 4.25%	1,555,000		10,000.00	1,545,000
2004 Issue	2,350,000	6/1/2024	3.5-4.75%	90,000		90,000.00	-
2004R Issue	6,760,000	8/1/2016	2-3.6%	2,590,000		840,000.00	1,750,000
2007B Issue	440,000	1/1/2028	4.15-4.2%	345,000		20,000.00	325,000
2009R	460,000	3/1/2018	3-3.50%	421,000		7,000.00	414,000
2015R	\$ 5,295,000	9/1/2030	2.0 - 3.0%		5,295,000		5,295,000
				<u>\$ 23,911,000</u>	<u>\$ 5,295,000</u>	<u>\$ 6,647,000</u>	<u>\$ 22,559,000</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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:

Year Ended June 30	Principal		Urgent Need		Interest		Principal	Interest
	Local	SFCC	Principal	Interest	Local	SFCC	Total	Total
2016	\$ 847,161	\$ 313,180	\$ 242,659	\$ 503,760	\$ 244,045	\$ 93,797	\$ 1,403,000	\$ 841,601
2017	882,033	299,958	251,009	494,590	212,131	85,193	1,433,000	791,914
2018	472,317	260,896	259,787	484,992	195,791	78,026	993,000	758,809
2019	145,490	265,611	268,899	475,060	180,599	71,530	680,000	727,189
2019	156,585	275,058	283,357	464,679	177,499	64,923	715,000	707,101
2021-2025	682,864	1,352,194	1,579,942	2,149,446	834,610	214,289	3,615,000	3,198,346
2026-2030	9,484,092	1,554,224	751,684	952,099	618,893	55,715	11,790,000	1,626,708
2031-2034	1,848,139	81,861	-	-	119,972	1,228	1,930,000	121,200
	<u>\$ 14,518,681</u>	<u>\$ 4,402,982</u>	<u>\$ 3,637,337</u>	<u>\$ 5,524,627</u>	<u>\$ 2,583,541</u>	<u>\$ 664,700</u>	<u>\$ 22,559,000</u>	<u>\$ 8,772,868</u>

The District sold a 2010 Qualified School Construction Bond (QSCB bond) for which they are making semi-annual payments into an escrow account. These payments are being invested and accumulating interest for which will be used to retire the bond on September 21, 2027. As of June 30, 2015 the escrow account had accumulated \$314,060.

NOTE E – CAPITAL LEASE PAYABLE

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

KISTA Issue Date	Original Amount	Maturity Date	Interest Rates	2014			2015
				Outstanding Balance	Additions	Retirements	Outstanding Balance
2012	\$ 463,299	3/1/2022	2.0 - 2.625%	\$ 360,739	\$ -	\$ 43,801	\$ 316,938
2006 Issue	\$ 132,792	3/1/2016	3.3-4%	25,239		12,372	12,867
				<u>\$ 385,978</u>	<u>\$ -</u>	<u>\$ 56,173</u>	<u>\$ 329,805</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

<u>Year Ending 30-Jun</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2016	\$ 57,559	\$ 7,449	\$ 65,008
2017	45,582	6,041	51,623
2018	46,472	5,129	51,601
2019	47,541	4,199	51,740
2020	48,431	3,249	51,680
2021-2022	84,220	3,281	87,501
	<u>\$ 329,805</u>	<u>\$ 29,347</u>	<u>\$ 359,152</u>

Total minimum lease payments	\$	359,152
Less: Amount representing interest		<u>(29,347)</u>
Present Value of Net Minimum Lease Payments	\$	329,805

NOTE F – OTHER LONG TERM LIABILITIES

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:

	<u>2014</u>			<u>2015</u>	
	<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>	
Sick Leave	\$ 478,048	\$ 36,508	\$ -	\$ 514,556	

The District elected to take advantage of the 0% interest option repayment plan for the worker’s compensation and property and liability insurance deficit with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker’s compensation deficit during fiscal year 2015 with the remaining balance to be repaid over the next six years, and to pay 40% of the property and liability deficit during fiscal year 2015 with the remaining balance to be repaid over the next two years. The activity during fiscal year 2015 for the worker’s compensation and property and liability deficit are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Insurance Fund</u>	2014			2015	
	<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>	
Worker's Compensation	\$ 298,549	\$ -	\$ 74,637	\$ 223,912	
Property and Liability	131,626		52,651	78,975	
Totals	\$ 430,175	\$ -	\$ 127,288	\$ 302,887	

The minimum payments are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Payment</u>
2016	\$ 76,806
2017	76,806
2018	37,319
2019	37,319
2020	37,319
2021	37,319
Total	\$ 302,887

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		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
	Reduced retirement	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 non-service-related disability benefits.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

District's proportionate share of CERS net pension liability	\$	4,530,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		<u>70,946,192</u>
	\$	<u>75,476,192</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 .139631% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$515,114 related to CERS and \$2,474,475 related to KTRS. The District also recognized revenue of \$2,474,475 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:

See Schedule on Next Page

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	506,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	568,892	-
	\$ 568,892	\$ 506,000

\$568,892 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:

	Year Ended June 30,
2016	\$ 113,778
2017	113,778
2018	113,778
2019	113,778
2020	113,778
	\$ 568,892

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<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 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:

See Schedule on Next Page

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. 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 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	5,114,686	4,530,151	3,945,615
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE H – COMMITMENTS

The District has made commitments for future construction projects as of June 30, 2015 in the amount of \$1,745,714.

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 Estill County School District currently has no pending litigation.

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 and includes Workers’ Compensation insurance.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE M – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Business-Type Activities/Proprietary Fund	\$ (23,303)
General Fund	(620,634)
Construction Fund	(146,908)
School Activity Fund	\$ (25,280)

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 Offer	\$ 52,128
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt payments	220,635
Debt Service	FSPK Fund	Debt Service Fund	Debt payments	\$ 967,480

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	\$ 1,671,871
Health/Life Insurance and HRA/Dental/Vision	2,420,304
Administrative Fee	30,653
Federal Reimbursement	(233,285)
Kentucky Education Network Services	52,043
MUNIS Financial Mgt Software and Services	6,078
McAfee Virus Protection Software and Services	2,411
SFCC Debt Service Payments	<u>843,979</u>
Total	\$ <u><u>4,794,054</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 – RESTRICTED FUND BALANCES

The following funds had restricted fund balances as of June 30, 2015:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 314,764	Future Construction
Debt Service	314,060	Debt Service
FSPK	832,294	School Facilities Construction Commission Requirement
Permanent	1,721	Trust Agreement
Proprietary	\$ 93,367	School Food Service

NOTE R – 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 \$4,520,886 reduction in beginning net position on the Statement of Activities and an increase of \$605,114 of deferred outflows of resources – District contributions subsequent to the measurement date.

NOTE S – PRIOR PERIOD ADJUSTMENT

Due to an adjustment to accounts payable (prior period adjustment 2), fund balance and net position was overstated. They prior period adjustments were as follows:

	<u>Governmental Activities</u>
Net Position July 1, 2014	\$15,416,193
Prior Period Adjustment 1 (See Note P)	(4,350,347)
Prior Period Adjustment 2	<u>(8,665)</u>
Restated Net Position July 1, 2014	<u>\$11,057,181</u>
	<u>General Fund Balance</u>
Fund Balance July 1, 2014	\$3,177,934
Prior Period Adjustment 2	<u>(8,665)</u>
Restated Fund Balance July 1, 2014	<u>\$3,169,270</u>

NOTE T – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 5, 2015, the date of the audit report.

ESTILL 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	0.14%
District's proportionate share of the net pension liability	\$ 4,530,000
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 4,530,000
District's covered-employee payroll	\$ 3,195,253
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.77%
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	0.345%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	70,946,192
Total	\$ 70,946,192
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.

**ESTILL COUNTY SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS**

	2015	2014
COUNTY EMPLOYEE'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 564,804	\$ 603,584
Contributions in relation to the contractually required contribution	564,804	\$ 603,584
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,196,336	\$ 3,195,253
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.

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

Changes of benefit terms - None

Changes of assumptions - None

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

	Other Governmental Fund Types			
	Capital Outlay	Construction	Permanent	Total
Assets				
Cash and Cash Equivalents	\$ -	\$ 318,721	\$ 202,095	\$ 520,815
Total Assets	-	318,721	202,095	520,815
Liabilities				
Accounts Payable		3,957		3,957
Total Liabilities	-	3,957	-	3,957
Fund Balance				
Nonspendable			200,374	200,374
Restricted		314,764	1,721	316,484
Total Fund Balance	-	314,764	202,095	516,859
Total Liabilities and Fund Balance	\$ -	\$ 318,721	\$ 202,095	\$ 520,815

See accompanying notes to the financial statements.

Estill County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
Year ended June 30, 2015

	Other Governmental Fund Types			
	Capital Outlay	Construction	Permanent	Total
Revenues				
From Local Sources				
Earnings on investments	\$ -	\$ 441	\$ 347	\$ 788
Intergovernmental - State	<u>220,635</u>			<u>220,635</u>
Total Revenues	<u>220,635</u>	<u>441</u>	<u>347</u>	<u>221,423</u>
Expenditures				
Building Acquisitions & Construction		100,598		100,598
Building Improvements		44,557		44,557
Other Facilities		<u>2,194</u>		<u>2,194</u>
Total Expenditures	<u>-</u>	<u>147,348</u>	<u>-</u>	<u>147,348</u>
Excess (Deficit) of Revenues Over Expenditures	<u>220,635</u>	<u>(146,908)</u>	<u>347</u>	<u>74,074</u>
Other Financing Sources (Uses)				
Transfers In/(Out)	<u>(220,635)</u>			<u>(220,635)</u>
Total Other Financing Sources (Uses)	<u>(220,635)</u>	<u>-</u>	<u>-</u>	<u>(220,635)</u>
Net Change in Fund Balances	-	(146,908)	347	(146,561)
Fund Balance - Beginning	<u>-</u>	<u>461,671</u>	<u>201,748</u>	<u>663,419</u>
Fund balance - Ending	<u>\$ -</u>	<u>\$ 314,764</u>	<u>\$ 202,095</u>	<u>\$ 516,859</u>

See accompanying notes to the financial statements.

Estill County School District
Combining Balance Sheet - Fiduciary Funds
As of June 30, 2015

	SCHOOL ACTIVITY FUNDS							
	<u>ESTILL COUNTY HIGH SCHOOL</u>	<u>ESTILL COUNTY MIDDLE SCHOOL</u>	<u>ESTILL SPRINGS ELEMENTARY</u>	<u>SOUTH IRVINE ELEMENTARY</u>	<u>WEST IRVINE ELEMENTARY</u>	<u>TRUST</u>	<u>SCHOLARSHIPS</u>	<u>FIDUCIARY FUND TOTAL</u>
ASSETS								
Cash and cash equivalents	\$ 99,004	\$ 19,044	\$ 22,100	\$ 23,213	\$ 25,253	\$ 490	\$ 41,916	\$ 231,020
Total Assets	<u>99,004</u>	<u>19,044</u>	<u>22,100</u>	<u>23,213</u>	<u>25,253</u>	<u>490</u>	<u>41,916</u>	<u>231,020</u>
LIABILITIES								
Accounts payable	2,762	-	-	9,517	-			12,279
FUND BALANCE								
School activities	<u>96,242</u>	<u>19,044</u>	<u>22,100</u>	<u>13,695</u>	<u>25,253</u>	<u>490</u>	<u>41,916</u>	<u>218,740</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 99,004</u>	<u>\$ 19,044</u>	<u>\$ 22,100</u>	<u>\$ 23,213</u>	<u>\$ 25,253</u>	<u>\$ 490</u>	<u>\$ 41,916</u>	<u>\$ 231,020</u>

See accompanying notes to the financial statements.

Estill County School District
Combining Statement of Revenues, Expenses and Changes in Fund Balance
Fiduciary Funds
For the period ended June 30, 2015

	SCHOOL ACTIVITY FUNDS							FIDUCIARY FUND TOTAL
	ESTILL COUNTY HIGH SCHOOL	ESTILL COUNTY MIDDLE SCHOOL	ESTILL SPRINGS ELEMENTARY	SOUTH IRVINE ELEMENTARY	WEST IRVINE ELEMENTARY	TRUST	SCHOLARSHIPS	
Revenues								
Student revenues	\$ 191,507	\$ 86,491	\$ 45,882	\$ 33,917	\$ 100,634	-	-	\$ 458,431
Miscellaneous revenues							5,667	5,667
Earnings from investments							119	119
Total Revenues	<u>191,507</u>	<u>86,491</u>	<u>45,882</u>	<u>33,917</u>	<u>100,634</u>	<u>-</u>	<u>5,786</u>	<u>464,217</u>
Expenses								
Student activities	205,440	91,327	45,171	40,241	101,532	-	-	483,711
Instruction							3,350	3,350
Total Expenses	<u>205,440</u>	<u>91,327</u>	<u>45,171</u>	<u>40,241</u>	<u>101,532</u>	<u>-</u>	<u>3,350</u>	<u>487,061</u>
Excess (Deficit) of Revenues Over Expenses	(13,933)	(4,836)	711	(6,324)	(898)	-	2,436	(22,844)
Fund balance-beginning	<u>110,176</u>	<u>23,880</u>	<u>21,389</u>	<u>20,019</u>	<u>26,151</u>	<u>490</u>	<u>39,479</u>	<u>241,585</u>
Fund balance-ending	<u>\$ 96,242</u>	<u>\$ 19,044</u>	<u>\$ 22,100</u>	<u>\$ 13,695</u>	<u>\$ 25,253</u>	<u>\$ 490</u>	<u>\$ 41,916</u>	<u>\$ 218,740</u>

See the accompanying notes to the financial statements.

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

	<u>FUND BALANCE</u> <u>BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>ENDING</u>
GENERAL FUND	\$ 24,141	\$ 203	\$ 51	\$ -	\$ 24,293
PARKING PERMITS	10,256	1,918	356	(8,000)	3,817
ADMINISTRATIVE FUNDS	27,225	1,339	6,414	-	22,150
FRESHMAN FUNDS	147	-	-	-	147
ENGINEER GUARANTY BANK	7	-	-	-	7
STUDENT VENDING	322	-	2,013	2,030	339
TEACHERS LOUNGE	2,822	1,294	1,697	-	2,418
STORE SALES	633	-	-	(633)	-
ATHLETIC	13,422	64,504	75,421	8,000	10,505
AGRICULTURE	2	-	-	-	2
ACADEMIC	90	-	-	-	90
GREENHOUSE	6,662	4,977	5,878	-	5,761
MUSIC	186	270	320	-	136
SPANISH	-	-	-	-	-
ART CLUB	8	-	-	-	8
AV-READING	977	-	91	-	886
BETA CLUB	2,278	13,267	14,187	-	1,358
COMPUTER GAMES	10	-	-	-	10
DECA	71	-	-	(71)	-
DESIGNER TICKETS	167	112	20	-	259
FBLA	827	13,730	10,807	71	3,820
FCA	127	318	382	-	62
FCCLA	530	1,635	1,275	-	891
FFA	1,479	3,900	4,584	35	830
FRENCH CLUB	803	200	-	-	1,003
GTO/RED CROSS	3	-	-	-	3
KEY CLUB	905	-	-	-	905
LITERARY ARTS	173	-	-	-	173
PEP CLUB	298	-	-	-	298
S.A.D.D.	74	-	-	-	74
SPEECH & DRAMA CLUB	634	-	-	-	634
STUDENT COUNCIL	2,229	-	-	-	2,229
CLASS OF 2012	1,147	-	-	(1,147)	-
CLASS OF 2013	250	-	-	(250)	-
CLASS OF 2014	1,087	-	-	-	1,087
CLASS OF 2015	3,586	896	4,755	-	(272)
CLASS OF 2016	354	6,964	5,199	-	2,119
CLASS OF 2017	-	504	-	-	504
LIBRARY COPIES	218	365	250	-	333
YEARBOOK	610	1,125	1,111	-	624
CHESS CLUB	237	-	-	-	237
VICA CLUB	35	-	-	(35)	-
GUIDANCE OFFICE	510	220	-	-	730
SENIOR TRIP	3,432	63,555	65,155	-	1,832
ECHS YOUNG DEMOCRATS	78	-	-	-	78
ECHS YOUNG REPUBLICANS	81	-	-	-	81
LOST BOOKS	716	-	-	-	716
SPANISH COMMUNITY	25	4,382	293	-	4,114
TATU	70	-	-	-	70
GREEN TEAM	3	-	-	-	3
ROTC	154	-	-	-	154
CERAMICS CLUB	72	140	148	-	64
HOSA	4	1,224	1,226	-	1
ARCHERY	-	4,466	3,808	-	658
	<u>\$ 110,176</u>	<u>\$ 191,507</u>	<u>\$ 205,440</u>	<u>\$ -</u>	<u>\$ 96,242</u>

See accompanying notes to the financial statements.

ESTILL COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the 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 Estill 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

Non-monetary 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 \$97,673.

ESTILL 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 Award Amount	Total Expenditures
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
Food Donation-Commodities	10.565			
Fiscal Year 15		510.4950	\$ N/A	\$ 97,673
Passed through State Department of Education				
National School Lunch Program	10.555			
Fiscal Year 14		7750002 14	N/A	247,240
Fiscal Year 15		7750002 15	N/A	721,091
School Breakfast Program	10.553			
Fiscal Year 14		7760005 14	N/A	85,699
Fiscal Year 15		7760005 15	N/A	242,267
Child Nutrition Cluster Subtotal				<u>1,296,297</u>
Total U.S. Department of Agriculture				<u>1,393,970</u>
U.S. Department of Education				
Passed through State Department of Education				
* Title I Grants to Local Educational Agencies	84.010A			
Fiscal Year 14		3100002 14	1,113,444	258,999
Fiscal Year 14M		3100002 14	14,248	3,024
Fiscal Year 15		3100002 15	1,056,646	817,986
Fiscal Year 15M		3100002 15	15,000	12,382
* School Improvement Part A	84.010A			
Fiscal Year 14E		3100202 14	205,035	6,938
Fiscal Year 15E		3100202 15	97,594	97,594
				<u>1,196,924</u>
* Special Education Grants to States	84.027A			
Fiscal Year 13		3810002 13	580,221	112
Fiscal Year 14		3810002 14	546,990	90,514
Fiscal Year 15		3810002 15	560,500	498,903
* Special Education-Preschool Grants	84.173A			
Fiscal Year 13		3800002 13	50,839	5,586
Fiscal Year 14		3800002 14	51,864	28,771
Special Education Cluster Subtotal				<u>623,888</u>
Vocation Education - Basic Grant to States	84.048			
Fiscal Year 14		4621132 14	28,100	3,349
Fiscal Year 14A		4621132 14	1,122	1,122
Fiscal Year 15		4621132 15	28,772	28,772
				<u>33,243</u>
Race to the Top	84.413A			
Fiscal Year 11		3960002 11	46,706	13,270
Improving Teacher Quality State Grants	84.367A			
Fiscal Year 14		3230002 14	183,269	12,698
Fiscal Year 15		3230002 15	183,010	183,010
				<u>195,708</u>
Rural Education	84.358B			
Fiscal Year 13		3140002 13	47,414	274
Fiscal Year 14		3140002 14	43,831	43,742
Fiscal Year 15		3140002 15	50,402	4,451
				<u>48,468</u>
Passed through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A			
Fiscal Year 13P		3793P	150,000	41,156
Fiscal Year 14A		3794A	76,300	12,779
Fiscal Year 14P		3794P	-	4,650
Fiscal Year 15A		379AA	50,780	46,258
Fiscal Year 15C		379AC	55,000	69,934
Fiscal Year 15K		369AK	70,000	64,977
				<u>239,754</u>
Passed through Workforce Development Cabinet				
Recruitment, Rentention, and Results	84.002			
Fiscal Year 15		365A	15,560	15,509

ESTILL 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 Award Amount	Total Expenditures
Adult Education State Grant Program	84.002			
Fiscal Year 15		373A	40,918	39,924
Adult Education State Grant Program - Developmental Funds	84.002			
Fiscal Year 15S		373AS	906	162
Total Adult Education				<u>55,595</u>
Total U.S. Department of Education				<u>2,406,849</u>
U.S. Department of Labor				
Passed through the State Department of Education				
Jobs for Kentucky Graduates	17.278			
Fiscal Year 15		273SR10 15	\$ 10,000	9,654
Total U.S. Department of Labor				<u>9,654</u>
Grand Totals of All Federal Programs				<u>\$ 3,810,474</u>

* Major Programs

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 Estill County Board of Education and
State Committee for School District Audits
Irvine, 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 Estill County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Estill County School District's basic financial statements, and have issued our report thereon dated November 5, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Estill 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 Estill County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Estill 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 Estill 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 Estill County School District, in a separate letter dated November 5, 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, P.C.

Richmond, Kentucky
November 5, 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 Estill County Board of Education and
State Committee for School District Audits
Irvine, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Estill 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 Estill County School District's major federal programs for the year ended June 30, 2015. Estill 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 Estill 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 Estill 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 Estill County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Estill 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 Estill 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 Estill 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 Estill 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 5, 2015

ESTILL COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
 For the 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 1 [CFDA 84.010A] Special Education Cluster [CFDA 84.027A, 84.173A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
 AUDIT**

No findings at the major federal award programs level.

There were no prior year audit findings.

ESTILL COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the year ended June 30, 2015