

ADAIR COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

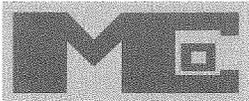
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INDEPENDENT AUDITOR'S REPORT

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**M A T H E R
& COMPANY**

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Adair 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; 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 *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*. 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 includes 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, and each major fund of the Adair County School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, for the year ended June 30, 2015. 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, budgetary comparison information and pension information on pages 4 through 8, 43 through 44, and 45 through 50, respectively, 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 schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by 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 schedules of receipts, disbursements, and due to student groups, 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 schedules of receipts, disbursements, and due to student groups, 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 3, 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.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 3, 2015

ADAIR COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED) **Year ended June 30, 2015**

The Adair County Board of Education (District) offers the following narrative of the financial statements 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 report.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$3,338,241 which includes General Fund balance of \$3,237,833, Facility Support (FSPK) of \$661, Capital Outlay of \$75,582, and Construction of \$24,165.
- The General Fund had \$20,758,650 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes.
- The District has completed a new wing on the Adair County High School. It houses the new Welding Career Path Program. They have also added a Health Care Career Path.
- The District is in the process of building a new Bus Garage at an approximate cost of \$1,753,430.
- The District is in the third year of participation with the Race to the Top Grant to help our students achieve success and change the way instruction is delivered through flipped classrooms, incorporation of Covey's seven principals of highly effective teams, and five years of career coaching and data analysis teams.
- The District adopted new pension standards resulting in a \$4,039,000 reduction in net position on the statement of activities.

OVERVIEW OF FINANCIAL STATEMENTS

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

The government-wide financial statements are designed to provide an 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. The increases or decreases in assets and liabilities over time will be helpful in determining the financial status of the District.

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund financial statements are a grouping of related accounts that are used to maintain control over resources for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure compliance with financial and legal requirements. All of the District's funds are divided into three categories: governmental, proprietary, and fiduciary funds. Fiduciary funds are to be set up to help aid in supporting students and teachers in the education process. The proprietary funds are our school food service operations. All other activities of the District are considered as governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 18 of this report.

The notes provide additional information to the understanding of the data provided within our financial statements. The notes for the financial statements can be found on pages 19 through 42 of this report.

Total Assets	\$ 37,805,955
Deferred Outflows of Resources	\$ 1,169,958
Total Liabilities	\$ 32,376,855
Deferred Inflows of Resources	\$ 452,000
Total Net Position	\$ 6,147,058

Comments on Budget Comparisons

- The District's 2015 revenues were \$26,786,706.
- The District's 2015 expenditures were \$27,437,826.
- The District's Financing from other sources were \$1,282,411.
- The fund balance at the end of the 2015 fiscal year for the General Fund was \$3,335,252. This is approximately a 12% contingency.

The following table is a summary/breakdown of the District's General Fund revenue and expenditures for the year ended June 30, 2015.

Revenues

Local revenue	\$ 4,588,066
State and Federal revenue	<u>16,170,584</u>

Total revenues	20,758,650
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Expenditures

Instruction	\$ 12,351,756
Student support services	618,006
Instructional staff support services	575,049
District administration	950,449
School administration	945,478
Business support services	431,788
Plant and operations and maintenance	1,907,729
Student transportation	1,903,640
Debt Service	209,251
Community service	<u>51,338</u>

Total expenditures	<u>19,944,484</u>
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Excess of revenues over expenditures	<u>\$ 814,166</u>
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Total Governmental Funds

Total Revenue	\$ 26,786,706
Total Expenditures	27,437,826
Total Other Financing Sources	<u>1,282,411</u>

Excess of expenditures over revenue and other financing sources	<u>\$ 631,291</u>
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Grant (Fund II) Information

The following is a list of major Grants and the amounts that were received during the 2015 fiscal year.

State Grants

KECSAC	\$ 274,502
Extended School Services	70,048
Family Resource Centers	222,183
Gifted and Talented	39,290
Kera-Preschool	309,728
Professional Development	23,975
Textbooks	91,789
School Safety	29,606

KY ASAP	13,500
KETS	164,792
Federal Grants	
Title I	\$ 1,291,480
Migrant	167,780
Title I-Part D	26,612
Title I – Part D Subpart 2	49,153
Idea B Basic	533,486
Idea B Preschool	24,274
Vocational Education	38,535
Rural and Low Income	55,272
Title II – Quality Teacher	179,143
21 st Century	285,000
Local Grants	
WHAS Grant	\$ 30,000

The Title I grant was allocated to our elementary schools, our intermediate school, and our middle school. These supplemental funds are used for salaries, supplies, parent involvement activities, travel, and professional development. These funds are used school wide. The primary focus of the Title I program is based on the academic need of each individual school.

The Vocational Funds are allocated between the Business Department, the Vocational Ag. Department, the Technology Department, and the Home Ec. Department at the Adair County High School. These funds were used for equipment, computers, and travel for the teachers.

The IDEA B Basic, IDEA B Preschool, and KERA Preschool funds are generated on the December 1 child count. These funds are used for salaries, supplies, special equipment, professional development, consultant fees, and travel expenses.

The Title II – Quality Teacher Grant was incorporated with the Title I funds to help student achievement at all levels from elementary school to the high school.

The WHAS Grant funds were used to buy iPads for our special needs students.

The KECSAC funds are used at the Adair County Youth Development Center. These funds are used for salaries for teachers and supplies for the students housed at that facility.

The 21st Century funds are used at the Adair Primary Center and the Adair County Elementary after school programs that help to make those students more rounded.

School Food Services Fund

Food Service Operating Revenue:	
Lunch Sales	\$ 153,293
Federal Grants	1,204,338
State Grants	152,884
Interest	1,084
Donated Commodities	92,673
Loss of Assets	<u>(351)</u>
Total	<u>\$ 1,603,921</u>
Total Expenses:	
Salaries, wages and benefits	\$ 733,381
Supplies	955,771
Contract services	25,104
Depreciation	46,851
Other	<u>4,971</u>
Total	<u>\$ 1,766,078</u>
Net position as of June 30, 2015	<u>\$ 369,506</u>

If you have any questions, please contact the Superintendent or Finance Director at (270) 384-2476, or 1204 Greensburg Street, Columbia, Kentucky 42728.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash	\$ 3,338,241	\$ 130,953	\$ 3,469,194
Receivables:			
Taxes	103,120	-	103,120
Other	11,906	-	11,906
Intergovernmental – State	20,036	-	20,036
Intergovernmental – Federal	187,056	-	187,056
Net capital assets	<u>33,776,090</u>	<u>238,553</u>	<u>34,014,643</u>
Total assets	37,436,449	369,506	37,805,955
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	644,958	-	644,958
Deferred outflows of resources related to pension expense	<u>525,000</u>	<u>-</u>	<u>525,000</u>
Total deferred outflows of resources	1,169,958	-	1,169,958
LIABILITIES			
Accounts payable	92,090	-	92,090
Unearned revenue	84,611	-	84,611
Current maturities of bond obligations	1,707,508	-	1,707,508
Current portion of accumulated sick leave	47,998	-	47,998
Interest payable	399,296	-	399,296
Noncurrent net pension liability	4,047,000	-	4,047,000
Noncurrent maturities of bond obligations	25,239,160	-	25,239,160
Noncurrent portion of accumulated sick leave	674,200	-	674,200
Noncurrent portion of accrued expense	<u>84,992</u>	<u>-</u>	<u>84,992</u>
Total liabilities	32,376,855	-	32,376,855
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension expense	452,000	-	452,000
NET POSITION			
Invested in capital assets, net of related debt	6,430,126	238,553	6,668,679
Restricted for:			
Capital expenditures/debt service	100,408	-	100,408
Unrestricted deficit	<u>(752,982)</u>	<u>130,953</u>	<u>(622,029)</u>
Total net position	<u>\$ 5,777,552</u>	<u>\$ 369,506</u>	<u>\$ 6,147,058</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year ended June 30, 2015

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
Governmental activities							
Instruction	\$ 16,317,552	\$ -	\$ 6,839,653	\$ -	\$ (9,477,899)	\$ -	\$ (9,477,899)
Student support services	631,487	-	132,187	-	(499,300)	-	(499,300)
Instructional staff support services	798,399	-	375,380	-	(423,019)	-	(423,019)
District administration	962,120	-	58,041	-	(904,079)	-	(904,079)
School administration	951,997	-	200,722	-	(751,275)	-	(751,275)
Business support services	453,175	-	80,740	-	(372,435)	-	(372,435)
Plant operations and maintenance	2,486,671	-	150,180	-	(2,336,491)	-	(2,336,491)
Student transportation	1,818,924	-	240,880	-	(1,578,044)	-	(1,578,044)
Community services	287,313	-	289,064	-	1,751	-	1,751
Facilities	201,105	-	-	-	(201,105)	-	(201,105)
Interest	776,885	-	-	776,885	-	-	-
Bond issue costs	38,497	-	-	-	(38,497)	-	(38,497)
Total governmental activities	25,724,125	-	8,366,847	776,885	(16,580,393)	-	(16,580,393)
Business-type activities							
Food service	1,766,078	153,293	1,449,895	-	-	(162,890)	(162,890)
Total business-type activities	1,766,078	153,293	1,449,895	-	-	(162,890)	(162,890)
Total primary government	\$ 27,490,203	\$ 153,293	\$ 9,816,742	\$ 776,885	(16,580,393)	(162,890)	(16,743,283)
			General revenues				
			Taxes:				
			Property		3,326,665	-	3,326,665
			Motor vehicle		480,426	-	480,426
			Utilities		1,004,978	-	1,004,978
			Earnings on investments		30,008	1,084	31,092
			State grants		12,646,916	-	12,646,916
			Federal grants		38,370	-	38,370
			Other local amounts		115,611	-	115,611
			Gain (loss) on disposals of capital assets		843	(351)	492
			Total general revenues		17,643,817	733	17,644,550
			Change in net position		1,063,424	(162,157)	901,267
			Net position as of July 1, 2014 as previously reported		8,753,128	531,663	9,284,791
			Change in accounting principle		(4,039,000)	-	(4,039,000)
			Net position as of July 1, 2014 as restated		4,714,128	531,663	5,245,791
			Net position as of June 30, 2015		\$ 5,777,552	\$ 369,506	\$ 6,147,058

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash	\$ 3,237,833	\$ -	\$ 75,582	\$ 661	\$ 24,165	\$ -	\$ 3,338,241
Receivables:							
Taxes	103,120	-	-	-	-	-	103,120
Other	11,906	-	-	-	-	-	11,906
Intergovernmental							
– State	-	20,036	-	-	-	-	20,036
– Federal	-	187,056	-	-	-	-	187,056
Due from Special Revenue Funds	<u>122,481</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>122,481</u>
Total assets	<u>\$ 3,475,340</u>	<u>\$ 207,092</u>	<u>\$ 75,582</u>	<u>\$ 661</u>	<u>\$ 24,165</u>	<u>\$ -</u>	<u>\$ 3,782,840</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 92,090	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,090
Due to General Fund	-	122,481	-	-	-	-	122,481
Unearned revenue	-	84,611	-	-	-	-	84,611
Current portion of accumulated sick leave	<u>47,998</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,998</u>
Total liabilities	140,088	207,092	-	-	-	-	347,180
Fund balances							
Restricted for:							
Capital expenditures	-	-	-	-	24,165	-	24,165
Capital expenditures/ debt service	-	-	75,582	661	-	-	76,243
Assigned to maintenance project	250,000	-	-	-	-	-	250,000
Unassigned	<u>3,085,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,085,252</u>
Total fund balances	<u>3,335,252</u>	<u>-</u>	<u>75,582</u>	<u>661</u>	<u>24,165</u>	<u>-</u>	<u>3,435,660</u>
Total liabilities and fund balances	<u>\$ 3,475,340</u>	<u>\$ 207,092</u>	<u>\$ 75,582</u>	<u>\$ 661</u>	<u>\$ 24,165</u>	<u>\$ -</u>	<u>\$ 3,782,840</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2015

Total fund balances – governmental funds	\$ 3,435,660
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$49,613,292, and the accumulated depreciation is \$15,837,202.	33,776,090
Deferred loss on bond refundings is not a current financial resource and therefore is not reported as a deferred outflows of resources in governmental funds.	644,958
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(26,946,668)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(674,200)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(399,296)
Noncurrent net pension liability is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position. The deferred outflows of resources related to pension expense total \$525,000, the deferred inflows of resources related to pension expense total \$452,000, and the net pension liability on the statement of net position is \$4,047,000.	(3,974,000)
Noncurrent portion of accrued expense is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(84,992)</u>
Total net position – governmental activities	<u>\$ 5,777,552</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2015**

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 2,961,778	\$ -	\$ -	\$ 364,887	\$ -	\$ -	\$ 3,326,665
Motor vehicle	480,426	-	-	-	-	-	480,426
Utilities	1,004,978	-	-	-	-	-	1,004,978
Earnings on investments	26,055	782	701	361	2,109	-	30,008
Other local	114,829	30,622	-	-	-	-	145,451
Intergovernmental – State	16,132,214	1,105,715	237,602	524,933	-	995,482	18,995,946
Intergovernmental – Federal	38,370	2,764,862	-	-	-	-	2,803,232
Total revenues	20,758,650	3,901,981	238,303	890,181	2,109	995,482	26,786,706
Expenditures							
Current:							
Instruction	12,351,756	3,490,475	-	-	-	-	15,842,231
Student support services	618,006	13,481	-	-	-	-	631,487
Instructional staff support services	575,049	222,891	-	-	-	-	797,940
District administration	950,449	-	-	-	-	-	950,449
School administration	945,478	-	-	-	-	-	945,478
Business support services	431,788	19,680	-	-	-	-	451,468
Plant operations and maintenance	1,907,729	-	-	-	-	-	1,907,729
Student transportation	1,903,640	1,665	-	-	-	-	1,905,305
Community services	51,338	235,926	-	-	-	-	287,264
Facilities acquisition and construction	-	-	-	-	1,376,105	-	1,376,105
Debt service	209,251	-	-	-	-	2,133,119	2,342,370
Total expenditures	19,944,484	3,984,118	-	-	1,376,105	2,133,119	27,437,826
(Deficit) excess of revenues (under) over expenditures	814,166	(82,137)	238,303	890,181	(1,373,996)	(1,137,637)	(651,120)
Other financing sources (uses)							
Proceeds from bond issuance	250,933	-	-	-	1,026,503	-	1,277,436
Operating transfers in	121,176	102,735	-	-	75,000	1,137,637	1,436,548
Operating transfers out	(287,684)	(20,598)	(238,140)	(890,126)	-	-	(1,436,548)
Other	4,975	-	-	-	-	-	4,975
Total other financing sources (uses)	89,400	82,137	(238,140)	(890,126)	1,101,503	1,137,637	1,282,411
Net change in fund balance	903,566	-	163	55	(272,493)	-	631,291
Fund balance as of July 1, 2014	2,431,686	-	75,419	606	296,658	-	2,804,369
Fund balance as of June 30, 2015	<u>\$ 3,335,252</u>	<u>\$ -</u>	<u>\$ 75,582</u>	<u>\$ 661</u>	<u>\$ 24,165</u>	<u>\$ -</u>	<u>\$ 3,435,660</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2015

Net change in total fund balances – governmental funds	\$ 631,291
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which capital outlays (\$1,426,904) exceed depreciation expense (\$1,113,001), and book value of disposed capital assets (\$4,132).	309,771
Deferred loss on bond refundings is not reported as an expenditure in the governmental fund financial statements, but is capitalized and amortized over the life of the related bonds on the statement of activities.	(89,950)
Bond proceeds are other financing sources in the governmental fund financial statements, but are not included in the statement of activities.	(1,315,933)
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively.	1,655,435
Accrued expense related to noncurrent portion of accrued liability is recognized in the statement of activities, but not in the governmental fund financial statements because it will not be paid with existing financial resources.	16,999
Pension expense is recognized in the governmental fund financial statements as the total expenditures paid in the current year for the employer's portion of the County Employees Retirement System contributions. However, on the statement of activities, pension expense is calculated using the accrual basis of accounting which accounts for the increases and decreases in the net pension liability.	65,000
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>(209,189)</u>
Change in net position – governmental activities	<u>\$ 1,063,424</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUND

June 30, 2015

	School Food Service <u>Fund</u>
ASSETS	
Current assets	
Cash	\$ <u>130,953</u>
Total current assets	130,953
Noncurrent assets	
Capital assets	695,947
Less accumulated depreciation	<u>457,394</u>
Total noncurrent assets	<u>238,553</u>
Total assets	369,506
NET POSITION	
Invested in capital assets	238,553
Unrestricted	<u>130,953</u>
Total net position	<u>\$ 369,506</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND
Year ended June 30, 2015**

	School Food Service <u>Fund</u>
Operating revenues	
Lunchroom sales	\$ 153,293
Operating expenses	
Salaries, wages, and benefits	733,381
Contract services	25,104
Materials and supplies	955,771
Depreciation	46,851
Other	<u>4,971</u>
Total operating expenses	<u>1,766,078</u>
Operating loss	(1,612,785)
Nonoperating revenues and expenses	
Federal grants	1,204,338
State grants	152,884
Donated commodities	92,673
Interest income	1,084
Loss on disposals of capital assets	<u>(351)</u>
Total nonoperating revenues and expenses	1,450,628
Change in net position	(162,157)
Net position as of July 1, 2014	<u>531,663</u>
Net position as of June 30, 2015	<u><u>\$ 369,506</u></u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUND
Year ended June 30, 2015

	School Food Service Fund
Cash flows from operating activities	
Cash received from:	
Lunchroom sales	\$ 153,293
Cash paid to/for:	
Employees and contract services	(758,485)
Materials and supplies	<u>(868,069)</u>
Net cash used in operating activities	(1,473,261)
Cash flows from noncapital financing activities	
Government grants	<u>1,357,222</u>
Net cash provided by noncapital financing activities	1,357,222
Cash flows from investing activities	
Receipt of interest income	<u>1,084</u>
Net cash provided by investing activities	<u>1,084</u>
Net decrease in cash	(114,955)
Cash as of July 1, 2014	<u>245,908</u>
Cash as of June 30, 2015	<u><u>\$ 130,953</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (1,612,785)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	46,851
Donated commodities	<u>92,673</u>
Net cash used in operating activities	<u><u>\$ (1,473,261)</u></u>
Schedule of non-cash transactions	
Donated commodities	\$ 92,673

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUND

June 30, 2015

	<u>Student Activity Funds</u>
ASSETS	
Cash	\$ <u>150,050</u>
Total assets	150,050
LIABILITIES	
Accounts payable	6,283
Due to student groups	<u>143,767</u>
Total liabilities	<u>150,050</u>
NET POSITION	<u>\$ -</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2015

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Adair 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 Adair County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of those funding source entities. However, the District is not included in any other governmental reporting entity, and its 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 District's operation. The basic financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements 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 basic financial statements of the following organization are included in the accompanying basic financial statements:

Adair County School District Finance Corporation – The Adair County, Kentucky, Board of Education established the Adair County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Adair County Board of Education also comprise the Corporation's Board of Directors.

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 District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District's activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. 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 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 District's general revenues.

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The fund's principal operating revenues are food service charges. Operating expenses include salaries and benefits, supplies and materials, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

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

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

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

4. The Debt Service Fund accounts for and reports expenditures for debt payments. This is a major fund of the District.

b. Proprietary fund type

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

c. Fiduciary fund type

The Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds* (Redbook).

Budgetary process – The District’s budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund and the School Food Service Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Inventories – Supplies and materials are charged to expense when purchased (purchases method).

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items on the accompanying statement of net position using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

Deferred outflows of resources related to pension expense – Deferred outflows of resources related to pension expense represent District contributions to a multi-employer pension plan after the measurement date (June 30, 2014) used to account for the pension liability on the accompanying statement of net position.

Deferred loss on bond refundings – Deferred loss on bond refundings represent losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds.

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

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Effective July 1, 2013, the District maintains a capitalization threshold of \$1,000. Prior to July 1, 2013, the District maintained a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there was 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 asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	20-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	12 years

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 in 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 if they will be liquidated with current resources. In general, payments made within 60 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.

Unearned revenue – Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District’s estimates using historical trend information. The current portion of the liability is estimated based on the anticipated payouts in the succeeding fiscal year.

Deferred inflows of resources related to pension expense – Deferred inflows of resources related to pension expense on the accompanying statement of net position represent the net difference between projected and actual earnings on investments held by multi-employer pension plans in which the District participates. These amounts will be recognized as pension expense for future years.

Pensions – For purposes of measuring the net pension liability, deferred outflows and deferred inflows of resources related to pension expense, pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS), and additions to/deductions from CERS’s fiduciary net position have been determined on the same basis as they are reported by CERS. 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.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format or are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2015.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment. The District does not have any committed funds as of June 30, 2015.

Assigned – This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classification.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. Amounts invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on the asset's use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events – The District's management has evaluated subsequent events through November 3, 2015, the date which the financial statements were available for issue. No subsequent events were of such nature to require disclosure.

New accounting pronouncements – In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and in November 2014, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 replace previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of GASB Statements No. 68 and No. 71 are to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. These Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statements No. 68 and No. 71 also provide related note disclosure and supplementary information requirements. The District adopted these statements effective July 1, 2014 (see Note 8) resulting in an increase of deferred outflows of resources related to pension expense of \$540,000, and a \$4,579,000 increase in net pension liability on the statement of net position, and a \$4,039,000 reduction in the District's net position as of July 1, 2014 on the statements of net position and activities.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. GASB Statement No. 72 requires entities to determine fair value based on the price that would be received to sell an asset or paid to transfer a

liability to a market participant utilizing the highest and best use premise. GASB Statement No. 72 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and applies in conjunction with other GASB statements that require or permit fair value measurements and disclosures.

GASB Statement No. 72 requires impacted assets and liabilities to be measured and disclosed in one of three categories based on the significance and source of the inputs to their valuation. The hierarchy consists of three broad levels: Level 1, Level 2, and Level 3. Level 1 inputs have the highest priority and consist of observable unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include a) quoted prices for similar assets or liabilities in active markets, b) quoted prices for identical or similar assets or liabilities in inactive markets, c) inputs other than quoted prices that are observable for the asset or liability, and d) inputs other than quoted prices that are observable for the asset or liability, and d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs have the lowest priority, are unobservable, and include judgments about the assumptions that market participants would use in pricing the asset or liability.

An asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to its fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs. GASB Statement No. 72 requires the use of specific valuation techniques based on the available inputs to measure the fair value of the entity's impacted assets and liabilities. When available, GASB Statement No. 72 requires measuring fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

This statement is effective for reporting periods beginning after June 15, 2015. The District has not determined the impact, if any, this statement will have on its future financial statements.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. These statements establish new reporting and disclosure requirements for entities that provide postemployment benefits other than retirements and establishes criteria whereas these amounts may be accrued or disclosed in entity financial statements. These statements are effective for reporting periods beginning after June 15, 2016. The District has not determined the impact these statements will have on future financial statements.

2. Deposits with financial institutions

As of June 30, 2015, the carrying amount of the District's deposits with financial institutions was \$3,619,244, and its bank balances totaled \$4,766,345. Of the total bank balances,

\$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

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

SEEK Capital Outlay Fund
 Facility Support Program (FSPK) Fund
 School Construction Fund
 Student Activity Funds

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2015 were \$.505 per \$100 valuation for real property, \$.505 per \$100 valuation for business personal property, and \$.563 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.

4. Capital assets

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

<u>Governmental Activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Land	\$ 821,256	\$ 125,000	\$ -	\$ -	\$ 946,256
Buildings and improvements	41,412,037	1,050,000	-	-	42,462,037
Technology equipment	1,335,995	-	253,261	-	1,082,734
Vehicles	4,000,581	251,904	-	-	4,252,485
General equipment	<u>871,850</u>	<u>-</u>	<u>2,070</u>	<u>-</u>	<u>869,780</u>
Total cost	\$ 48,441,719	\$ 1,426,904	\$ 255,331	\$ -	\$ 49,613,292

<u>Governmental Activities</u>	Balance July 1, 2014	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, 2015
Less accumulated depreciation:					
Buildings and improvements	\$ 9,732,280	\$ 836,050	\$ -	\$ -	\$ 10,568,330
Technology equipment	1,089,373	101,550	249,468	-	941,455
Vehicles	3,313,955	170,267	-	-	3,484,222
General equipment	<u>839,792</u>	<u>5,134</u>	<u>1,731</u>	<u>-</u>	<u>843,195</u>
Total accumulated depreciation	<u>14,975,400</u>	<u>1,113,001</u>	<u>251,199</u>	<u>-</u>	<u>15,837,202</u>
Governmental activities net capital assets	<u>\$ 33,466,319</u>	<u>\$ 313,903</u>	<u>\$ 4,132</u>	<u>\$ -</u>	<u>\$ 33,776,090</u>
<u>Business-Type Activities</u>	Balance July 1, 2014	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	Balance June 30, 2015
Food service equipment	\$ 699,602	\$ -	\$ 3,655	\$ -	\$ 695,947
Less accumulated depreciation:					
Food service equipment	<u>413,847</u>	<u>46,851</u>	<u>3,304</u>	<u>-</u>	<u>457,394</u>
Business-type activities net capital assets	<u>\$ 285,755</u>	<u>\$ (46,851)</u>	<u>\$ 351</u>	<u>\$ -</u>	<u>\$ 238,553</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 348,131
Instructional staff support services	459
District administration	11,671
School administration	6,519
Business support services	1,707
Plant operations and maintenance	578,942
Student transportation	165,523
Community services	<u>49</u>
Total depreciation expense	<u>\$ 1,113,001</u>

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Adair County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rate are summarized below:

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2004	\$ 820,000	1.20 – 3.70%
2005 KISTA	220,529	3.00 – 3.625%
2005 Energy	2,275,000	2.25 – 4.40%
2005	11,240,000	2.55 – 4.25%
2006 KISTA	256,465	3.30 – 4.00%
2006 KISTA	337,705	3.50 – 3.875%
2006 Energy	500,000	4.00 – 4.50%
2008 KISTA	239,118	3.00 – 3.75%
2009	2,530,000	2.00 – 3.25%
2010 KISTA	197,949	2.00 – 3.60%
2011 KISTA	172,266	1.00 – 4.00%
2013	12,885,000	2.00 – 3.125%
2013 KISTA	1,076,302	2.00 – 2.25%
2013	9,010,000	1.00 – 2.25%
2014 KISTA	184,953	2.00%
2014 KISTA	185,889	2.00 – 3.00%
2015 KISTA	250,933	1.00 – 2.625%
2015	1,065,000	1.00 – 3.60%

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

During fiscal year 2013, the District issued revenue refunding bonds totaling \$9,010,000 to partially defease the 2005 Energy Bond issue totaling \$1,535,000 and the 2005 issue totaling \$6,770,000. This transaction will result in future cash flow savings of approximately \$795,000, and an economic gain (difference between present value of the new debt service payments and the old debt service payments) of approximately \$700,000. As of June 30, 2015, the defeased portion of the 2005 bonds is outstanding. The amount will be retired on August 1, 2015.

For the 2004, 2005, 2009, and 2013 (two issues) bond issues, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District

would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

Fiscal Year Ending	Adair County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2016	\$ 971,131	\$ 433,236	\$ 736,377	\$ 224,674	\$ 2,365,418
2017	972,437	408,760	758,379	210,131	2,349,707
2018	965,670	385,731	777,359	191,149	2,319,909
2019	963,215	365,025	792,318	176,191	2,296,749
2020	990,673	343,729	809,371	159,138	2,302,911
2021	1,000,734	319,440	790,143	140,758	2,251,075
2022	1,009,807	295,515	704,870	124,152	2,134,344
2023	1,040,692	272,070	720,177	108,846	2,141,785
2024	1,053,222	247,854	735,820	93,204	2,130,100
2025	833,023	225,183	752,250	76,771	1,887,227
2026	831,938	203,785	628,062	60,659	1,724,444
2027	856,710	180,614	237,290	49,752	1,324,366
2028	835,723	155,603	244,277	42,766	1,278,369
2029	858,283	130,043	251,717	35,326	1,275,369
2030	885,616	103,734	259,384	27,659	1,276,393
2031	912,716	76,594	267,284	19,759	1,276,353
2032	939,436	48,190	275,564	11,479	1,274,669
2033	969,353	18,313	230,647	3,604	1,221,917
2034	45,000	2,250	-	-	47,250
2035	40,000	720	-	-	40,720
	<u>\$ 16,975,379</u>	<u>\$ 4,216,389</u>	<u>\$ 9,971,289</u>	<u>\$ 1,756,018</u>	<u>\$ 32,919,075</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2015 is as follows:

Issue	Balance July 1, 2014	Additions	Payments	Balance June 30, 2015
School Building Revenue Bonds:				
2004	\$ 85,000	\$ -	\$ 85,000	\$ -
2005	1,615,000	-	510,000	1,105,000

<u>Issue</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2015</u>
2009	\$ 1,860,000	\$ -	\$ 235,000	\$ 1,625,000
2013	12,685,000	-	215,000	12,470,000
2013	8,875,000	-	140,000	8,735,000
2015	-	1,065,000	-	1,065,000
Energy Bonds:				
2005	110,000	-	110,000	-
2006	413,000	-	18,000	395,000
KISTA Bonds:				
2005	21,102	-	21,102	-
2006	48,741	-	23,892	24,849
2006	104,294	-	37,694	66,600
2008	96,506	-	24,987	71,519
2010	118,030	-	19,418	98,612
2011	118,402	-	16,599	101,803
2013	780,652	-	153,152	627,500
2014	164,681	-	20,599	144,082
2014	185,889	-	20,119	165,770
2015	-	250,933	-	250,933
Totals	<u>\$ 27,281,297</u>	<u>\$ 1,315,933</u>	<u>\$ 1,650,562</u>	<u>\$ 26,946,668</u>

6. Accumulated unpaid sick leave benefits

Upon retirement from the school system, eligible employees will receive from the District an amount equal to 30% of the value of accumulated sick leave.

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

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

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2015 is as follows:

Balance as of July 1, 2014	\$ 647,009
Additions	336,836

Less payments/forfeitures	<u>\$ 261,647</u>
Balance as of June 30, 2015	722,198
Less current portion	<u>47,998</u>
Noncurrent portion	<u>\$ 674,200</u>

7. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantors' review, the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2015 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

8. Retirement plans

The District's employees are provided with two pension plans based on each position's college degree requirement. CERS covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System

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, and death and disability benefits to plan employees and beneficiaries. Employees are vested in the plan after five years of 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 of service or 65 years old
	Reduced retirement	At least five years of service and 55 years old, or at least 25 years of service and any age
Tier 2	Participation date	September 1, 2008 – December 31, 2013
	Unreduced retirement	At least five years of service and 65 years old, or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least ten years of service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least five years of 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 Kentucky General Assembly. Retirement is based on a factor of the number of years of 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 of 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 of service is required for nonservice-related disability benefits.

Contributions – Required contributions as determined by the Kentucky Retirement System Board of Trustees 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

The District matches at a rate of 17.76% of the employee's total covered compensation. The District's matching contributions total \$525,484 for the year ended June 30, 2015.

General information about the Teachers Retirement System of the Commonwealth of Kentucky

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

Benefits provided – 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 years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either attain age fifty-five and complete five years of Kentucky service, or complete 27 years of Kentucky service.

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

Final average salary is defined as the member’s five 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 highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of 60% 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 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the Kentucky General Assembly.

Contributions – Contribution rates are established by KRS. Employees are required to contribute 12.105% of their salaries to KTRS.

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

Other retirement plans

The District also offers employees the option to participate in voluntary tax-deferred compensation retirement plans as provided by the Adair County Board of Education 403(b) Plan, and by the Kentucky Public Employees' Deferred Compensation Program which administers 401(k) plans sponsored by the Commonwealth of Kentucky. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable under Sections 403(b), 401(k), and 457 of the Internal Revenue Code. Members contributed approximately \$70,000 during the year ended June 30, 2015. The District does not contribute to these plans.

Medical insurance plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of employees before July 1, 2008 is contributed. 3% of the amount is paid by member contributions, and 0.75% is paid from Commonwealth of Kentucky appropriation, and 2.25% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the plan's medical expenses.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

As of 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 the District's behalf. The approximate amount recognized by the District and the Commonwealth of Kentucky as its proportionate share of the net pension liability were as follows:

District's proportionate share of the CERS net pension liability	\$ 4,047,000
Commonwealth's proportionate share of the KTRS net liability associated with the District	71,029,000

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 CERS as determined by the actuary. As of June 30, 2014, the District's proportion was 0.12%.

For the year ended June 30, 2015, the District recognized pension expense totaling approximately \$461,000 related to CERS.

The District reported approximate deferred outflows of resources and deferred inflows of resources related to pension expense from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	452,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>525,000</u>	<u>-</u>
Total	<u>\$ 525,000</u>	<u>\$ 452,000</u>

Deferred outflows of resources related to pension expense resulting from District

contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows related to pension expense will be recognized in pension expense as follows:

Year ended <u>June 30,</u>	
2016	\$ 90,400
2017	90,400
2018	90,400
2019	90,400
2020	90,400

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

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.50%	3.50%
Projected salary increases	4.50%	4.0 – 8.2%
Investment rate of return, net of investment expense and 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 one 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 ten 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 long-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:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>2.0%</u>	1.5%
Total	<u>100.0%</u>	

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 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 District’s net pension liability 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 one percentage point lower, or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.75%	7.75%	8.75%
District’s proportionate share of net pension liability	3,525,000	4,047,000	4,569,000
KTRS	4.23%	5.23%	6.23%
District’s proportionate share of net pension liability	-	-	-

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

9. On-behalf payments for fringe benefits and other District expenditures

The District receives on-behalf payments for fringe benefits and other District expenditures from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances:

Retirement contributions to KTRS	\$ 1,673,820
Health and life insurance	2,791,827
Technology	61,146
Debt Service	<u>995,482</u>
Total	<u>\$ 5,522,275</u>

10. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors

and omissions, natural disasters, workers compensation, unemployment, etc. Each of these risk areas is covered through the purchase of commercial insurance.

The District has purchased certain policies which are retrospectively rated which includes workers' compensation insurance. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have exceeded commercial insurance coverage in the past three fiscal years.

11. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the School Construction Fund and the School Food Service Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

12. COBRA

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

13. Transfer of funds

The following transfers were made during the year ended June 30, 2015:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching	\$ 82,137
Operating	General	Debt Service	Debt Payments	205,547
Operating	Special Revenue	Special Revenue	Reallocation	20,598
Operating	Capital Outlay	General	Administrative	121,176
Operating	Capital Outlay	Debt Service	Debt Payments	41,964
Operating	Capital Outlay	Construction	Construction	75,000
Operating	FSPK	Debt Service	Debt Payments	890,126

14. Interfund receivables and payables

Interfund balances as of June 30, 2015 consist of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Cash Flow	\$ 122,481

SUPPLEMENTARY INFORMATION

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,740,000	\$ 2,690,000	\$ 2,961,778	\$ 271,778
Motor vehicle	441,185	441,185	480,426	39,241
Utilities	850,000	850,000	1,004,978	154,978
Earnings on investments	10,000	10,000	26,055	16,055
Other local	12,000	12,000	114,829	102,829
Intergovernmental – State	15,575,666	15,572,666	16,132,214	559,548
Intergovernmental – Federal	20,000	20,000	38,370	18,370
Total revenues	19,648,851	19,595,851	20,758,650	1,162,799
Expenditures				
Current:				
Instruction	11,441,286	11,508,630	12,351,756	(843,126)
Student support services	757,509	758,571	618,006	140,565
Instructional staff support services	639,765	639,184	575,049	64,135
District administration	985,975	1,045,939	950,449	95,490
School administration	944,609	947,319	945,478	1,841
Business support services	387,967	381,213	431,788	(50,575)
Plant operations and maintenance	1,914,368	2,066,695	1,907,729	158,966
Student transportation	2,036,796	1,941,987	1,903,640	38,347
Community services	130,759	130,759	51,338	79,421
Contingency	2,010,124	2,181,751	-	2,181,751
Debt service	209,251	209,251	209,251	-
Total expenditures	21,458,409	21,811,299	19,944,484	1,866,815
Excess (deficit) of revenues over (under) expenditures	(1,809,558)	(2,215,448)	814,166	3,029,614
Other financing sources (uses)				
Proceeds from bond issuances	-	-	250,933	250,933
Operating transfers in	66,829	66,829	121,176	54,347
Operating transfers out	(257,271)	(251,381)	(287,684)	(36,303)
Other	-	-	4,975	4,975
Total other financing sources (uses)	(190,442)	(184,552)	89,400	273,952
Net change in fund balance	(2,000,000)	(2,400,000)	903,566	3,303,566
Fund balance as of July 1, 2014	2,431,686	2,431,686	2,431,686	-
Fund balance as of June 30, 2015	\$ 431,686	\$ 31,686	\$ 3,335,252	\$ 3,303,566

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS
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:				
Earnings on investments	\$ -	\$ -	\$ 782	\$ 782
Other local	26,642	30,800	30,622	(178)
Intergovernmental – State	997,032	946,168	1,105,715	159,547
Intergovernmental – Federal	<u>2,419,343</u>	<u>2,459,265</u>	<u>2,764,862</u>	<u>305,597</u>
Total revenues	3,443,017	3,436,233	3,901,981	465,748
Expenditures				
Current:				
Instruction	3,059,639	3,038,665	3,490,475	(451,810)
Student support services	21,371	21,371	13,481	7,890
Instructional staff support services	189,892	197,623	222,891	(25,268)
School administrative support	2,500	2,500	-	2,500
Business support services	-	-	19,680	(19,680)
Student transportation	200	200	1,665	(1,465)
Community services	<u>215,249</u>	<u>221,708</u>	<u>235,926</u>	<u>(14,218)</u>
Total expenditures	<u>3,488,851</u>	<u>3,482,067</u>	<u>3,984,118</u>	<u>(502,051)</u>
(Deficit) excess of revenues (under) over expenditures	(45,834)	(45,834)	(82,137)	(36,303)
Other financing sources (uses)				
Operating transfers in	45,834	66,432	102,735	36,303
Operating transfers out	<u>-</u>	<u>(20,598)</u>	<u>(20,598)</u>	<u>-</u>
Total other financing sources (uses)	<u>45,834</u>	<u>45,834</u>	<u>82,137</u>	<u>36,303</u>
Net change in fund balance	-	-	-	-
Fund balance as of July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY –
COUNTY EMPLOYEES RETIREMENT SYSTEM**

Year ended June 30, 2014

District's proportion of the net pension liability	0.12%
District's proportionate share of the net pension liability	\$ 4,047,000
District's covered-employee payroll	\$ 2,861,604
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.42%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS – COUNTY EMPLOYEES RETIREMENT SYSTEM

Year ended June 30, 2014

Contractually required contribution	\$ 540,557
Contributions in relation to the contractually required contribution	<u>(540,557)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 2,861,604
Contributions as a percentage of covered-employee payroll	18.89%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – COUNTY EMPLOYEES
RETIREMENT SYSTEM**

Year ended June 30, 2014

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2014).

Changes of assumptions – There have been no changes of assumptions during the period covered by the required supplementary information (2014).

Period covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY – KENTUCKY TEACHERS RETIREMENT SYSTEM**

Year ended June 30, 2014

Commonwealth of Kentucky's proportion of the net pension liability	0.33%
Commonwealth of Kentucky's proportionate share of the net pension liability	\$ 71,029,005
Plan fiduciary net position as a percentage of the total pension liability	45.59%

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF COMMONWEALTH OF KENTUCKY'S CONTRIBUTIONS – KENTUCKY
TEACHERS RETIREMENT SYSTEM**

For the year ended June 30, 2014

Statutorily required contribution	\$ 1,673,820
Contributions in relation to the statutorily required contribution	<u>(1,673,820)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – KENTUCKY TEACHERS
RETIREMENT SYSTEM**

Year ended June 30, 2014

Changes of benefit terms – There have been no changes in benefit terms during the period covered by the required supplementary information (2014).

Changes of assumptions – There have been no changes of assumptions during the period covered by the required supplementary information (2014).

Period covered by the required supplementary information – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* requires the accompanying supplementary information to report on trend information for the previous ten fiscal years if the information is available. The District has only been provided this information for one fiscal year and will expand this supplementary information in future financial statements to cover additional periods as they become available.

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
Year ended June 30, 2015**

<u>School</u>	<u>Cash July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2015</u>	<u>Accounts Receivable June 30, 2015</u>	<u>Accounts Payable June 30, 2015</u>	<u>Due to Student Groups June 30, 2015</u>
Adair County Primary Center	\$ 23,194	\$ 66,705	\$ 61,674	\$ 28,225	\$ -	\$ 5,825	\$ 22,400
Adair County Elementary School	32,536	69,244	72,048	29,732	-	-	29,732
Adair County Middle School	<u>36,758</u>	<u>71,543</u>	<u>76,148</u>	<u>32,153</u>	<u>-</u>	<u>-</u>	<u>32,153</u>
Totals	<u>\$ 92,488</u>	<u>\$ 207,492</u>	<u>\$ 209,870</u>	<u>\$ 90,110</u>	<u>\$ -</u>	<u>\$ 5,825</u>	<u>\$ 84,285</u>

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS
 Year ended June 30, 2015**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2015</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2015</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2015</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2015</u>
ACHS Classroom	\$ 309	\$ -	\$ 309	\$ -	\$ -	\$ -	\$ -
Art	132	-	14	118	-	-	118
Athletics	11,566	63,507	65,165	9,908	-	-	9,908
Beta Club	16	1,450	1,082	384	-	-	384
Business co-op	506	-	-	506	-	-	506
Champions and SADD	617	-	-	617	-	-	617
Cheerleaders	702	-	657	45	-	-	45
Chemistry	106	251	213	144	-	-	144
Class 2014	99	-	99	-	-	-	-
Class 2015	3,183	8,430	11,613	-	-	-	-
Class 2016	5,694	8,744	8,237	6,201	-	-	6,201
Class 2017	1,912	1,128	445	2,595	-	-	2,595
Class 2018	-	376	-	376	-	-	376
Counselors office	226	1,692	1,918	-	-	-	-
Criminal records check	30	380	410	-	-	-	-
Drama	2,071	2,853	2,907	2,017	-	-	2,017
Earth Science	73	-	-	73	-	-	73

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2015**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2015</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2015</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2015</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2015</u>
English activities	\$ 393	\$ 208	\$ 233	\$ 368	\$ -	\$ -	\$ 368
FBLA	3,123	5,935	8,912	146	-	-	146
FCA	4	191	180	15	-	-	15
FCCLA	1,065	311	431	945	-	-	945
FFA	2,529	34,645	36,221	953	-	100	853
FFA banquet	57	-	-	57	-	-	57
FFA shop	448	1,640	2,088	-	-	-	-
FSL Club	177	-	-	177	-	-	177
Fund for the Arts	5	731	88	648	-	-	648
General	438	3,300	3,713	25	-	-	25
Girls' softball	67	-	-	67	-	-	67
Godsey's physics	142	-	-	142	-	-	142
Horticulture	10,244	9,047	5,759	13,532	-	129	13,403
HOSA/Medical career	-	231	231	-	-	-	-
Indian Academy	4,732	-	120	4,612	-	-	4,612
Journalism	-	83	83	-	-	-	-
Language	155	-	-	155	-	-	155

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2015**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash</u> <u>June 30,</u> <u>2015</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2015</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2015</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2015</u>
Library	\$ 1,198	\$ 1,071	\$ 814	\$ 1,455	\$ -	\$ -	\$ 1,455
Lost and damaged books	43	31	12	62	-	-	62
Math	720	480	600	600	-	-	600
NAHS – Fine Arts	1,648	2,465	3,274	839	-	-	839
National Honor Society	984	4,643	4,609	1,018	-	-	1,018
Office workers	3,036	2,123	3,709	1,450	-	-	1,450
Pep	343	1,309	1,415	237	-	-	237
Randolph's Excep Ed	30	-	30	-	-	-	-
Reliford's "A" Team	295	2,006	2,301	-	-	-	-
Science Club	254	-	-	254	-	-	254
Social studies	11	-	-	11	-	-	11
STLP	270	-	-	270	-	-	270
Student ambassadors	-	7,911	7,911	-	-	-	-
Student Coke	555	3,675	4,038	192	-	25	167
Student parking	625	570	1,089	106	-	-	106

(continued)

ADAIR COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
 ADAIR COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
 Year ended June 30, 2015**

<u>Activity Fund</u>	<u>Cash July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2015</u>	<u>Accounts Receivable June 30, 2015</u>	<u>Accounts Payable June 30, 2015</u>	<u>Due to Student Groups June 30, 2015</u>
Teachers' lounge							
Coke	\$ 231	\$ 3,478	\$ 2,777	\$ 932	\$ -	\$ -	\$ 932
Tennis	909	72	794	187	-	-	187
Testing	70	1,579	1,649	-	-	-	-
Track	119	165	239	45	-	-	45
Volleyball	819	6,699	7,075	443	-	-	443
Word History/AP Euro	188	-	90	98	-	-	98
Yearbook	<u>4,116</u>	<u>23,143</u>	<u>20,344</u>	<u>6,915</u>	<u>-</u>	<u>204</u>	<u>6,711</u>
Totals	67,285	206,553	213,898	59,940	-	458	59,482
Interfund transfers	<u>-</u>	<u>5,568</u>	<u>5,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 67,285</u>	<u>\$ 200,985</u>	<u>\$ 208,330</u>	<u>\$ 59,940</u>	<u>\$ -</u>	<u>\$ 458</u>	<u>\$ 59,482</u>

ADAIR COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100102-14	\$ 47,350
		3100102-13	1,268
		3100002-14	1,298,078
		3100002-13	<u>155,533</u>
Subtotal			1,502,229
Neglected and Delinquent Children	84.013	313AT	4,446
		313A	<u>22,167</u>
Subtotal			26,613
Migrant Education	84.011	3110002-14	93,044
		3110002-13	25,111
		3110002-12	<u>14,115</u>
Subtotal			132,270
Special Education	84.027	3810002-14	264,888
		3810002-13	314,571
		3810002-12	<u>116</u>
Subtotal			579,575
Vocational Education Basic	84.048	3710002-14	38,535
		3710002-13	<u>1,497</u>
Subtotal			40,032
Special Education Preschool	84.173	3800002-13	9,031
		3800002-12	<u>12,080</u>
Subtotal			21,111
Rural Education	84.358	3140002-14	54,318
		3140002-13	<u>639</u>
Subtotal			54,957

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
21 st Century Community Learning Centers	84.287	3400002-13 3400002-12	\$ 188,313 <u>76,194</u>
Subtotal			264,507
Race to the Top	84.413	3960002-11 436A	4,708 <u>134,346</u>
Subtotal			<u>139,054</u>
Total U.S. Department of Education			2,760,348
<u>Appalachian Regional Commission</u>			
Appalachian Research Technical Assistance, and Demonstration Projects	23.011	688A	<u>3,026</u>
Total Appalachian Regional Commission			3,026
<u>Department of Health and Human Services</u>			
Block Grants for Community Mental Health Services	93.958	6904 690A	1 <u>800</u>
Total Department of Health and Human Services			801
<u>U.S. Department of Commerce</u>			
Pride – Environmental Education	11.420	2704	<u>687</u>
Total U.S. Department of Commerce			687

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555	7750002-15 7750002-14	\$ 740,379 184,997
Subtotal			<u>925,376</u>
National School Breakfast Program	10.553	7760005-15 7760005-14	216,671 54,570
Subtotal			<u>271,241</u>
Summer Food Service Program for Children	10.559	7690024 7740023	719 7,002
Subtotal			<u>7,721</u>
Total U.S. Department of Agriculture			<u>1,204,338</u>
Total cash expenditures			3,969,920
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture:			
Food Donation	10.555	Not provided	<u>92,673</u>
Total federal expenditures			<u>\$ 4,061,873</u>

See accompanying notes.

ADAIR COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Adair County School District and is presented on the modified 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*.

2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. The donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Program clusters

The following programs are considered clusters and are considered in the aggregate for consideration of major program determination:

<u>Cluster Name</u>	<u>CFDA</u>	<u>Total Grant</u>
Special Education	84.027/84.173	\$ 600,686
Child Nutrition	10.555/10.553/10.559	1,297,011

**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**

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Adair 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, and have issued our report thereon dated November 3, 2015.

Internal Control Over Financial Reporting

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

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

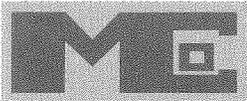
We noted certain other matters that we reported to the District's management in a separate letter dated November 3, 2015.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 3, 2015



**MATHER
& COMPANY**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Adair County School District
Columbia, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Adair County School District's (District) 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 the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 the 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; 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 *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*. 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 the 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 the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the 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 the 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 the 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 the 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 the 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.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 3, 2015

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unmodified		
Internal control over financial reporting:			
Material weakness identified	_____	Yes	✓ _____ No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	✓ _____ None reported
Noncompliance material to financial statement notes	_____	Yes	✓ _____ No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	✓ _____ No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	✓ _____ None reported
Type of auditor’s report issued on compliance for major programs	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	_____	Yes	✓ _____ No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B program	\$ 300,000
Auditee qualified as low risk	✓ _____ Yes _____ No

(continued)

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
Year ended June 30, 2015

Section II – Financial Statement Findings

No matters to report.

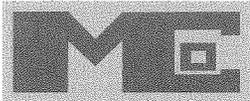
Section III – Federal Award Findings

No matters to report.

ADAIR COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2015

There were no prior year audit findings.



**M A T H E R
& C O M P A N Y**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

Members of the Board of Education
Adair County School District
Columbia, Kentucky

In planning and performing our audit of the financial statements of the Adair County School District (District) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*, we considered the District's internal control over financial reporting and compliance to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 3, 2015 on the District's financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 3, 2015

ADAIR COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2015**

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ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

Follow-up on Prior Year Findings

ADAIR COUNTY HIGH SCHOOL

Prior year comment: During prior year testing, we noted two instances where a teacher remitted funds without completing the required multiple receipt form.

Current year follow-up: There were no such instances noted in the current year.

ADAIR COUNTY MIDDLE SCHOOL

Prior year comment: We noted one instance where only one signature was included on a multiple receipt form.

Current year follow-up: No such instance was noted in the current year.

Current Year Findings

ADAIR COUNTY HIGH SCHOOL

Statement of deficiency: We noted three instances where receipts were not deposited on a timely basis. The days between receipt and bank deposit range from six days to eighteen days in these instances.

Criteria for the deficiency: This is not in compliance with Redbook guidelines.

Cause of the deficiency: Redbook guidelines were not followed.

Effect of the deficiency: Redbook guidelines require timely deposits to maximize proper cash management procedures and reduce the threat of misappropriation of assets.

Recommendation for correction: We recommend following Redbook guidelines and depositing all receipts in a timely manner.

Board response: Redbook guidelines will be gone over with the schools and enforce their use.

Statement of deficiency: We noted an instance where activity fund amounts were used to purchase a copy machine for the office.

Criteria for the deficiency: This is not in compliance with Redbook guidelines.

Cause of the deficiency: Redbook guidelines were not followed.

Effect of the deficiency: Redbook guidelines require activity funds being spent for items benefiting students. Administrative expenses are the responsibility of District funds.

Recommendation for correction: We recommend following Redbook guidelines with regards to cash disbursements.

Board response: Redbook guidelines will be gone over with the schools and enforce their use.

ADAIR COUNTY MIDDLE SCHOOL

Statement of deficiency: We noted an instance where a receipt was not deposited for thirteen days.

Criteria for the deficiency: This is not in compliance with Redbook guidelines.

Cause of the deficiency: Redbook guidelines were not followed. In this instance, the activity sponsor did not give the funds to the office to make the deposits in a timely manner.

Effect of the deficiency: Redbook guidelines require timely deposits to maximize proper cash management procedures and reduce the threat of misappropriation of assets.

Recommendation for correction: We recommend following Redbook guidelines and depositing all receipts in a timely manner.

Board response: Redbook guidelines will be gone over with the schools and enforce their use.

ADAIR COUNTY ELEMENTARY SCHOOL

Statement of deficiency: We noted the school was not aware that students in the third grade or higher needed to sign multiple receipt forms when turning in money.

Criteria for the deficiency: This is not in compliance with Redbook guidelines.

Cause of the deficiency: Redbook guidelines were not followed.

Effect of the deficiency: Redbook guidelines require signatures for money collected from students in the third grade and higher to increase accountability for funds and lower the risk of misappropriation of assets. The school did not follow this guideline.

Recommendation for correction: We recommend following Redbook guidelines and requiring student signatures when applicable.

Board response: Redbook guidelines will be gone over with the schools and enforce their use.

Statement of deficiency: We noted two instances where activity funds were disbursed for items not allowed under Redbook guidelines. In one instance, a collection was taken by the teachers to give as a gift to the principal, vice-principal, and guidance counselor for Boss' Day. In the second instance, an ad was taken out in the local paper thanking certain staff members for their hard work.

Criteria for the deficiency: This is not in compliance with Redbook guidelines.

Cause of the deficiency: Redbook guidelines were not followed.

Effect of the deficiency: Redbook guidelines require activity funds being spent for items benefiting students.

Recommendation for correction: We recommend following Redbook guidelines with regards to cash disbursements.

Board response: Redbook guidelines will be gone over with the schools and enforce their use.

OTHER ISSUES RELATING TO INTERNAL CONTROL AND GENERAL ACCOUNTING PROCEDURES

Follow-up on Prior Year Finding

Prior Year Finding: During the prior audit, we noted one employee who was not paid according to the approved salary schedule.

Current year follow-up: Similar instance noted in the current year, see finding below.

Statement of deficiency: During payroll testing, we noted one employee was paid a higher amount than shown on the approved salary schedule. This employee has been paid an incorrect amount since she was hired as authorized by a previous superintendent.

Criteria for the deficiency: This is not in compliance with KRS 157.320(12), and KRS 157.350(3); and 702 KAR 3:070.

Cause of the deficiency: Since the salary was originally established, it has never been changed.

Effect of the deficiency: The employee was paid excess salary.

Recommendation for correction: We recommend the District develop procedures to ensure employees are paid in accordance with the approved salary schedule.

Board response: The District will attach all salaries to a salary schedule approved by the board.