

# Butler County School District

## Financial Statements

June 30, 2015



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**TAB: THOUGHT LEADERSHIP**  
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# REPORT





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## **Independent Auditors' Report**

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Butler County School District  
Morgantown, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Butler County School District (the "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.

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

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

***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2015, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27 and GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement 68. 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, and select pension information on pages 4 through 12 and 58 through 63 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 combining and individual nonmajor fund financial statements and other information 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 combining and individual nonmajor fund financial statements and other information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015 on our consideration of Butler County School District's internal control over financial reporting and 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.

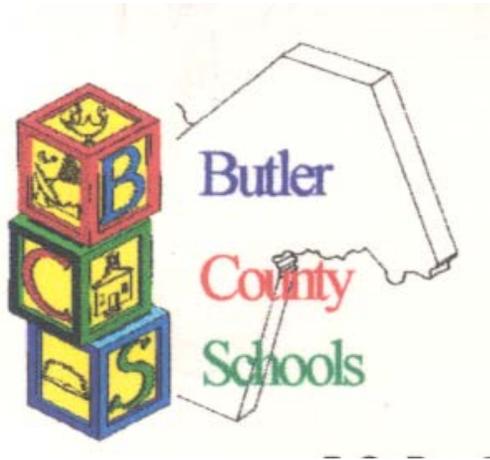
*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Bowling Green, Kentucky  
October 22, 2015



# **FINANCIAL STATEMENTS**

**BUTLER COUNTY SCHOOL DISTRICT  
MORGANTOWN, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2015**



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

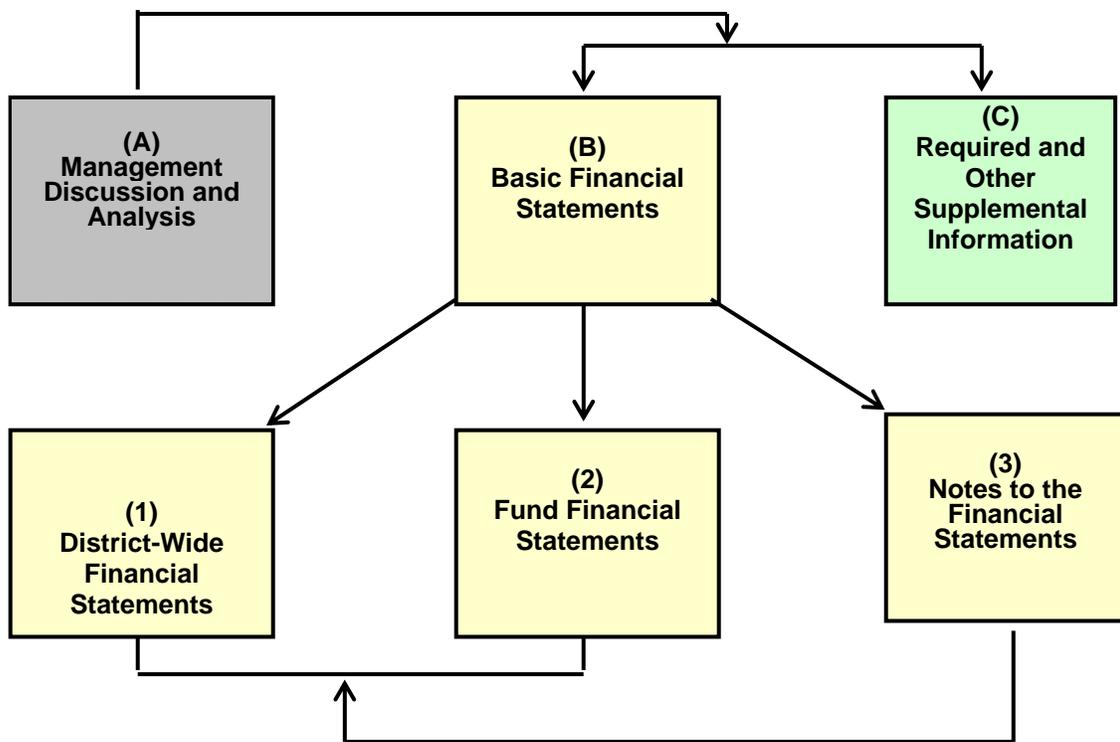
**FINANCIAL HIGHLIGHTS**

- The beginning General Fund balance for the District was \$3,187,817. The ending General Fund balance was \$3,218,559.
- The beginning Special Revenue Fund balance for the District was \$81,139. The ending Special Revenue Fund balance was \$53,323.
- The beginning balance for Other Governmental Funds was \$62,767. The ending balance for Other Governmental Funds was \$29,058.
- During the 2014-2015 school year, the District was required to adopt GASB 68. This standard requires the District to accrue a liability for an estimate of the proportionate share of the County Employee's Retirement Systems (CERS) accumulated unfunded net pension liability. On June 30, 2015, the estimate of the District's portion of the unfunded pension liability is \$3,218,000. The state is responsible for funding the unfunded pension liability of the Kentucky Teachers' Retirement System (KTRS). In addition to the pension liability, the district recorded an additional KTRS "on-behalf" benefit (revenue) provided by the state of \$1,670,348 and likewise recognized a corresponding pension expense of the same amount. These estimates are based on many factors. A more complete understanding of the GASB 68 and its effect on the financial statements can be obtained in Note 1 and Note 7. Where noted, the beginning net position has been restated for the adoption effect of GASB 68.

## Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Butler County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### Organization of the Annual Financial Report



The District-Wide Financial Statements have two sections (1) the *Statement of Net Position* and (2) the *Statement of Activities*. The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other nonmajor funds presented in total in one column. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Notes to the financial statements can be found on pages 28 to 57.

### Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during the current fiscal year?” The *Statement of Net Position* and the *Statement of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and changes in those positions. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service is reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$16,574,169 as of June 30, 2015. This was a decrease of \$3,100,958 over the previous year. This was caused by a change in reporting, as districts must now record the net pension liability (\$3,218,000)

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The amount of capital assets, net of related debt was \$17,012,669 (an increase of \$19,120 over the previous year). The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to

repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The government-wide financial statements can be found on pages 13 to 16.

## **Reporting the School District's Most Significant Funds**

### **Fund Financial Statements**

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary fund and fiduciary fund. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Butler County School District are the general fund and special revenue (grants) fund.

**Governmental Funds** - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

**Proprietary Fund** - Proprietary fund uses the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The only proprietary fund is our food service operations.

**Fiduciary Funds** – The schools' activity funds (or agency funds) is the District's only fiduciary fund. The schools' activity fund cash balances at year-end totaled \$191,155 (an increase of \$2,351 from the previous year).

The fund financial statements are on page 17 to 27.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position for the period ending June 30, 2014 & June 30, 2015

	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2014	FY2015	FY 2014	FY 2015	FY 2014	FY 2015
Current and Other Assets	\$4,030,474	\$4,056,246	\$246,177	\$224,518	\$4,276,651	\$4,280,764
Capital Assets	\$32,505,504	\$31,203,884	\$262,223	\$220,817	\$32,767,727	\$31,424,701
<b>Total Assets</b>	<b>\$36,535,978</b>	<b>\$35,260,130</b>	<b>\$508,400</b>	<b>\$445,335</b>	<b>\$37,044,378</b>	<b>\$35,705,465</b>
Deferred Outflows	\$694,915	\$937,387		\$63,717	\$694,915	\$1,001,104
Long Term Liabilities	\$17,119,414	\$18,285,131	\$0	\$498,790	\$17,119,414	\$18,783,921
Other Liabilities (current)	\$849,356	\$908,016	\$8,368	\$10,278	\$857,724	\$918,294
<b>Total Liabilities</b>	<b>\$17,968,770</b>	<b>\$19,193,147</b>	<b>\$8,368</b>	<b>\$509,068</b>	<b>\$17,977,138</b>	<b>\$19,702,215</b>
Deferred Inflows	\$87,028	\$374,540		\$55,645	\$87,028	\$430,185
<b>Net Position</b>						
Net Investment in Capital Assets	\$16,731,326	\$16,791,852	\$262,223	\$220,817	\$16,993,549	\$17,012,669
Restricted	\$143,906	\$82,381	\$0	\$0	\$143,906	\$82,381
Unrestricted	\$2,299,863	\$(244,403)	\$237,809	\$(276,478)	\$2,537,672	\$(520,881)
<b>Total Net Position</b>	<b>\$19,175,095</b>	<b>\$16,629,830</b>	<b>\$500,032</b>	<b>\$(55,661)</b>	<b>\$19,675,127</b>	<b>\$16,574,169</b>

### Changes in Net Position for June 30, 2014 and June 30, 2015

Revenues	Governmental Activities		Proprietary Business-Type Activities		District Total	
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015
Program Revenues						
Charges for Services	\$28,176	\$19,469	\$241,528	\$239,568	\$269,704	\$259,037
Operating Grants and Contributions	\$2,214,421	\$2,256,961	\$991,394	\$981,904	\$3,205,815	\$3,238,865
Capital Grants and Contributions	\$1,419,724	\$1,450,761			\$1,419,724	\$1,450,761
General Revenue						
Taxes						
Property Tax	\$1,454,097	\$1,537,219			\$1,454,097	\$1,537,219
Motor Vehicle Tax	\$356,305	\$366,104			\$356,305	\$366,104
Utility Tax	\$779,871	\$794,367			\$779,871	\$794,367
Other Tax	\$235,597	\$233,949			\$235,597	\$233,949
State Aid	\$12,898,728	\$14,954,672			\$12,898,728	\$14,954,672
Investment Earnings	\$39,027	\$40,111	\$142	\$122	\$39,169	\$40,233
Other Revenue	\$164,995	\$205,553	-\$64,497	-\$72,827	\$100,498	\$132,726
Gain on Sale of Assets	\$0	\$0			\$0	\$0
<b>Total Revenues</b>	<b>\$19,590,941</b>	<b>\$21,859,166</b>	<b>\$1,168,567</b>	<b>\$1,148,767</b>	<b>\$20,759,508</b>	<b>\$23,007,933</b>



## Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances	FY 2014	FY 2015	Amount of Change	% Change
General Fund	\$3,187,817	\$3,218,559	\$30,742	1%
Special Revenue Fund	\$81,139	\$53,323	(\$27,816)	-34%
Debt Service	\$611	\$611	\$0	0%
Other Governmental Funds	\$62,156	\$28,447	(\$33,709)	-54%
School Food Fund	\$500,032	-\$55,661	(\$555,693)	-111%
Total	\$3,831,755	\$3,245,279	(\$586,476)	-15%

- The General Fund's fund balance showed a positive change of \$30,742. This was primarily the result of budgeting on a conservative basis.
- The Special Revenue fund had a negative change of \$27,816. The principal reason for the difference is that in FY 2002 the technology fund was transferred to the special revenue fund. This fund balance will vary from year to year depending on how much state money is received for technology and the time of year received. This is because all other Fund 2 projects must be zero'd out at end-of-year. The only fund left in the Special Revenue fund is technology at year end.
- Debt Service fund showed no change and Other Governmental funds showed negative change of \$33,709.
- The School Food Fund's fund balance had a \$555,693 decrease. This was primarily due to new reporting requirements that take into consideration the State short fall of employee's pension accounts.

### Comments on General Fund and Special Revenue Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2015, net of interfund transfers, were \$13,003,319. This is \$484,619 more than was budgeted in the final working budget. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner.
- Expenditures were less than budgeted, primarily because of unspent contingency funds of \$1,427,064.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual fund balance being \$30,742 more than the prior year. This was primarily budgeting in a conservative manner.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

By June 30, 2015, the district had invested \$31,424,701 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$52,524,936 with accumulated depreciation of \$21,100,235.

**SUMMARY OF CAPITAL ASSETS**

CAPITAL ASSETS (net of depreciation)	Governmental Activities		Proprietary Business-Type Activities		District Total		Total District Percentage Change
	FY2014	FY2015	FY2014	FY2015	FY2014	FY2015	2013-2015
Land and improvements	\$504,173	\$441,072	\$0	\$0	\$504,173	\$441,072	-12.5%
Construction in Progress	\$0	\$3,227	\$0	\$0	\$0	\$3,227	0.0%
Buildings	\$30,610,915	\$29,569,150	\$0	\$0	\$30,610,915	\$29,569,150	-3.4%
Equipment & Furniture	1,390,416	1,190,435	\$262,223	\$220,817	\$1,652,639	\$1,411,252	-14.6%
<b>Total Assets</b>	<b>\$32,505,504</b>	<b>\$31,203,884</b>	<b>\$262,223</b>	<b>\$220,817</b>	<b>\$32,767,727</b>	<b>\$31,424,701</b>	<b>-4.1%</b>

**Long-Term Debt**

At year-end the district had \$14.96 million in general obligation bonds outstanding. This was a decrease of 9% over last year. The decrease was due to the normal repayment of bonds.

**BUDGETARY IMPLICATIONS**

It is extremely important that the district continue to budget very conservatively. The district receives approximate 65% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 13% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$3,218,559 as a beginning balance for next year.

By law, the budget must have a minimum 2 % contingency. The beginning fund balance for beginning the fiscal year is \$3,218,559 well above the minimum state requirement. Significant Board action that impacts finances includes additional spending on proposed construction projects and general fund matching dollars for other grants. Many other grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. At year-end, the District's General Fund was due \$184,920 from the special revenue grant fund. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

## **DISTRICT CHALLENGES FOR THE FUTURE**

The primary challenges for Butler County Schools are to continue to maintain a healthy General Fund balance, ensure student learning, and maintain the average daily attendance count.

With the economic down turn that the State of Kentucky is experiencing, the administration of the district has to focus on the finances of the district as a whole. It has been the district's stance to reduce expenditures and be more efficient with expenses, with as little impact on student achievement as possible. One aspect of daily operations that the district has focused on to cut cost has been utilities. Currently all schools within the district are Energy Star and the Butler County School District is the most efficient school district in the State of Kentucky based on its' kw usage per square foot.

The second challenge is to ensure that all students learn at high levels. Maintaining and improving student achievement is essential to the future well being of our students and our community. Butler County Schools, in cooperation with parents and community, must ensure that all students demonstrate proficient academic performance, as well as positive social and emotional development and growth.

The third challenge mentioned is preserving the average daily attendance count. The district receives funding through the SEEK formula based on this count. Past history reflects a decrease in enrollment or at best maintaining the previous year's count. Therefore, growth within the district is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Butler County Schools when they could be attending elsewhere. Maintaining excellence and emphasizing serving the public are the main factors influencing the district's challenge.

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information they should be directed to Eric Elms, Director of Financial Services (270) 526-5624, PO Box 339, 203 North Tyler St., Morgantown, KY, 42261 or e-mail at [eric.elms@butler.kyschools.us](mailto:eric.elms@butler.kyschools.us).

Butler County School District  
Statement of Net Position

<i>June 30, 2015</i>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ 1,786,065	\$ 154,851	\$ 1,940,916
Investments	1,743,281	-	1,743,281
Accounts receivable:			
Taxes	155,950	-	155,950
Interest	5,260	-	5,260
Accounts	50,574	-	50,574
Intergovernmental	315,116	1,222	316,338
Inventory	-	68,445	68,445
Non-depreciable capital assets	349,863	-	349,863
Depreciable capital assets	51,430,975	744,098	52,175,073
Less: accumulated depreciation	(20,576,954)	(523,281)	(21,100,235)
<b>Total assets</b>	<b>35,260,130</b>	<b>445,335</b>	<b>35,705,465</b>
<b>Deferred Outflows of Resources</b>			
Deferred loss on debt refundings	589,941	-	589,941
Pension related	347,446	63,717	411,163
<b>Total deferred outflows of resources</b>	<b>937,387</b>	<b>63,717</b>	<b>1,001,104</b>
<b>Liabilities</b>			
Accounts payable	134,709	10,278	144,987
Accrued liabilities	563,356	-	563,356
Unearned revenue	57,241	-	57,241
Accrued interest	152,710	-	152,710
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,412,186	-	1,412,186
Other	36,120	-	36,120
Compensated absences	131,980	-	131,980
Due beyond one year:			
Outstanding bonds	13,416,514	-	13,416,514
Other	65,968	-	65,968
Compensated absences	503,153	-	503,153
Net pension liability	2,719,210	498,790	3,218,000
<b>Total liabilities</b>	<b>19,193,147</b>	<b>509,068</b>	<b>19,702,215</b>

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Net Position

<i>June 30, 2015</i>	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<b>Deferred Inflows of Resources</b>			
Deferred gain on debt refundings	71,185	-	71,185
Pension related	303,355	55,645	359,000
<b>Total deferred inflows of resources</b>	<b>374,540</b>	<b>55,645</b>	<b>430,185</b>
<b>Net Position</b>			
Net investment in capital assets	16,791,852	220,817	17,012,669
Restricted for:			
Capital projects	28,447	-	28,447
Grant programs	53,323	-	53,323
Debt service	611	-	611
Unrestricted	(244,403)	(276,478)	(520,881)
<b>Total net position</b>	<b>\$ 16,629,830</b>	<b>\$ (55,661)</b>	<b>\$ 16,574,169</b>

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Activities

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<i>Year Ended June 30, 2015</i>							
<b>Governmental Activities:</b>							
Instruction	\$ 13,236,201	\$ 18,236	\$ 1,349,582	\$ 94,874	\$ (11,773,509)	\$ -	\$ (11,773,509)
Support Services:							
Student	919,053	-	318,533	-	(600,520)	-	(600,520)
Instructional staff	944,991	-	326,211	-	(618,780)	-	(618,780)
District administration	791,151	-	26,960	-	(764,191)	-	(764,191)
School administration	953,828	-	-	-	(953,828)	-	(953,828)
Business	473,890	-	19,999	-	(453,891)	-	(453,891)
Plant operations and maintenance	2,166,932	1,233	59,120	-	(2,106,579)	-	(2,106,579)
Student transportation	1,343,842	-	820	-	(1,343,022)	-	(1,343,022)
Other	174,273	-	155,736	-	(18,537)	-	(18,537)
Building acquisition and construction	-	-	-	698,535	698,535	-	698,535
Interest on long-term debt	567,170	-	-	657,352	90,182	-	90,182
Loss on disposal of assets	20,966	-	-	-	(20,966)	-	(20,966)
<b>Total governmental activities</b>	<b>21,592,297</b>	<b>19,469</b>	<b>2,256,961</b>	<b>1,450,761</b>	<b>(17,865,106)</b>	<b>-</b>	<b>(17,865,106)</b>
<b>Business-Type Activities:</b>							
Food services	1,190,015	239,568	981,904	-	-	31,457	31,457
<b>Total business-type activities</b>	<b>1,190,015</b>	<b>239,568</b>	<b>981,904</b>	<b>-</b>	<b>-</b>	<b>31,457</b>	<b>31,457</b>
<b>Total school district</b>	<b>\$ 22,782,312</b>	<b>\$ 259,037</b>	<b>\$ 3,238,865</b>	<b>\$ 1,450,761</b>	<b>(17,865,106)</b>	<b>31,457</b>	<b>(17,833,649)</b>

See accompanying notes to the financial statements.

Butler County School District  
Statement of Activities

	<b>Net (Expense) Revenue and Changes in Net Position</b>		
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
<i>Year Ended June 30, 2015</i>			
<b>General Revenues</b>			
Taxes:			
Property	1,537,219	-	1,537,219
Motor vehicle	366,104	-	366,104
Utilities	794,367	-	794,367
Unmined minerals	4,524	-	4,524
Other	229,425	-	229,425
State aid	14,954,672	-	14,954,672
Investment earnings	40,111	122	40,233
Other	132,726	-	132,726
Transfers	72,827	(72,827)	-
<b>Total general revenues and transfers</b>	<b>18,131,975</b>	<b>(72,705)</b>	<b>18,059,270</b>
Change in net position	266,869	(41,248)	225,621
Net position - beginning of year	19,175,095	500,032	19,675,127
Effect of adoption of GASB 68	(2,812,134)	(514,445)	(3,326,579)
Net position - beginning of year, as restated	16,362,961	(14,413)	16,348,548
Net position - end of year	\$ 16,629,830	\$ (55,661)	\$ 16,574,169

See accompanying notes to the financial statements.

Butler County School District  
Balance Sheet  
Governmental Funds

<i>June 30, 2015</i>	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash	\$ 1,757,007	\$ -	\$ 29,058	\$ 1,786,065
Investments	1,743,281	-	-	1,743,281
Accounts receivable:				
Taxes	155,950	-	-	155,950
Interest	5,260	-	-	5,260
Accounts	50,574	-	-	50,574
Intergovernmental	-	315,116	-	315,116
Due from other funds	184,920	-	-	184,920
<b>Total assets</b>	<b>\$ 3,896,992</b>	<b>\$ 315,116</b>	<b>\$ 29,058</b>	<b>\$ 4,241,166</b>

*See accompanying notes to the financial statements.*

Butler County School District  
Balance Sheet  
Governmental Funds

<i>June 30, 2015</i>	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 115,077	\$ 19,632	\$ -	\$ 134,709
Accrued liabilities	563,356	-	-	563,356
Due to other funds	-	184,920	-	184,920
Unearned revenue	-	57,241	-	57,241
<b>Total liabilities</b>	<b>678,433</b>	<b>261,793</b>	<b>-</b>	<b>940,226</b>
<b>Fund Balances</b>				
Restricted	-	53,323	29,058	82,381
Committed	345,000	-	-	345,000
Unassigned	2,873,559	-	-	2,873,559
<b>Total fund balances</b>	<b>3,218,559</b>	<b>53,323</b>	<b>29,058</b>	<b>3,300,940</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,896,992</b>	<b>\$ 315,116</b>	<b>\$ 29,058</b>	<b>\$ 4,241,166</b>

*See accompanying notes to the financial statements.*

Butler County School District  
Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Position

<i>June 30,</i>	2015
Total fund balances – governmental funds	\$ 3,300,940
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$51,780,838 and the accumulated depreciation is (\$20,576,954).	31,203,884
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources.	589,941
Deferred outflows and inflows of resources related to pensions are applicable to future periods, therefore, are not reported in the funds statements.	44,091
Governmental funds record gains on debt refundings as other financing sources when the issues are refunded. Unamortized gains on refundings are included on the government-wide financial statements as deferred inflows of resources.	(71,185)
Long-term liabilities, including interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:	
Bonds payable	(14,828,700)
Other debt	(102,088)
Accrued interest on the bonds	(152,710)
Net pension liability	(2,719,210)
Compensated absences	(635,133)
Total net position – governmental activities	\$ 16,629,830

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

<i>Year Ended June 30, 2015</i>	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
From local sources:				
Taxes:				
Property	\$ 1,300,653	\$ -	\$ 236,566	\$ 1,537,219
Motor vehicle	366,104	-	-	366,104
Utilities	794,367	-	-	794,367
Unmined minerals	4,524	-	-	4,524
Other	229,425	-	-	229,425
Tuition and fees	18,236	-	-	18,236
Earnings on investments	40,111	54	-	40,165
Other local revenue	113,645	13,417	-	127,062
Intergovernmental - state	13,284,324	902,418	1,355,887	15,542,629
Intergovernmental - federal	41,818	1,435,946	-	1,477,764
<b>Total revenues</b>	<b>16,193,207</b>	<b>2,351,835</b>	<b>1,592,453</b>	<b>20,137,495</b>
<b>Expenditures</b>				
Current:				
Instruction	10,043,717	1,519,569	-	11,563,286
Support services:				
Student	348,592	318,533	-	667,125
Instructional staff	466,444	326,211	-	792,655
District administration	687,247	26,960	-	714,207

See accompanying notes to the financial statements.

Butler County School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

<i>Year Ended June 30, 2015</i>	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
School administration	890,834	-	-	890,834
Business	431,923	19,999	-	451,922
Plant operations and maintenance	1,793,367	59,120	-	1,852,487
Student transportation	1,219,073	820	-	1,219,893
Other	-	155,736	-	155,736
Debt service:				
Principal	-	-	1,440,733	1,440,733
Interest	-	-	458,518	458,518
Facilities acquisition and construction	-	-	33,709	33,709
<b>Total expenditures</b>	<b>15,881,197</b>	<b>2,426,948</b>	<b>1,932,960</b>	<b>20,241,105</b>
Excess (deficiency) of revenues over expenditures	312,010	(75,113)	(340,507)	(103,610)
<b>Other Financing Sources (Uses)</b>				
Operating transfers in	72,827	47,297	1,241,899	1,362,023
Operating transfers out	(354,095)	-	(935,101)	(1,289,196)
<b>Total other financing sources (uses)</b>	<b>(281,268)</b>	<b>47,297</b>	<b>306,798</b>	<b>72,827</b>
Net change in fund balances	30,742	(27,816)	(33,709)	(30,783)
Fund balances - beginning of year	3,187,817	81,139	62,767	3,331,723
Fund balances - end of year	\$ 3,218,559	\$ 53,323	\$ 29,058	\$ 3,300,940

See accompanying notes to the financial statements.

Butler County School District  
 Reconciliation of the Governmental Funds  
 Statement of Revenues, Expenditures and Changes in  
 Fund Balances to the Statement of Activities

<i>Year Ended June 30,</i>	2015
Total net change in fund balances - governmental funds	\$ (30,783)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense, (\$1,470,962), exceeds capital outlays, (\$205,092), in the period.	(1,265,870)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual loss from the sale net to this amount for the year.	(42,470)
Repayment of bond principal and capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,475,413
Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
District pension contributions	347,446
Cost of benefits earned net of employee contributions	(210,431)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(6,436)
Change in net position - governmental activities	\$ 266,869

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Net Position  
Proprietary Fund

<i>June 30, 2015</i>	<b>Enterprise Fund Food Service</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash	\$ 154,851
Accounts receivable	
Intergovernmental	1,222
Inventory	68,445
<hr/>	
Total current assets	224,518
<hr/>	
<b>Non-Current Assets</b>	
Fixed assets - net	220,817
<hr/>	
Total assets	445,335
<hr/>	
<b>Deferred Outflows of Resources</b>	
Pension related	63,717
<hr/>	
Total deferred outflows of resources	63,717
<hr/>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	10,278
<hr/>	
Total current liabilities	10,278
<hr/>	
<b>Long-Term Liabilities</b>	
Net pension liability	498,790
<hr/>	
Total long-term liabilities	498,790
<hr/>	
<b>Deferred Inflows of Resources</b>	
Pension related	55,645
<hr/>	
Total deferred inflows of resources	55,645
<hr/>	
<b>Net Position</b>	
Net investment in capital assets	220,817
Unrestricted	(276,478)
<hr/>	
Total net position	\$ (55,661)
<hr/>	

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Fund

<i>Year Ended June 30, 2015</i>	<b>Enterprise Fund Food Service</b>
<hr/>	
<b>Operating Revenues</b>	
Lunchroom sales	\$ 239,568
<hr/>	
Total operating revenues	239,568
<hr/>	
<b>Operating Expenses</b>	
Salaries and wages	582,820
Contract services	58,180
Materials and supplies	506,859
Other operating expenses	750
Depreciation expense	41,406
<hr/>	
Total operating expenses	1,190,015
<hr/>	
Operating loss	(950,447)
<hr/>	
<b>Non-Operating Revenues</b>	
State operating grants	107,337
Federal operating grants	782,754
Donated commodities	91,813
Interest revenue	122
<hr/>	
Total non-operating revenues	982,026
<hr/>	
Income before transfers	31,579
<hr/>	
Transfers	(72,827)
<hr/>	
Change in net position	(41,248)
<hr/>	
Net position - beginning of year	500,032
Effect of adoption of GASB 68	(514,445)
<hr/>	
Net position - beginning of year, as restated	(14,413)
<hr/>	
Net position - end of year	\$ (55,661)
<hr/>	

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Cash Flows  
Proprietary Fund

<i>Year Ended June 30, 2015</i>	<b>Enterprise Fund Food Service</b>
<b>Cash Flows from Operating Activities</b>	
Cash received from user charges	\$ 251,906
Cash payments to employees for services	(510,994)
Cash payments for contract services	(58,180)
Cash payments to suppliers for goods and services	(411,012)
Cash payments for other operating expenses	(750)
Net cash used in operating activities	(729,030)
<b>Cash Flows from Noncapital Financing Activities</b>	
Indirect cost transfer to general fund	(72,827)
Nonoperating grants received	794,538
Net cash provided by noncapital financing activities	721,711
<b>Cash Flows from Investing Activities</b>	
Interest on investments	122
Net cash provided by investing activities	122
Net decrease in cash	(7,197)
Cash - beginning of year	162,048
Cash - end of year	\$ 154,851

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Cash Flows  
Proprietary Fund

<i>Year Ended June 30, 2015</i>	<b>Enterprise Fund Food Service</b>
<b>Reconciliation Of Operating Loss To Net Cash Used In Operating Activities</b>	
Operating loss	\$ (950,447)
<b>Adjustments To Reconcile Operating Loss To Net Cash Used In Operating Activities:</b>	
Depreciation	41,406
Commodities received	91,813
On-behalf payments received	95,553
Pension contributions in excess of pension expense	(23,727)
Changes in assets and liabilities:	
Receivables	12,338
Inventories	2,124
Accounts payable	1,910
Net cash used In operating activities	\$ (729,030)

**Noncash Activities**

- The food service fund received \$91,813 of donated commodities from the federal government.
- The District received on-behalf payments of \$95,553 relating to insurance benefits.
- The District reclassified \$63,717 related to pension expense to deferred outflows of resources.

*See accompanying notes to the financial statements.*

Butler County School District  
Statement of Fiduciary Net Position  
Fiduciary Funds

<i>June 30, 2015</i>	<b>Agency Fund</b>
<b>Assets</b>	
Cash	\$ 191,155
<b>Total assets</b>	<b>\$ 191,155</b>
<b>Liabilities</b>	
Accounts payable	\$ 2,408
Due to student groups	188,747
<b>Total liabilities</b>	<b>\$ 191,155</b>

*See accompanying notes to the financial statements.*

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

● **Reporting Entity**

The Butler County Board of Education (the "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 Butler County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units," the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements as a blended component unit:

**Butler County School District Finance Corporation** — The Butler County Board of Education resolved to authorize the establishment of the Butler County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Butler County Board of Education also comprise the Corporation's Board of Directors.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

● ***Basis of Presentation***

**Government-Wide Financial Statements** — The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

**Fund Financial Statements** — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The District has the following funds:

**Governmental Fund Types**

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

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed, or assigned to expenditures for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards. The special revenue fund is a major fund.

*Capital Projects Funds* are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

The *Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund* receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified in the District's facility plan and certain operating costs.

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Proprietary Fund Types**

*Enterprise Fund*

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

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

*Agency Funds*

The *Activity Fund* accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

**Measurement Focus and Basis of Accounting**

**Government-Wide, Proprietary and Fiduciary Fund Financial Statements** – The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. . With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary and fiduciary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

**Governmental Fund Financial Statements** – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This approach differs from the manner in which the government-wide financial statements are prepared. The governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

uses) in the fund balance. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term debt, which is recognized as an expenditure when paid.

The records of the District and the budgetary process are based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the general fund, special revenue fund and capital projects funds.

● ***Estimates***

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

● ***Investments***

Investments of non-brokered certificates of deposit are reported at cost.

● ***Inventory***

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds, which record inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

● ***Capital Assets***

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the

Butler County School District  
Notes to the Financial Statements

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

date received. The District maintains a capitalization threshold of \$5,000 with the exception of real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

***Deferred Outflows of Resources***

The District reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. The only deferred outflows of resources reported in this year's financial statements are a deferred amount arising from the refunding of bonds and a deferred outflow of resources for contributions made to the District's defined benefit pension plan between the measurement date of the net pension liabilities from the plan and the end of the District's fiscal year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. No deferred outflows of resources affect the governmental funds financial statements in the current year.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Deferred Inflows of Resources***

The District's statements of net position and its governmental fund balance sheet report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period(s). Deferred inflows of resources are reported in the District's various statements of net position for gains on refunding bond amounts and for actual pension plan investment earnings in excess of the expected amounts included in determining pension expense. This deferred inflow of resources is attributed to pension expense over a total of 5 years, including the current year. The deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense. In its governmental funds, the only deferred inflow of resources is for revenues that are not considered available. The District will not recognize the related revenues until they are available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. No deferred inflows of resources affect the governmental funds financial statements in the current year.

***Unearned Revenue***

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

***Compensated Absences***

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the funds from which the employees will be paid.

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Net Position***

The District classifies its net position into the following three categories:

*Net investment in capital assets* - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

*Restricted* - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted* - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are mailed timely, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

***Revenues — Exchange and Non-Exchange Transactions***

Revenues resulting from exchange transactions are those where each party receives equal value. On the modified accrual basis of accounting, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay

Butler County School District  
Notes to the Financial Statements

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized.

***Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds.

***Interfund Balances***

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

***Contributions of Capital***

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

Butler County School District  
Notes to the Financial Statements

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through October 22, 2015, which was the date the financial statements were made available.

**Recently Issued and Adopted Accounting Pronouncements**

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*, improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The District has implemented the new requirements of this statement for the fiscal year ended June 30, 2015. The implementation of GASB 68 resulted in the reduction of beginning net position by \$3,326,579.

GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement 68* improves financial accounting and financial reporting by addressing an issue in GASB Statement No. 68 concerning transition provisions related to pension contributions made by employers and nonemployer contributing entities to defined benefit pension plans after the measurement date of the government's beginning net pension liability and prior to implementation of Statement No. 68. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The District has implemented the new requirements of this statement for the fiscal year ended June 30, 2015. The implementation of GASB 71 resulted in the recording of deferred outflows of resources of \$411,163 from the current year pension contributions.

Butler County School District  
Notes to the Financial Statements

**NOTE 2: CASH AND INVESTMENTS**

***Deposits***

At June 30, 2015, the carrying amounts of the District's deposits were \$3,875,352 and the bank balances were \$4,662,762 which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts are reflected in the financial statements in cash and investments as follow:

<u>June 30,</u>	<u>2015</u>
Governmental funds	\$ 3,529,346
Proprietary funds	154,851
Fiduciary funds	191,155
	<u>\$ 3,875,352</u>

***Custodial Credit Risk Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$4,662,762 was not exposed to custodial credit risk as of June 30, 2015.

***Investments***

The District's investments, which are stated at cost, at June 30, 2015 are as follow:

<u>June 30, 2015</u>			
<u>General Fund Investments</u>	<u>Rating</u>	<u>Maturities</u>	<u>Cost</u>
Certificate of deposit	N/R	2/13/2016	\$ 555,976
Certificate of deposit	N/R	2/13/2016	555,976
Certificate of deposit	N/R	2/13/2016	555,977
Certificate of deposit	N/R	2/13/2016	75,352
			<u>\$ 1,743,281</u>

**NOTE 2: CASH AND INVESTMENTS (CONTINUED)**

*Interest Rate Risk*

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

*Credit Risk*

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or of its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

**NOTE 3: INTERFUND RECEIVABLES AND PAYABLES**

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

<i>June 30, 2015</i>		
<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Special Revenue	\$ 184,920

The amount represents an interfund loan between the general fund and special revenue fund that is necessary to fulfill the current cash requirements of the special revenue fund.

Butler County School District  
Notes to the Financial Statements

**NOTE 4: CAPITAL ASSETS**

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

<i>June 30, 2015</i>	Capital Cost			Ending Balance
	Beginning Balance	Additions	Retirements/ Reclassifications	
<b>Governmental Activities:</b>				
Capital assets that are not depreciated:				
Land	\$ 389,106	\$ -	\$ 42,470	\$ 346,636
Construction in progress	-	33,709	30,482	3,227
<b>Total non-depreciable historical cost</b>	<b>389,106</b>	<b>33,709</b>	<b>72,952</b>	<b>349,863</b>
Capital assets that are depreciated:				
Land improvements	638,447	-	-	638,447
Buildings and improvements	44,980,108	25,256	-	45,005,364
Technology equipment	1,961,819	65,455	310,069	1,717,205
Vehicles	2,667,927	-	-	2,667,927
General	1,293,058	117,874	8,900	1,402,032
<b>Total depreciable historical cost</b>	<b>51,541,359</b>	<b>208,585</b>	<b>318,969</b>	<b>51,430,975</b>
Less accumulated depreciation for:				
Land improvements	523,380	20,631	-	544,011
Buildings and improvements	14,369,193	1,067,021	-	15,436,214
Technology equipment	1,624,472	144,870	310,069	1,459,273
Vehicles	2,064,261	150,803	-	2,215,064
General	843,655	87,637	8,900	922,392
<b>Total accumulated depreciation</b>	<b>19,424,961</b>	<b>1,470,962</b>	<b>318,969</b>	<b>20,576,954</b>
<b>Total depreciable historical cost, net</b>	<b>32,116,398</b>	<b>(1,262,377)</b>	<b>-</b>	<b>30,854,021</b>
<b>Governmental activities, capital assets, net</b>	<b>\$ 32,505,504</b>	<b>\$ (1,228,668)</b>	<b>\$ 72,952</b>	<b>\$ 31,203,884</b>

Butler County School District  
Notes to the Financial Statements

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

<i>June 30, 2015</i>	<b>Capital Cost</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Retirements/ Reclassifications</b>	
<b>Business-Type Activities:</b>				
Technology equipment	\$ 5,093	\$ -	\$ -	\$ 5,093
General	739,005			739,005
<b>Total depreciable historical cost</b>	<b>744,098</b>	<b>-</b>	<b>-</b>	<b>744,098</b>
Less accumulated depreciation for:				
Technology equipment	4,452	583	-	5,035
General	477,423	40,823	-	518,246
<b>Total accumulated depreciation</b>	<b>481,875</b>	<b>41,406</b>	<b>-</b>	<b>523,281</b>
<b>Business-type activities, capital assets, net</b>	<b>\$ 262,223</b>	<b>\$ (41,406)</b>	<b>\$ -</b>	<b>\$ 220,817</b>

Depreciation expense was charged to governmental functions as follows:

<i>Year ended June 30,</i>	<b>2015</b>
Instruction	\$ 729,269
Support services:	
Student	36,348
District administration	72,077
School administration	6,686
Facilities operations	454,156
Student transportation	151,089
Other	21,337
<b>Total depreciation expense</b>	<b>\$ 1,470,962</b>

Butler County School District  
Notes to the Financial Statements

**NOTE 5: LONG-TERM OBLIGATIONS**

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2004-B	\$ 4,150,000	2.00% - 3.76%
2006	2,440,000	3.75% - 4.00%
2006 KISTA	338,162	3.50% - 3.875%
2008	3,690,000	3.00% - 3.87%
2008 KISTA	387,782	3.00% - 3.75%
2009 KISTA	316,907	2.00% - 3.80%
2010	760,000	1.00% - 2.85%
2011	5,640,000	1.00% - 2.75%
2012	292,000	1.125%
2013 KISTA	257,353	2.000%
2014	1,915,000	2.00% - 3.50%

In 2014, the District defeased \$1,835,000 of 2010 bonds by placing new bond proceeds in an irrevocable trust to provide for future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2015, \$1,835,000 of defeased bonds is still outstanding.

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

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amounts to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

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

Butler County School District  
Notes to the Financial Statements

**NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)**

Year	Butler County School District		School Facilities Construction Committee		Total Debt Service
	Interest	Principal	Interest	Principal	
2015—2016	\$ 324,248	\$ 868,096	\$ 113,260	\$ 544,090	\$ 1,849,694
2016—2017	295,566	884,475	102,338	535,521	1,817,900
2017—2018	269,066	884,578	90,568	504,050	1,748,262
2018—2019	240,247	872,204	79,306	515,312	1,707,069
2019—2020	213,972	789,110	67,256	527,365	1,597,703
2020—2021	187,733	811,756	54,348	520,358	1,574,195
2021—2022	171,131	738,318	42,010	498,505	1,449,964
2022—2023	151,309	756,410	29,644	501,870	1,439,233
2023—2024	128,252	769,831	16,343	515,169	1,429,595
2024—2025	103,217	812,477	2,057	12,523	930,274
2025—2026	75,877	836,992	1,572	13,008	927,449
2026—2027	46,288	631,488	1,067	13,512	692,355
2027—2028	22,693	550,964	544	14,036	588,237
2028—2029	1,400	20,000	-	-	21,400
2029—2030	700	20,000	-	-	20,700
	<u>\$2,231,699</u>	<u>\$10,246,699</u>	<u>\$600,313</u>	<u>\$4,715,319</u>	<u>\$17,794,030</u>

Maturities of other debt are as follows for the fiscal years ending:

<u>June 30,</u>	
2016	\$ 36,120
2017	34,432
2018	31,056
2019	480
<u>Total</u>	<u>\$ 102,088</u>

Butler County School District  
Notes to the Financial Statements

**NOTE 5: LONG-TERM OBLIGATIONS (CONTINUED)**

Long-term liability activity for the year end June 30, 2015 was as follows:

June 30, 2015	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Amounts Due Within One Year
<b>Governmental Activities:</b>					
<b>Bonds and notes payable:</b>					
General obligation debt	\$ 16,402,751	\$ -	\$ (1,440,733)	\$ 14,962,018	\$ 1,412,186
Less: deferred issuance discounts and premiums	(150,734)	-	17,416	(133,318)	-
<b>Total bonds and notes payable</b>	<b>16,252,017</b>	<b>-</b>	<b>(1,423,317)</b>	<b>14,828,700</b>	<b>1,412,186</b>
<b>Other Liabilities:</b>					
Compensated absences	737,349	99,115	(201,331)	635,133	131,980
Other	130,048	6,720	(34,680)	102,088	36,120
<b>Total other liabilities</b>	<b>867,397</b>	<b>105,835</b>	<b>(236,011)</b>	<b>737,221</b>	<b>168,100</b>
<b>Total long-term liabilities</b>	<b>\$ 17,119,414</b>	<b>\$ 105,835</b>	<b>\$ (1,659,328)</b>	<b>\$ 15,565,921</b>	<b>\$ 1,580,286</b>

**NOTE 6: FUND BALANCES**

The Board follows GASB Statement Number 54. Under this statement, fund balance is separated into five categories, as follows:

*Nonspendable fund balances* are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

*Restricted fund balances* arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2015, the District had \$53,323 restricted in the special revenue fund for technology grants and \$29,058 restricted in the nonmajor funds (\$22,269 restricted for capital projects, \$611 restricted for debt service and \$6,178 restricted from SFCC offers).

**NOTE 6: FUND BALANCES (CONTINUED)**

*Committed fund balances* are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments at June 30, 2015: \$100,000 for future construction, \$175,000 for compensated absences and \$70,000 for SBDM allocation.

*Assigned fund balances* are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2015 was \$0. Assigned fund balances also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2015 in the governmental funds balance sheet.

**NOTE 7: PENSION PLANS**

**Pensions**

Butler County School District participates in the Teachers' Retirement System of the State of Kentucky (KTRS), a component unit of the Commonwealth of Kentucky and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the KTRS and the CERS and additions to/deductions from KTRS's and CERS's fiduciary net position have been

**NOTE 7: PENSION PLANS (CONTINUED)**

determined on the same basis as they are reported by KTRS and 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.

**General Information About the KTRS Pension Plan**

**Plan Description**

The KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state.

KRS 161.250 provides that the general administration and management of KTRS, and the responsibility for its proper operation, is vested in a board of trustees. The board of trustees consists of the chief state school officer, the State Treasurer, and seven elected trustees. Four of the elected trustees are active teachers, two are not members of the teaching profession, and one is an annuitant of the retirement system.

Any regular or special teacher, or professional employed by a local school district or a regional educational cooperative and occupying a position requiring certification or graduation from a four year college or university is eligible to participate in the plan. KTRS issues a publicly available financial report that can be found on the KTRS website.

**Benefits Provided**

KTRS provides retirement, medical, disability, annual cost of living adjustments, and death benefits to plan members. Plan members are divided into the following two categories:

**For Members Hired Before July 1, 2008:**

Members become vested when they complete 5 years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

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

Members 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. Members hired on or after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each

**NOTE 7: PENSION PLANS (CONTINUED)**

year of service if, upon retirement, their total service is less than 10 years. New members hired after July 1, 2002 who retire with 10 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 10 years. In addition, members 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% to be used in their benefit calculation.

The final average salary is the member's 5 highest annual salaries except members at least age 55 with 27 or more years of service may use their 3 highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

For Members Hired On or After July 1, 2008:

Members become vested when they complete 5 years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age 60 and complete 5 years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service, or
- 3.) Attain age 55 and complete 10 years of Kentucky service.

The annual retirement allowance for members is equal to: (a) 1.7% of final average salary for each year of credited service if their service is 10 years or less; (b) 2.0% of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) 2.3% of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) 2.5% of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) 3.0% of final average salary for years of credited service greater than 30 years.

The final average salary is the member's 5 highest annual salaries except members at least age 55 with 27 or more years of service may use their 3 highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

KTRS also provides disability benefits for vested members 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 members and \$5,000 for retired or disabled members.

Cost of living increases are 1.5% annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Butler County School District  
Notes to the Financial Statements

**NOTE 7: PENSION PLANS (CONTINUED)**

**Contributions**

Contribution rates are established by KRS. KTRS members are required to contribute 11.355% of their salaries to the KTRS. For members employed by local school districts, the State, as a non-employer contributing entity, contributes 13.105% of salary for those who joined before July 1, 2008 and 14.105% for those who joined thereafter.

Other participating employers are required to contribute the percentage contributed by members plus an additional 1.50 percent of members' gross salaries.

***Pension Liabilities and Pension Expense***

At June 30, 2015, the amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth of Kentucky (State) support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	55,715,269
<b>Total</b>	<u><u>\$ 55,715,269</u></u>

The net pension liability 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 June 30, 2013 rolled forward to June 30, 2014 using standard update procedures.

For the year ended June 30, 2015, the District recognized pension expense of \$2,730,162 and revenue of \$2,730,162 for support provided by the State in the government wide financial statements.

**Actuarial Assumptions**

The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Investment rate of return	7.50% net of pension plan investment expense, including inflation
Projected salary increases	4.00 - 8.20%, including inflation
Inflation rate	3.50%
Municipal bond index rate	4.35%
Discount rate	5.23%

**NOTE 7: PENSION PLANS (CONTINUED)**

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

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

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

**Discount Rate**

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

**NOTE 7: PENSION PLANS (CONTINUED)**

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

***Medical Insurance Plan***

**Plan Description**

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

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

**Contributions**

In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 2.25% of members' salary for the 2014-2015 fiscal year.

**General Information About the CERS Pension Plan**

**Plan Description**

All regular full-time members of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the plan are covered by the CERS – a cost-sharing multiple-employer defined benefit pension plan administered by the Board of Trustees of the Kentucky Retirement System, under the provisions of KRS Section 61.645. CERS issues a publicly available financial report that can be found on the CERS website.

**NOTE 7: PENSION PLANS (CONTINUED)**

**Benefits Provided**

CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, Cost of Living Adjustments (COLAs) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted.

**Contributions**

Plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal year ended June 30, 2015, participating employers contributed 17.67% of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal year ended June 30, 2015, was 17.67%. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. 5% of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(b) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Butler County School District  
Notes to the Financial Statements

**NOTE 7: PENSION PLANS (CONTINUED)**

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

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

At June 30, 2015, the District reported a liability of \$3,218,000 for its proportionate share of the net pension liability. The net pension liability 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 was based on the District's share of 2014 contributions to the pension plan relative to the 2014 contributions of all participating employers, actuarially determined. At June 30, 2014, the District's proportion was .099177%.

For the year ended June 30, 2015, the District recognized pension expense of \$258,000. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following source

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected & actual earnings on pension plan investments	\$ -	\$ 359,000
District contributions subsequent to the measurement date	411,163	-
<b>Total</b>	<b>\$ 411,163</b>	<b>\$ 359,000</b>

\$411,163 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Butler County School District  
Notes to the Financial Statements

**NOTE 7: PENSION PLANS (CONTINUED)**

<i>Year ended June 30:</i>	
2016	\$ 89,750
2017	89,750
2018	89,750
2019	89,750
Thereafter	-

**Actuarial Assumptions**

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age
Actuarial Assumptions:	
Investment rate of return	7.75% net of pension plan investment expense, including inflation
Projected salary increases	4.50%, average, including inflation
Inflation rate	3.50%
Discount rate	7.75%

Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006, and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years is used for the period after the disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

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

Butler County School District  
Notes to the Financial Statements

**NOTE 7: PENSION PLANS (CONTINUED)**

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	30.0%	8.45%
Non U.S. Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.50%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7.00%
Core U.S. Fixed Income	10.0%	5.25%
High Yield U.S. Fixed Income	5.0%	7.25%
Non U.S. Fixed Income	5.0%	5.50%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
<b>Total</b>	<u>100.0%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 29 year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. Projected future benefit payments for all current plan members were projected through 2116.

**Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

**NOTE 7: PENSION PLANS (CONTINUED)**

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 4,234,000	\$ 3,218,000	\$ 2,320,000

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report.

***Deferred Compensation Plans***

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457 and 401(k). The Plans, available to all employees, permit them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities in the financial statements.

**NOTE 8: CONTINGENCIES**

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and 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.

**NOTE 9: RISK MANAGEMENT**

The District is exposed to various forms of loss of assets associated with the risks related to torts; theft of, damage to and destruction of assets; fire, personal liability, vehicular accidents; errors and omissions; injuries to employees; fiduciary responsibility; and natural disaster. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

The District purchases unemployment insurance through KSBIT; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all

Butler County School District  
Notes to the Financial Statements

**NOTE 9: RISK MANAGEMENT (CONTINUED)**

other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 10: EXCESS EXPENDITURES OVER APPROPRIATIONS**

The District has one fund with a deficit fund balance, food service (\$55,661). Also, the following funds had excess current year expenditures over current year appropriated revenues:

<i>Year ended June 30, 2015</i>	
<b>Fund</b>	<b>Amount</b>
Special revenue	\$ 27,816
Construction	33,709
Food service	41,248

**NOTE 11: FUND TRANSFERS**

Fund transfers for the year ended June 30, 2015 consist of the following:

<b>From Fund</b>	<b>To Fund</b>	<b>Purpose</b>	<b>Amount</b>
General	Special revenue	Matching	\$ 47,297
General	Debt service	Debt service	306,798
SEEK	Debt service	Debt service	197,071
FSPK	Debt service	Debt service	738,030
Food service	General	Indirect costs	72,827

**NOTE 12: ON-BEHALF PAYMENTS**

The District receives on-behalf payments from the State of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2015, was \$3,942,793. These payments were recorded as follows:

Butler County School District  
Notes to the Financial Statements

**NOTE 12: ON-BEHALF PAYMENTS (CONTINUED)**

<i>Year ended June 30, 2015</i>	
<b>Fund</b>	<b>Amount</b>
General fund	\$ 3,189,888
Food service fund	95,553
Debt service fund	657,352
<b>Total</b>	<b>\$ 3,942,793</b>

<i>Year ended June 30, 2015</i>	
Technology	\$ 58,648
Health Insurance less Federal Reimbursements	2,034,632
Life Insurance	3,709
Administrative Fees	25,563
HRA/Dental/Vision Insurance	103,075
SFCC Debt Service	657,352
KTRS	1,059,814
<b>Total</b>	<b>\$ 3,942,793</b>

**NOTE 13: SUBSEQUENT EVENT**

On September 16, 2015, the District issued a \$2,570,000 bond for renovations at Butler County High School, Butler County Middle School and Morgantown Elementary.

Butler County School District  
Budgetary Comparison Schedule for the General Fund

<i>Year Ended June 30, 2015</i>	Budgeted Amounts		Actual	Variances
	Original	Final		Favorable (Unfavorable) Final to Actual
<b>Revenues</b>				
Local and intermediate sources	\$ 2,587,700	\$ 2,587,700	\$ 2,867,065	\$ 279,365
State programs	9,921,000	9,921,000	10,094,436	173,436
Federal programs	10,000	10,000	41,818	31,818
<b>Total revenues</b>	<b>12,518,700</b>	<b>12,518,700</b>	<b>13,003,319</b>	<b>484,619</b>
<b>Expenditures</b>				
Current:				
Instruction	7,226,988	7,232,272	7,719,941	(487,669)
Support services:				
Student	298,406	298,406	258,772	39,634
Instructional staff	332,477	327,227	355,945	(28,718)
District administration	2,671,185	2,671,151	629,718	2,041,433
School administration	663,876	663,876	668,188	(4,312)
Business	321,190	321,190	294,048	27,142
Plant operations and maintenance	1,482,291	1,482,291	1,686,459	(204,168)
Student transportation	1,121,960	1,121,960	1,078,238	43,722
<b>Total expenditures</b>	<b>14,118,373</b>	<b>14,118,373</b>	<b>12,691,309</b>	<b>1,427,064</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,599,673)</b>	<b>(1,599,673)</b>	<b>312,010</b>	<b>1,911,683</b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers- net	(413,500)	(413,500)	(281,268)	132,232
<b>Total other financing sources (uses)</b>	<b>(413,500)</b>	<b>(413,500)</b>	<b>(281,268)</b>	<b>132,232</b>

Butler County School District  
Budgetary Comparison Schedule for the General Fund

<i>Year Ended June 30, 2015</i>	<u>Budgeted Amounts</u>		<b>Actual</b>	<b>Variances</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable)</b>
				<b>Final to Actual</b>
Net change in fund balance	(2,013,173)	(2,013,173)	30,742	2,043,915
Fund balance - beginning of year	2,013,173	2,013,173	3,187,817	1,174,644
Fund balance - end of year	\$ -	\$ -	\$ 3,218,559	\$ 3,218,559

**Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures**

Inflows/revenues:

Actual amounts (budgetary basis)	\$ 13,003,319
Differences - budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budgeted amounts	3,189,888

Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds \$ 16,193,207

Outflows/expenditures:

Actual amounts (budgetary basis)	\$ 12,691,309
Differences - budget to GAAP:	
On-behalf payments recorded under GAAP basis not included in budgeted amounts	3,189,888

Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds \$ 15,881,197

Butler County School District  
Budgetary Comparison Schedule for the Special Revenue Fund

<i>Year Ended June 30, 2015</i>	Budgeted Amounts			Variances Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
<b>Revenues</b>				
Local and intermediate sources	\$ -	\$ -	\$ 13,471	\$ 13,471
State programs	856,574	820,316	902,418	82,102
Federal programs	1,433,995	1,463,894	1,435,946	(27,948)
<b>Total revenues</b>	<b>2,290,569</b>	<b>2,284,210</b>	<b>2,351,835</b>	<b>67,625</b>
<b>Expenditures</b>				
Current:				
Instruction	1,461,448	1,524,116	1,519,569	4,547
Support services:				
Student	306,484	229,518	318,533	(89,015)
Instructional staff	318,471	320,678	326,211	(5,533)
District administration	17,068	12,903	26,960	(14,057)
Business	24,300	34,300	19,999	14,301
Plant operations and maintenance	57,158	57,159	59,120	(1,961)
Student transportation	237	1,895	820	1,075
Other	155,403	153,641	155,736	(2,095)
<b>Total expenditures</b>	<b>2,340,569</b>	<b>2,334,210</b>	<b>2,426,948</b>	<b>(92,738)</b>
<b>Deficiency of revenues over expenditures</b>	<b>(50,000)</b>	<b>(50,000)</b>	<b>(75,113)</b>	<b>(25,113)</b>

Butler County School District  
Budgetary Comparison Schedule for the Special Revenue Fund

<i>Year Ended June 30, 2015</i>	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		<u>Final to Actual</u>
<b>Other Financing Sources (Uses)</b>				
Operating transfers- net	50,000	50,000	47,297	(2,703)
Total other financing sources (uses)	50,000	50,000	47,297	(2,703)
Net change in fund balance	-	-	(27,816)	(27,816)
Fund balance-beginning of year	-	-	81,139	81,139
Fund balance-end of year	\$ -	\$ -	\$ 53,323	\$ 53,323

Butler County School District  
 Schedule of the District's Proportionate Share of the  
 Net Pension Liability and Schedule of District's Contributions  
 Kentucky Teachers' Retirement System

<b>Schedule of the District's Proportionate Share of The Net Pension Liability-KTRS</b>		
<i>As of June 30,</i>	<b>2015</b>	
District's proportion of the net pension liability		0.0%
District's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the District	\$	55,715,269
District's covered - employee payroll	\$	8,486,385
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		0.0%
Plan fiduciary net position as a percentage of the total pension liability		45.6%

<b>Schedule of District Contributions-KTRS</b>		
<i>For the Year Ended June 30</i>	<b>2015</b>	
Contractually required contribution	\$	1,059,814
Contributions in relation to the contractually required contribution		1,059,814
Contribution deficiency (excess)	\$	-
District's covered-employee payroll	\$	8,814,977
Contributions as a percentage of covered-employee payroll		12.0229%

**Changes of Benefit Terms**

None noted.

**Changes of Assumptions**

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

Butler County School District  
 Schedule of the District's Proportionate Share of the  
 Net Pension Liability and Schedule of District's Contributions  
 County Employees Retirement System

<b>Schedule of the District's Proportionate Share of the Net Pension Liability-CERS</b>	
<i>As of June 30,</i>	2015
District's proportion of the net pension liability	0.099177%
District's proportionate share of the net pension liability	\$ 3,218,000
District's covered - employee payroll	\$ 2,283,695
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	71.0%
Plan fiduciary net position as a percentage of the total pension liability	66.8%

<b>Schedule of District's Contributions</b>	
<i>For the Year Ended June 30,</i>	2015
Contractually required contribution	\$ 411,163
Contributions in relation to the contractually required contribution	411,163
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	\$ 2,326,899
Contributions as a percentage of covered-employee payroll	17.67%

**Changes of Benefit Terms**

None noted.

**Changes of Assumptions**

None noted.

Butler County School District  
Combining Balance Sheet  
Nonmajor Governmental Funds

<i>June 30, 2015</i>	<b>SEEK Capital Outlay Fund</b>	<b>FSPK Fund</b>	<b>Construction Fund</b>	<b>Debt Service Fund</b>	<b>Total Other Governmental Funds</b>
<b>Assets</b>					
Cash	\$ 17,964	\$ 10,235	\$ 248	\$ 611	\$ 29,058
<b>Total assets</b>	<b>\$ 17,964</b>	<b>\$ 10,235</b>	<b>\$ 248</b>	<b>\$ 611</b>	<b>\$ 29,058</b>
<b>Fund Balances</b>					
Restricted					
SFCC prior offer	\$ 6,178	\$ -	\$ -	\$ -	\$ 6,178
Debt service	-	-	-	611	611
Capital projects	11,786	10,235	248	-	22,269
<b>Total fund balances</b>	<b>\$ 17,964</b>	<b>\$ 10,235</b>	<b>\$ 248</b>	<b>\$ 611</b>	<b>\$ 29,058</b>

Butler County School District  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

<i>Year Ended June 30, 2015</i>	<b>Seek Capital Outlay Fund</b>	<b>FSPK Fund</b>	<b>Construction Fund</b>	<b>Debt Service Fund</b>	<b>Total Other Governmental Funds</b>
<b>Revenues</b>					
From local sources:					
Taxes:					
Property	\$ -	\$ 236,566	\$ -	\$ -	\$ 236,566
Intergovernmental - state	197,071	501,464	-	657,352	1,355,887
<b>Total revenues</b>	<b>197,071</b>	<b>738,030</b>	<b>-</b>	<b>657,352</b>	<b>1,592,453</b>
<b>Expenditures</b>					
Debt service:					
Principal	-	-	-	1,440,733	1,440,733
Interest	-	-	-	458,518	458,518
Building acquisition and construction	-	-	33,709	-	33,709
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>33,709</b>	<b>1,899,251</b>	<b>1,932,960</b>
<b>Excess (deficiency) of revenues over</b>	<b>197,071</b>	<b>738,030</b>	<b>(33,709)</b>	<b>(1,241,899)</b>	<b>(340,507)</b>
<b>Other Financing Sources (Uses)</b>					
Operating transfers-in	-	-	-	1,241,899	1,241,899
Operating transfers-out	(197,071)	(738,030)	-	-	(935,101)
<b>Total other financing sources (uses)</b>	<b>(197,071)</b>	<b>(738,030)</b>	<b>-</b>	<b>1,241,899</b>	<b>306,798</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>(33,709)</b>	<b>-</b>	<b>(33,709)</b>
<b>Fund balances - beginning of year</b>	<b>17,964</b>	<b>10,235</b>	<b>33,957</b>	<b>611</b>	<b>62,767</b>
<b>Fund balances - end of year</b>	<b>\$ 17,964</b>	<b>\$ 10,235</b>	<b>\$ 248</b>	<b>\$ 611</b>	<b>\$ 29,058</b>

Butler County School District  
Combining Statement of Fiduciary Net Position  
School Activity Funds  
Agency Funds

<i>June 30, 2015</i>	<b>Cash</b>			<b>Cash</b>	<b>Accounts</b>	<b>Accounts</b>	<b>Due to Student</b>
	<b>July 1, 2014</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>June 30, 2015</b>	<b>Receivable</b>	<b>Payable</b>	<b>Groups</b>
							<b>June 30, 2015</b>
Butler County High School	\$ 83,197	\$ 337,357	\$ 347,648	\$ 72,906	\$ -	\$ 1,190	\$ 71,716
Butler County Middle School	18,459	118,568	118,006	19,021	-	-	19,021
North Butler Elementary School	23,850	40,968	40,207	24,611	-	-	24,611
Morgantown Elementary School	63,298	66,518	55,199	74,617	-	1,218	73,399
<b>Total</b>	<b>\$ 188,804</b>	<b>\$ 563,411</b>	<b>\$ 561,060</b>	<b>\$ 191,155</b>	<b>\$ -</b>	<b>\$ 2,408</b>	<b>\$ 188,747</b>

Butler County School District  
Statement of Fiduciary Net Position  
School Activity Funds  
Butler County High School

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<i>Year Ended June 30, 2015</i>	<b>Cash</b>			<b>Cash</b>			<b>Accounts</b>	<b>Accounts</b>	<b>Due To Student</b>
	<b>July 1, 2014</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>June 30, 2015</b>	<b>Receivable</b>	<b>Payable</b>	<b>Groups</b>	<b>June 30, 2015</b>	
General	\$ 4,411	\$ 3,093	\$ 4,060	\$ 3,444	\$ -	\$ 1,190	\$ 2,254		
Student Fund	10,798	9,529	18,495	1,832	-	-	1,832		
Faculty Fund	788	2,417	2,279	926	-	-	926		
School Safety	325	-	-	325	-	-	325		
ROTC	6,396	18,081	13,270	11,207	-	-	11,207		
Cheerleaders	4,556	26,235	26,161	4,630	-	-	4,630		
Tree Scape Fund	426	-	-	426	-	-	426		
Europe	9	75	-	84	-	-	84		
Science Club	2,590	3,579	4,679	1,490	-	-	1,490		
Athletics	10,676	72,059	76,069	6,666	-	-	6,666		
Football Jr. Pro	569	604		1,173	-	-	1,173		
Boys BK JR Pro	-	7,122	7,056	66			66		
Girls BK Jr. Pro	7	3,520	3,521	6	-	-	6		
Jr. Pro Cheerleading	197	-	-	197	-	-	197		
Boys BK/Donation	1,106	-	-	1,106	-	-	1,106		
Soccer Jr. Pro	2,266	8,430	8,928	1,768	-	-	1,768		
Band	234	54,669	53,986	917	-	-	917		
Choir	764	1,599	1,510	853	-	-	853		
Library Supplies	205	816	602	419	-	-	419		
FCS	1,154	3,712	2,676	2,190	-	-	2,190		
TASA Grant	31	-	-	31	-	-	31		
Brick Fundraiser	1,171	-	-	1,171	-	-	1,171		
Calculators	1,419	1,560	461	2,518	-	-	2,518		
Business & Office	2,320	705	976	2,049	-	-	2,049		
Yearbook	4,590	22,479	21,602	5,467	-	-	5,467		
Class of 2014	529	-	529	-	-	-	-		
Class of 2015	1,790	-	931	859	-	-	859		
Class of 2016	-	11,618	8,751	2,867	-	-	2,867		

Butler County School District  
Statement of Fiduciary Net Position  
School Activity Funds  
Butler County High School

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<i>Year Ended June 30, 2015</i>	<b>Cash</b>			<b>Cash</b>	<b>Accounts</b>	<b>Accounts</b>	<b>Due To Student</b>
	<b>July 1, 2014</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>June 30, 2015</b>	<b>Receivable</b>	<b>Payable</b>	<b>Groups</b>
							<b>June 30, 2015</b>
FFA	1,641	29,634	30,893	382	-	-	382
FCCLA	2,599	19,172	19,319	2,452	-	-	2,452
Beta Club	1,693	3,624	4,987	330	-	-	330
SUPA	3,193	2,066	1,631	3,628	-	-	3,628
NAC	160	-	-	160	-	-	160
Foreign Language	435	70	141	364	-	-	364
TSA	3,337	3,978	6,508	807	-	-	807
PRIDE	158	145	-	303	-	-	303
FBLA	491	564	688	367	-	-	367
FCS Screenprint	1,405	2,118	2,696	827	-	-	827
FCA	151	200	189	162	-	-	162
Food For All	1,495	-	1,495	-	-	-	-
Student Council	768	-	-	768	-	-	768
Rental	150	80	198	32	-	-	32
Project Prom	3,447	19,963	18,877	4,533	-	-	4,533
Region 4 KATFACS	1,731	1,061	980	1,812	-	-	1,812
Pep Club	894	1,900	2,081	713	-	-	713
Renaissance Leadership	2	-	-	2	-	-	2
Region 4 FCCLA	-	18	-	18	-	-	18
Art Club	120	862	423	559	-	-	559
	\$ 83,197	\$ 337,357	\$ 347,648	\$ 72,906	\$ -	\$ 1,190	\$ 71,716

Butler County School District  
Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster			
Direct Program			
Food Distribution Program - noncash	10.555	-	\$91,813
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 15	205,060
National School Lunch Program	10.555	7750002 15	570,994
National School Summer Meals Program	10.559	7740023 14	6,700
<b>Total U.S. Department of Agriculture</b>			<b>874,567</b>
<b>U.S. Department of Defense</b>			
Direct Program			
NJROTC	12.000	-	(8,524)
NJROTC	12.000	-	58,033
<b>Total U.S. Department of Defense</b>			<b>49,509</b>
<b>U.S. Department of Education</b>			
Passed-Through State Department of Education:			
Title I, Part A Cluster			
Title I to Local Educational Agencies - 2014	84.010	3100002 13	11,401
Title I to Local Educational Agencies - 2015	84.010	3100002 14	586,255
Title I - Parent Involvement - 2015	84.010	3100002 14	4,190
Title I - Parent Involvement - 2014	84.010	3100002 13	4,568
Subtotal			606,414
Special Education Cluster			
Special Education - 2014	84.027	3810002 13	95
Special Education - 2015	84.027	3810002 14	460,729
Special Education - Preschool - 2015	84.173	3800002 14	28,648
Subtotal			489,472
Title VI - Rural/Low Income - 2014	84.358	3140002 13	2,791
Title VI - Rural/Low Income - 2015	84.358	3140002 14	46,175
Subtotal			48,966
Vocational Education - 2015	84.048	3710002 14	12,105
Improving Teacher Quality - 2015	84.367	3230002 14	123,426

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Butler County School District  
Schedule of Expenditures of Federal Awards

*Year Ended June 30, 2015*

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Race to the Top - 2011	84.413	3960002 11	6,864
Title IV - PEP Fund for Improvement of Ed - 2014	84.215F	5174	6,920
Passed-Through State Department for Social Services:			
Title I Neglected & Delinquent	84.013	313A	22,167
Title I Transition Services	84.013	3134T	4,446
Subtotal			26,613
Passed-Through State Workforce Cabinet:			
Adult Education - 2014	84.002	3734	(58)
Adult Education - 2015	84.002	373A	27,771
Adult Education - Professional Development	84.002	3734S	434
Community Based Work Transition- 2014	84.002	3714	(5,654)
Community Based Work Transition- 2015	84.002	371A	32,604
Recruitment Retention and Results	84.002	365A	10,560
Subtotal			65,657
Total U.S. Department of Education			1,386,437
Total expenditures of federal awards			\$2,310,513

*See accompanying notes to the schedule of federal awards.*

Butler County School District  
Notes to the Schedule of Expenditures of Federal Awards

**Note 1: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal grant activity of Butler County School District (the “District”) under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

**Note 3: Subrecipients**

There were no subrecipients during the fiscal year.



Butler County School District  
Summary Schedule of Prior Year Audit Findings

None



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**Independent Auditors' 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  
Butler County School District  
Morgantown, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Butler County School District (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Butler County School District's basic financial statements, and have issued our report thereon dated October 22, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Bowling Green, Kentucky  
October 22, 2015



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**Independent Auditors' 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  
Butler County School District  
Morgantown, Kentucky

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

We have audited Butler County School District's (the "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 auditors' 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.

***Auditors' 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*. 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, we considered the District's internal control over compliance with the 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

*Carr, Riggs & Ingram, L.L.C.*

Butler County School District  
Schedule of Findings and Questioned Costs

**Section I — Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Butler County School District  
Schedule of Findings and Questioned Costs

Identification of major Federal programs:

<b>CFDA Numbers</b>	<b>Name of Federal Program or Cluster</b>
84.010	Title I, Part A Cluster

Dollar threshold used to distinguish  
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**Section II — Financial Statement Findings**

None reported.

**Section III — Federal Award Findings and Questioned Costs**

None reported.



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## Management Letter

Kentucky State Committee for School District Audits  
Members of the Board of Education  
Butler County School District  
Morgantown, Kentucky

In planning and performing our audit of the financial statements of Butler County School District (the "District") for the year ended June 30, 2015, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum accompanying this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated October 22, 2015 contains our report on the District's internal control. This letter does not affect our report dated October 22, 2015 on the financial statements of the District.

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

*Carr, Riggs & Ingram, L.L.C.*

Carr, Riggs & Ingram, LLC  
Morgantown, Kentucky  
October 22, 2015

# Butler County School District Comments and Recommendations

## Current Year Comments

- **Butler County Middle School**

- During our review of disbursements, we noted several checks throughout the year that did not contain dual signatures. As required by Red Book compliance, all checks require dual signatures. We recommend all checks contain dual signatures.

- **Central Office**

- During our review of journal entries, we noted various journal entries not reviewed by a second individual. As an additional internal control procedure, we recommend all journal entries be prepared and reviewed by two separate individuals and this review be documented.

- **Food service**

During our review of summer feeding program, we noted a decline in revenue due to June's meal reimbursements being disallowed. June's summer feeding meals were inadequately documented and disallowed by the state. We recommend all paper work be monitored and submitted timely to reduce the loss of revenue.

**Client's Responses**

**Butler County Middle School**

As required by Red Book all checks will contain dual signatures in the future.

**Central Office**

As recommended all journal entries in the future will be prepared and reviewed by two separate individuals and this review will be documented.

**Food service**

There was a decline in the number of summer feeding meals claimed in the month of June 2015 related to decrease feeding sites and failure to have all meal sites preapproved in CNIPS (Child Nutrition Information and Payment System). The sites were visited and all paperwork was documented; however, the sites were not submitted in CNIPS in the appropriate time while the school nutrition director was on maternity leave.



**THOUGHT LEADERSHIP**



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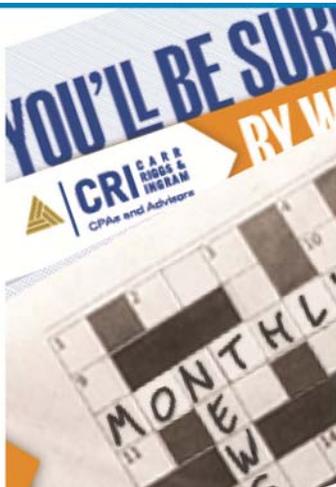
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### NEWSLETTER (Sign up at CRIcpa.com)

Our team is dedicated to keeping our clients informed, and we prove it by creating a custom monthly e-newsletter with widely-applicable topics. The articles are designed to help you improve your business and personal finances. Popular recent topics include:

- Reportable Health Care Coverage on W-2s
- Navigating Alternative Minimum Tax (AMT)
- Key Considerations of Health Care Law
- Six Commandments of Estate Planning