

**FAIRVIEW INDEPENDENT
SCHOOL DISTRICT**

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

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	3-5
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	6-9
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements -	
Statement of Net Position	10
Statement of Activities.....	11
Fund Financial Statements -	
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position - Proprietary Fund.....	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund	17
Statement of Cash Flows - Proprietary Fund.....	18
Statement of Net Position - Fiduciary Funds.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund.....	21
Notes to the Financial Statements.....	22-39
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of District’s Proportionate Share of the Net Pension Liability	40
Schedule of Pension Contributions.....	41
Notes to Required Supplementary Information.....	42-43
SUPPLEMENTARY INFORMATION:	
Combining Statements - Non-major Funds -	
Combining Balance Sheet - Non-major Governmental Funds	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-major Governmental Funds.....	45
Other -	
Statement of Changes in Assets and Liabilities - School Activity Funds	46
Statement of Changes in Assets and Liabilities - Fairview Independent High School	47
Schedule of Expenditures of Federal Awards	48-49

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	50-51
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	52-53
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	54-64
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	65
MANAGEMENT LETTER POINTS	66



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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, 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 Fairview Independent 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.

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

As described in Note 14 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective July 1, 2014. 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 information on pages 6 through 9 and the Schedule of District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 40 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency in management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fairview Independent School District's basic financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements 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 non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of Fairview Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Gallaway Smith Goshay, P.C.

October 23, 2015
Ashland, Kentucky

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

As management of the Fairview Independent School District (the "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 this report.

FINANCIAL HIGHLIGHTS

- The beginning General Fund cash balance for the District was \$466,447. Additionally, \$322,690 in beginning cash and cash equivalents was restricted for grants, construction, food services and student activities and were accounted for in separate funds. The ending General Fund cash balance was \$401,574, and there was \$7,917,604 in cash and cash equivalents in other funds.
- During fiscal year 2015, the District saw its financial condition remain stable. The District is primarily reliant on funding by the Commonwealth of Kentucky. The Commonwealth increased its funding level by \$84 per student Average Daily Attendance, which positively impacted the District's finances for the year. The District ended the year with a 6.058% contingency balance.
- The General Fund had \$7.2 million in revenues including on-behalf payments, of which 72.6% consisted of the state funding (SEEK program), 14% consisted of property and motor vehicle taxes, and 12.8% consisted of utility taxes. Excluding inter-fund transfers, there was \$7.3 million in General Fund expenditures during the year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District made \$458,428 in bond payments during the 2014-2015 year. The District sold a \$1,665,000 bond issue during fiscal year 2015 to advance refund the Bond Issue of 2005. Additionally, the District sold a \$9,080,000 bond issue during fiscal year 2015 to finance the renovations of Fairview High School.
- Total enrollment decreased from 864 students in 2014 to 795 in 2015. Average daily attendance decreased to 726 students. The SEEK funding is based upon average daily attendance.
- The District implemented GASB 68 this year. There are two sources of pension liabilities with which the District has to contend. The Kentucky Teachers Retirement System covers the District's professional staff members. It had analysis performed by Cavanaugh Macdonald Consulting, LLC to determine each Kentucky school district's share of pension liabilities for its professional staff. This debt is the responsibility of the Commonwealth of Kentucky. Our allocated amount was \$22,175,552, as of June 30, 2014. Our non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system the District's share of the pension liabilities was \$1,540,000, as of June 30, 2014. The District does not believe these disclosures will have a major impact on their day to day operations or the financial health of District.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of facilities, student transportation, and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The state has mandated a uniform system (MUNIS administrative software) and chart of accounts for all Kentucky public school districts. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. The District's only proprietary fund is food service operations. Fiduciary funds account for activities of student groups and programs. All other activities of the District are included in the governmental funds.

The fund financial statements can be found on pages 12 - 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

Net Position for the period ending June 30, 2015 as compared to June 30, 2014, as restated.

	June 30, 2015	(Restated) June 30, 2014
Current Assets	\$ 8,498,034	\$ 938,850
Noncurrent Assets	11,200,278	8,880,207
Total Assets	<u>19,698,312</u>	<u>9,819,057</u>
Deferred Outflows	304,509	272,320

Current Liabilities	2,112,500	784,097
Noncurrent Liabilities	<u>15,863,874</u>	<u>7,563,533</u>
Total Liabilities	<u>17,976,374</u>	<u>8,347,630</u>
Deferred Inflows	172,000	-
Net Position		
Net investment in		
Capital assets	(3,503,831)	2,701,311
Restricted	6,365,759	10,018
Unrestricted	<u>(1,007,481)</u>	<u>(967,582)</u>
Total Net Position	<u>\$ 1,854,447</u>	<u>\$ 1,743,747</u>

The following table presents a summary of revenue and expense on a government-wide basis for the fiscal years ended June 30, 2015 and 2014, respectively:

	<u>2015</u> Amount	<u>2014</u> Amount
Revenues:		
Local revenue sources	\$ 2,237,114	\$ 2,417,448
State revenue sources	6,620,874	5,796,761
Federal revenue sources	808,338	914,489
Other revenues	131,708	114,522
Interest income	<u>24,654</u>	<u>1,270</u>
Total revenues	<u>9,822,688</u>	<u>9,244,490</u>
Expenses:		
Instruction	5,099,322	4,357,199
Student support services	385,763	235,849
Instructional support	396,283	360,183
District administration	327,168	277,462
School administration	438,334	433,521
Business support	541,691	411,901
Plant operations	1,213,071	1,158,976
Student transportation	258,937	400,365
Community services	147,446	128,269
Food services	567,629	614,974
Debt service - interest	<u>336,344</u>	<u>205,605</u>
Total expenses	<u>9,711,988</u>	<u>8,584,304</u>
Excess (deficiency) of revenues over (under) expenses	<u>\$ 110,700</u>	<u>\$ 660,186</u>

Capital Assets

At the end of June 30, 2015, the District's investment in capital assets for its governmental and business-type activities was \$11,200,278, representing an increase of \$2,320,071 net of depreciation, from the prior year. Construction in progress increased significantly due to commencement of major renovations with a new wing addition at the high school during the fiscal year ended June 30, 2015.

Debt Service

At year-end, the District had approximately \$15 million in outstanding debt, compared to \$6 million last year. The increase is due to the \$9,080,000 bond issue during fiscal year 2015 to finance the renovations of Fairview High School. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

FUND FINANCIAL STATEMENTS

Comments on Budget Comparisons

- The District's total budgeted General Fund revenues for the fiscal year ended June 30, 2015 and 2014, were \$5.7 and \$6.1 million, respectively.
- General fund budget to actual comparison varied slightly from line item to line item with the actual ending balance being \$374,892 more than budget, before interfund transfers. The increase resulted from \$231,632 more in revenues as compared to the budget, with \$143,260 in expenditures less than the budget.
- The total cost of all programs and services of the Governmental Funds and Proprietary Funds was \$9.7 million and \$10.1 million for the fiscal years ended June 30, 2015 and 2014, respectively.
- Site Based Decision Making Councils expended 56.9% of the General Fund budget. Additionally, 14.4% was spent on maintenance and operations, 4.4% on District administration, 3.9% on transportation and 8.1% on business support services.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for the 2015 - 2016 fiscal year with a 6% contingency.

Questions regarding this report should be directed to the Superintendent, Michael Taylor, or to the Finance Director, Ernest P Sharp, II, at (606) 324-3877, or by mail at 2201 Main St. WW, Ashland, KY 41102.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 8,184,230	\$ 69,606	\$ 8,253,836
Receivables (net of allowances for uncollectibles):			
Taxes	145,965	-	145,965
Intergovernmental - federal	81,599	-	81,599
Inventories	-	16,634	16,634
Capital assets, not being depreciated	3,403,867	-	3,403,867
Capital assets, being depreciated, net	7,749,091	47,320	7,796,411
Total assets	<u>19,564,752</u>	<u>133,560</u>	<u>19,698,312</u>
Deferred outflows of resources			
Deferred savings from refunding bonds	114,668	-	114,668
Deferred pension contributions	160,844	28,997	189,841
Total deferred outflows of resources	<u>275,512</u>	<u>28,997</u>	<u>304,509</u>
Liabilities			
Accounts payable	1,162,653	-	1,162,653
Accrued expenses	129,068	-	129,068
Unearned revenue	223,242	-	223,242
Portion due or payable within one year:			
KSBIT payable	20,041	-	20,041
Capital leases	28,171	-	28,171
Debt obligations	525,000	-	525,000
Noncurrent liabilities:			
Net pension liability	1,304,778	235,222	1,540,000
Portion due or payable after one year:			
KSBIT payable	58,268	-	58,268
Capital leases	114,781	-	114,781
Debt obligations, net of discounts of \$54,175	14,150,825	-	14,150,825
Accrued sick leave	24,325	-	24,325
Total liabilities	<u>17,741,152</u>	<u>235,222</u>	<u>17,976,374</u>
Deferred inflows of resources			
Deferred pension investment earnings	145,728	26,272	172,000
Total deferred inflows of resources	<u>145,728</u>	<u>26,272</u>	<u>172,000</u>
Net Position			
Net investment in capital assets	(3,551,151)	47,320	(3,503,831)
Restricted	6,512,016	(146,257)	6,365,759
Unrestricted	(1,007,481)	-	(1,007,481)
Total net position	<u>\$ 1,953,384</u>	<u>\$ (98,937)</u>	<u>\$ 1,854,447</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 5,099,322	\$ -	\$ 414,915	\$ -	\$ (4,684,407)	\$ -	\$ (4,684,407)
Support services:							
Students	385,763	15,157	810	-	(369,796)	-	(369,796)
Instructional staff	396,283	-	75,689	-	(320,594)	-	(320,594)
District administration	327,168	-	-	-	(327,168)	-	(327,168)
School administration	438,334	-	-	-	(438,334)	-	(438,334)
Business and other support services	541,691	-	11,693	-	(529,998)	-	(529,998)
Operation and maintenance of plant	1,213,071	-	-	-	(1,213,071)	-	(1,213,071)
Student transportation	258,937	-	-	-	(258,937)	-	(258,937)
Community services	147,446	-	101,455	-	(45,991)	-	(45,991)
Debt service - interest	336,344	-	-	572,735	236,391	-	236,391
Total governmental activities	<u>9,144,359</u>	<u>15,157</u>	<u>604,562</u>	<u>572,735</u>	<u>(7,951,905)</u>	<u>-</u>	<u>(7,951,905)</u>
Business-type activities:							
Food service	567,629	40,733	495,193	29,922	-	(1,781)	(1,781)
Total business-type activities	<u>567,629</u>	<u>40,733</u>	<u>495,193</u>	<u>29,922</u>	<u>-</u>	<u>(1,781)</u>	<u>(1,781)</u>
Total primary government	<u>\$ 9,711,988</u>	<u>\$ 55,890</u>	<u>\$ 1,099,755</u>	<u>\$ 602,657</u>	<u>\$ (7,951,905)</u>	<u>\$ (1,781)</u>	<u>\$ (7,953,686)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 1,038,877	\$ -	\$ 1,038,877
Motor vehicle					148,607	-	148,607
Utility					1,008,897	-	1,008,897
Intergovernmental revenues:							
State					5,711,643	-	5,711,643
Investment earnings					24,582	72	24,654
Other local revenues					131,708	-	131,708
Total general revenues					<u>8,064,314</u>	<u>72</u>	<u>8,064,386</u>
Change in net position					112,409	(1,709)	110,700
Net position, June 30, 2014, as restated					<u>1,840,975</u>	<u>(97,228)</u>	<u>1,743,747</u>
Net position, June 30, 2015					<u>\$ 1,953,384</u>	<u>\$ (98,937)</u>	<u>\$ 1,854,447</u>

The accompanying notes to financial statements are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 401,574	\$ 141,642	\$ 7,425,310	\$ 215,704	\$ 8,184,230
Receivables (net of allowances for uncollectibles):					
Taxes	145,965	-	-	-	145,965
Other	-	81,599	-	-	81,599
Total assets	<u>\$ 547,539</u>	<u>\$ 223,241</u>	<u>\$ 7,425,310</u>	<u>\$ 215,704</u>	<u>\$ 8,411,794</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 58,022	\$ -	\$ 1,104,631	\$ -	\$ 1,162,653
Accrued expenses	6,866	-	-	-	6,866
Unearned revenue	-	223,241	-	-	223,241
Total liabilities	<u>64,888</u>	<u>223,241</u>	<u>1,104,631</u>	<u>-</u>	<u>1,392,760</u>
Fund balances:					
Restricted for capital expenditures	-	-	6,320,679	171,350	6,492,029
Restricted for debt service	-	-	-	19,987	19,987
Committed for capital expenditures	12,731	-	-	-	12,731
Assigned to student activities	-	-	-	24,367	24,367
Unassigned	469,920	-	-	-	469,920
Total fund balances	<u>482,651</u>	<u>-</u>	<u>6,320,679</u>	<u>215,704</u>	<u>7,019,034</u>
Total liabilities and fund balances	<u>\$ 547,539</u>	<u>\$ 223,241</u>	<u>\$ 7,425,310</u>	<u>\$ 215,704</u>	<u>\$ 8,411,794</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Fund balances—total governmental funds		\$ 7,019,034
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 in the funds.		11,152,958
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds		
Deferred savings from refunding bonds		114,668
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred pension investment earnings	(145,728)	
Deferred pension contributions	<u>160,844</u>	15,116
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the governmental funds financial statements.		
Net pension liability	(1,304,778)	
Bonds payable	(14,675,825)	
Capital leases payable	(142,952)	
Accrued interest payable	(122,203)	
Accrued sick leave	(24,325)	
KSBIT payable	<u>(78,309)</u>	<u>(16,348,392)</u>
Net position of governmental activities		<u>\$ 1,953,384</u>

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 951,078	\$ -	\$ -	\$ 87,799	\$ 1,038,877
Motor vehicles	148,607	-	-	-	148,607
Utility	1,008,897	-	-	-	1,008,897
Interest income	4,732	-	-	19,850	24,582
Other local revenues	27,176	23,586	-	80,946	131,708
Intergovernmental - State	5,075,735	273,469	-	572,735	5,921,939
Intergovernmental - Indirect federal	-	331,093	-	-	331,093
Intergovernmental - Direct federal	15,157	-	-	-	15,157
Total revenues	<u>7,231,382</u>	<u>628,148</u>	<u>-</u>	<u>761,330</u>	<u>8,620,860</u>
Expenditures:					
Current:					
Instruction	4,016,891	457,466	-	-	4,474,357
Support services:					
Students	325,718	810	-	59,937	386,465
Instructional staff	280,854	75,689	-	-	356,543
District administration	320,556	-	-	-	320,556
School administration	442,392	-	-	-	442,392
Business and other support services	535,390	11,693	-	-	547,083
Operation and maintenance of plant	987,235	-	-	-	987,235
Student transportation	258,760	-	-	-	258,760
Community services	52,412	101,455	-	-	153,867
Facility acquisition and construction	48,880	-	2,692,795	-	2,741,675
Debt service	40,280	-	-	590,290	630,570
Total expenditures	<u>7,309,368</u>	<u>647,113</u>	<u>2,692,795</u>	<u>650,227</u>	<u>11,299,503</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(77,986)</u>	<u>(18,965)</u>	<u>(2,692,795)</u>	<u>111,103</u>	<u>(2,678,643)</u>
Other financing sources (uses):					
Proceeds from issuance of debt	-	-	9,088,920	1,672,920	10,761,840
Payment to refunded bond escrow agent	-	-	-	(1,624,287)	(1,624,287)
Transfers in	130,082	18,965	-	310,537	459,584
Transfers out	(22,323)	-	(130,082)	(307,179)	(459,584)
Total other financing sources and uses	<u>107,759</u>	<u>18,965</u>	<u>8,958,838</u>	<u>51,991</u>	<u>9,137,553</u>
Net change in fund balances	29,773	-	6,266,043	163,094	6,458,910
Fund balances, June 30, 2014	<u>452,878</u>	<u>-</u>	<u>54,636</u>	<u>52,610</u>	<u>560,124</u>
Fund balances, June 30, 2015	<u>\$ 482,651</u>	<u>\$ -</u>	<u>\$ 6,320,679</u>	<u>\$ 215,704</u>	<u>\$ 7,019,034</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Net change in fund balances—total governmental funds \$ 6,458,910

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	2,721,567	
Depreciation expense	<u>(394,491)</u>	2,327,076

Bond and capital lease proceeds, including related premiums and discounts, are recognized as revenues in the fund financial statements, but are increases in liabilities in the statement of net position.

Bonds and refunding bonds issued	(10,745,000)	
Premiums and discounts on bonds and refunding bonds issued	3,133	
Payments to refunded bond escrow agent	1,624,287	
Interest paid on refunded bonds	<u>(9,287)</u>	(9,126,867)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave		17,305
Amortization of deferred savings from refunding bonds		(16,215)
Amortization of bond discounts and premiums		(4,944)
Accrued interest payable		(122,203)

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

KTRS on-behalf revenue	635,908	
KTRS on-behalf pension expense	(635,908)	
CERS contributions	160,844	
Pension expense	<u>(104,212)</u>	56,632

Governmental funds do not report the effect of gain or losses on refunding of debt, whereas these amounts are deferred and amortized in the statement of activities.

64,287

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net position.

458,428

Change in net position of governmental activities

\$ 112,409

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	<u>Food Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 69,606
Inventories	16,634
Total current assets	<u>86,240</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	47,320
Total noncurrent assets	<u>47,320</u>
Total assets	<u>133,560</u>
Deferred Outflows of Resources	
Deferred pension contributions	28,997
Total deferred outflows of resources	<u>28,997</u>
Total assets and deferred outflows	<u><u>\$ 162,557</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ -
Total current liabilities	<u>-</u>
Noncurrent liabilities:	
Net pension liability	235,222
Total liabilities	<u>235,222</u>
Deferred Inflows of Resources	
Deferred earnings on pension investments	26,272
Total deferred inflows of resources	<u>26,272</u>
Net Position	
Invested in capital assets	47,320
Restricted	(146,257)
Total net position	<u>(98,937)</u>
Total liabilities, deferred inflows and net position	<u><u>\$ 162,557</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Food Service Fund</u>
Operating revenues:	
Lunchroom sales	\$ 40,733
Total operating revenues	<u>40,733</u>
Operating expenses:	
Salaries and wages	172,379
Employee benefits	90,072
Contract services	17,753
Materials and supplies	280,420
Depreciation	7,005
Total operating expenses	<u>567,629</u>
Operating loss	<u>(526,896)</u>
Nonoperating revenues:	
Federal grants	432,166
Investment income	72
Donated commodities	29,922
State grants	5,515
On-behalf payments	57,512
Total nonoperating revenues	<u>525,187</u>
Increase in net position	(1,709)
Net position, June 30, 2014, as restated	<u>(97,228)</u>
Net position, June 30, 2015	<u><u>\$ (98,937)</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 40,733
Cash paid to/for:	
Payments to suppliers and providers of goods and services	(268,184)
Payments to employees	(215,149)
Net cash used for operating activities	<u>(442,600)</u>
Cash flows from noncapital financing activities:	
Government grants	437,681
Net cash provided by noncapital and related financing activities	<u>437,681</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	-
Net cash used for capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest received on investments	72
Net cash provided by investing activities	<u>72</u>
Net decrease in cash and cash equivalents	(4,847)
Cash and cash equivalents, June 30, 2014	<u>74,453</u>
Cash and cash equivalents, June 30, 2015	<u>\$ 69,606</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (526,896)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	7,005
Donated commodities	29,922
On-behalf payments	57,512
Net pension adjustment	(10,210)
Change in assets and liabilities:	
Accounts receivable	-
Inventory	67
Accounts payable	<u>-</u>
Net cash used for operating activities	<u>\$ (442,600)</u>

The accompanying notes to financial statements
are an integral part of this statement.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 65,342
Total assets	<u>65,342</u>
Liabilities	
Accounts payable	-
Due to students	65,342
Total liabilities	<u>65,342</u>
Net position held in trust	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes -				
Property	\$ 775,000	\$ 775,000	\$ 951,078	\$ 176,078
Motor vehicles	130,000	130,000	148,607	18,607
Utility	1,000,000	1,000,000	1,008,897	8,897
Interest income	10,000	10,000	4,732	(5,268)
Other local revenues	5,000	5,000	27,176	22,176
Intergovernmental - State	3,743,000	3,743,000	3,758,985	15,985
Intergovernmental - Federal	20,000	20,000	15,157	(4,843)
Total revenues	<u>5,683,000</u>	<u>5,683,000</u>	<u>5,914,632</u>	<u>231,632</u>
Expenditures:				
Current:				
Instruction	2,477,419	2,477,419	3,203,981	(726,562)
Support services:				
Students	175,875	175,875	257,473	(81,598)
Instructional staff	200,251	200,251	214,499	(14,248)
District administration	220,080	220,080	261,601	(41,521)
School administration	271,733	271,733	350,865	(79,132)
Business and other support services	292,276	292,276	481,156	(188,880)
Operation and maintenance of plant	644,028	644,028	850,276	(206,248)
Student transportation	240,674	240,674	231,195	9,479
Community services	-	-	52,412	(52,412)
Facility acquisition and construction	-	-	48,880	(48,880)
Contingency	1,538,542	1,538,542	-	1,538,542
Debt service	75,000	75,000	40,280	34,720
Total expenditures	<u>6,135,878</u>	<u>6,135,878</u>	<u>5,992,618</u>	<u>143,260</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(452,878)</u>	<u>(452,878)</u>	<u>(77,986)</u>	<u>374,892</u>
Other financing sources (uses):				
Transfers in	-	-	130,082	130,082
Transfers out	-	-	(22,323)	(22,323)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>107,759</u>	<u>107,759</u>
Net change in fund balances	<u>(452,878)</u>	<u>(452,878)</u>	<u>29,773</u>	<u>482,651</u>
Fund balance, June 30, 2014	<u>452,878</u>	<u>452,878</u>	<u>452,878</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 482,651</u>	<u>\$ 482,651</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 1,316,750	
On-behalf payments:				
Instruction			(812,910)	
Support Services				
Students			(68,245)	
Instructional Staff			(66,355)	
District administration			(58,955)	
School administration			(91,527)	
Business and other support services			(54,234)	
Operation and maintenance of plant			(136,959)	
Student transportation			(27,565)	
Fund balance, June 30, 2015 (GAAP basis)			<u>\$ 482,651</u>	

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other local revenues	\$ -	\$ -	\$ 23,586	\$ 23,586
Intergovernmental - State	218,068	313,576	273,469	(40,107)
Intergovernmental - Indirect federal	379,655	427,502	331,093	(96,409)
Total revenues	<u>597,723</u>	<u>741,078</u>	<u>628,148</u>	<u>(112,930)</u>
Expenditures:				
Current:				
Instruction	515,555	603,493	457,466	146,027
Support services:				
Students	-	-	810	(810)
Instructional staff	5,347	45,356	75,689	(30,333)
Business and other support services	-	-	11,693	(11,693)
Operation and maintenance of plant	-	14,361	-	14,361
Community services	76,821	77,868	101,455	(23,587)
Total expenditures	<u>597,723</u>	<u>741,078</u>	<u>647,113</u>	<u>93,965</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(18,965)</u>	<u>(18,965)</u>
Other financing sources (uses):				
Transfers in	-	-	18,965	18,965
Transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>18,965</u>	<u>18,965</u>
Net change in fund balances	-	-	-	-
Fund balance, June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

(1) REPORTING ENTITY

The Fairview Independent School District 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 education within the jurisdiction of the Fairview Independent 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 Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fairview Independent 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.

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

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

Fairview Independent School District Finance Corporation

On September 27, 1993 the Fairview Independent Board of Education resolved to authorize the establishment of the Fairview Independent 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 Fairview Independent School District also comprise the Corporation’s Board of Directors.

Copies of component unit reports may be obtained from the District’s Finance office at 2201 Main St. WW, Ashland, Kentucky 41102.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

The accounting policies of the Fairview Independent School District substantially comply with accounting principles generally accepted in the United States and the rules prescribed by the Kentucky Department of Education for local school districts.

Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information

that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. 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 statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds. Fiduciary funds are aggregated and reported by fund type.

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

I. Governmental Fund Types

- (A) 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 unrestricted fund balance is considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain

integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

- (C) The District Activity Fund is a Special Revenue Fund that accounts for funds raised to support co-curricular and extra-curricular activities.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky Fund (FSPK Building 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 may be used for projects identified in the District's facility plan.
 - 3. The School Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction in accordance with the District's facilities plan. This is a major fund of the District.
- (E) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Type (Enterprise Fund)

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

III. Fiduciary Fund Types (includes agency and trust 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*.

Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Deferred 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 deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

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

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Fund, which records inventory at the lower of cost or market, on the first-in, first-out basis.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000). The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, other than land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed

using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

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

Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem tax is levied prior to October 1, of each year on the assessed value listed as of the prior January 1 for all real and business property located in the District. The assessed value of property upon which the levy for 2015 fiscal year was based was \$149,248,152.

The tax rates assessed for the year ended June 30, 2015 to finance general fund operations were \$.691 on real estate and \$.691 on tangible property per \$100 valuation.

Taxes are due on October 1 and become delinquent by February 1 of the following year. Current tax collections for the year ended June 30, 2015 were 88% of the amount levied.

The District levies a utilities gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the District's boundaries, of telegraphic communications services, cablevision services, electric power, water and gas.

In-Kind

The District receives commodities from U.S.D.A. The amounts of commodities are recorded in the accompanying financial statements at their estimated fair market values.

Interfund Balances

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

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See Note (12) for these amounts which were not known by management at the time the budget was adopted.

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

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the proprietary fund are reported in the proprietary fund financial statements.

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

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the Board, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund for Governmental Fund types.

When committed, assigned and unassigned resources are available for use, it is the District's policy to use committed and assigned resources first, then unassigned resources as they are needed.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another

without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Pension

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

New Accounting Pronouncements

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which requires employers participating in a multiple-employer cost-sharing plan to report net pension liability on the entity-wide statements for their proportionate share of the liability. See Note (14) for the effect of this adoption on beginning net position.

(3) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At June 30, 2015, the carrying amount of the District's cash and cash equivalents was \$8,319,178 and the bank balances totaled \$8,784,203. Of the total bank balances, \$250,000 was covered by Federal depository insurance, and the remaining balance was covered by collateral held by the pledging bank in the District's name.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risks are as follows:

- | | |
|------------|---|
| Category 1 | Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name. |
| Category 2 | Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. |

Category 3

Deposits, which are not collateralized or insured.

Based on these three levels of risk, the District's uninsured cash deposits are classified as Category 2.

Due to the nature of the account and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Special Revenue (Grant) Funds, Construction Fund, Debt Service Funds, School Food Service Funds, and School Activity Funds.

(4) CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2014	Additions	Deductions	June 30, 2015
<u>Governmental Activities</u>				
Land	\$ 530,582	\$ 51,869	\$ -	\$ 582,451
Construction in progress	200,331	2,621,085	-	2,821,416
Land improvements	722,769	11,500	-	734,269
Buildings and improvements	9,999,292	-	-	9,999,292
Technology equipment	647,509	-	-	647,509
General equipment	326,842	6,790	-	333,632
Vehicles	648,920	30,323	(22,401)	656,842
Totals	<u>13,076,245</u>	<u>2,721,567</u>	<u>(22,401)</u>	<u>15,775,411</u>
Less: accumulated depreciation				
Land improvements	318,198	25,985	-	344,183
Buildings and improvements	2,721,734	262,048	-	2,983,782
Technology equipment	551,922	46,497	-	598,419
General equipment	187,693	20,075	-	207,768
Vehicles	470,816	39,886	(22,401)	488,301
Total accumulated depreciation	<u>4,250,363</u>	<u>394,491</u>	<u>(22,401)</u>	<u>4,622,453</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 8,825,882</u>	<u>\$ 2,327,076</u>	<u>\$ -</u>	<u>\$ 11,152,958</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 304,778	\$ -	\$ -	\$ 304,778
Less: accumulated depreciation				
Food service equipment	<u>250,453</u>	<u>7,005</u>	<u>-</u>	<u>257,458</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 54,325</u>	<u>\$ (7,005)</u>	<u>\$ -</u>	<u>\$ 47,320</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 65,060
Student support services	4,208
Instructional staff support	39,740
District administration	8,214
District and other support services	131
Plant operation and maintenance	242,811
Student transportation	34,327
	<u>\$ 394,491</u>

(5) LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as debt and lease obligations represents the District's future obligations to make lease payments relating to bonds issued by the Fairview Independent School District Finance Corporation and the Kentucky School Facilities

Construction Commission aggregating \$18,285,000, and to the Kentucky Interlocal School Transportation Association ("KISTA") in the original amount of \$400,461.

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

Issue Date	Proceeds	Rates
Issue of 1996	\$ 120,000	5.0% - 5.75%
Issue of 2004-KISTA	61,252	1.0% - 3.5%
Issue of 2005	2,055,000	3.25% - 4.3%
Issue of 2005-KISTA	67,887	3.0% - 3.625%
Issue of 2006	270,000	4.3%
Issue of 2007-KISTA	76,995	3.625% - 3.750%
Issue of 2008	2,125,000	2.0% - 3.5%
Issue of 2009-KISTA	91,764	2.0% - 3.9%
Issue of 2011	325,000	2.0% - 3.2%
Issue of 2012	2,645,000	.85% - 2.6%
Issue of 2014-KISTA	102,563	2.0% - 3.0%
Issue of 2014	1,665,000	1.00 - 2.15%
Issue of 2015	9,080,000	1.00% - 3.25%

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

On March 12, 2008, the District issued \$2,125,000 in refunding bonds with an average rate of 5.3% to advance refund \$1,930,000 of the series of 1999 bonds with an average rate of 6.8%. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$143,129. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2020 using the straight-line method.

On October 1, 2014, the District issued \$1,665,000 in refunding bonds with an average rate of 2.03% to advance refund \$1,560,000 of the series of 2005 bonds with an average rate of 4.0%. The proceeds of the refunding bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds in the amount of \$1,560,000 are considered to be defeased and the liability for those bonds has been removed from liabilities.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$64,287. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2025 using the straight-line method. Additionally, the District reduced its total debt service payments over the following 25 years by \$159,000 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$142,985.

A summary of activity in bond obligations and other debts is as follows:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015
1996 Issue	\$ 30,000	\$ -	\$ 10,000	\$ 20,000
2005 Issue	1,675,000	-	1,675,000	-
2005 Issue-KISTA	6,496	-	6,496	-
2006 Issue	200,000	-	10,000	190,000
2007 Issue-KISTA	23,397	-	8,463	14,934
2008 Issue	1,275,000	-	200,000	1,075,000
2009 Issue-KISTA	45,831	-	9,275	36,556
2011 Issue	235,000	-	30,000	205,000

2012 Issue	2,575,000	-	65,000	2,510,000
2014 Issue-KISTA	102,563	-	11,101	91,462
2014 Issue	-	1,665,000	15,000	1,650,000
2015 Issue	-	9,080,000	-	9,080,000
KSBIT liability	111,402	-	33,093	78,309
Accrued sick leave	41,630	-	17,305	24,325
Net discounts on bonds	(55,986)	(3,133)	(4,944)	(54,175)
Total	<u>\$ 6,265,333</u>	<u>\$10,741,867</u>	<u>\$ 2,085,789</u>	<u>\$14,921,411</u>

In connection with the bond issues of 1996, 2005, 2006, 2008, 2011, 2012, 2014 and 2015, the District entered into a participation agreement with the School Facility Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity on all bond issues.

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

Year	Fairview Independent School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2016	\$ 356,504	\$ 333,075	\$ 168,496	\$ 54,797	\$ 912,872
2017	565,899	324,501	199,101	50,802	1,140,303
2018	579,903	311,197	195,097	46,640	1,132,837
2019	590,437	297,410	199,563	42,323	1,129,733
2020	600,872	283,334	184,128	37,980	1,106,314
2021-2025	3,069,340	1,200,921	660,660	144,524	5,075,445
2026-2030	3,202,588	781,280	497,412	72,575	4,553,855
2031-2034	3,347,831	302,786	312,169	16,946	3,979,732
	<u>\$ 12,313,374</u>	<u>\$ 3,834,504</u>	<u>\$ 2,416,626</u>	<u>\$ 466,587</u>	<u>\$19,031,091</u>

Future minimum debt service on notes payable to KISTA, at June 30, 2015, are as follows:

Year	Principal	Interest	Total
2016	\$ 28,171	\$ 3,925	\$ 32,096
2017	27,201	3,118	30,319
2018	18,333	2,292	20,625
2019	18,825	1,783	20,608
2020	10,316	1,240	11,556
2021-2024	40,106	2,676	42,782
	<u>\$ 142,952</u>	<u>\$ 15,034</u>	<u>\$ 157,986</u>

KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during fiscal year 2013 that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance ("KEMI"). As a result, the District's workers' compensation portion of the liability was estimated at \$76,455. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest. The District's property and liability portion of the liability was estimated at \$34,947. The District took the option of paying 40% down by September 15, 2014 and financing the remaining balance over 2 years to be paid in equal annual installments beginning September 15, 2015 with no interest.

(6) ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments, and known retirements during the next fiscal year.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources.

(7) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2015, consisted of the following:

Type	From	To	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 18,965
Operating	General	District Activity	Reclassification	3,358
Operating	Construction	General	Reimbursement	130,082
Debt Service	Capital Outlay	Debt Service	Bond Payments	91,185
Debt Service	FSPK Building Fund	Debt Service	Bond Payments	215,994

(8) RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description: Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. 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 issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

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

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

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

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

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

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description: In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment 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 either 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.

Funding policy: In order to fund the post-retirement healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2015, the District did not report a liability for its proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the

net pension liability, the related 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	\$ -
Commonwealth's proportionate share of the Net Pension liability associated with the District	22,175,552
	<u>\$ 22,175,552</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 that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.108%.

For the year ended June 30, 2014, the District recognized pension expense of \$1,086,647 and revenue of \$1,086,647 for support provided by the State.

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	5.23%
Municipal Bond Index Rate	4.35%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%

Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	<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.

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 5.23%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

	1% Decrease (4.23%)	Current discount rate (5.23%)	1% Increase (6.23%)
District's proportionate share of the net pension liability	\$ 29,292,503	\$ 22,175,552	\$ 18,390,283

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report which is publically available at <http://www.ktrs.ky.gov/>.

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by

employers of members who contribute 18.89% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2014. An expected total pension liability as of June 30, 2014 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2014. At June 30 2014, the District's proportion was 0.048%.

For the year ended June 30, 2015, the District recognized pension expense of \$123,000. At June 30, 2015, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$189,841. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The District reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$172,000. These amounts will be recognized in pension expense as follows:

<u>Year</u>	
2016	\$ 34,400
2017	34,400
2018	34,400
2019	34,400
2019	<u>34,400</u>
	<u>\$ 172,000</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2014. The financial reporting actuarial valuation as of June 30, 2014, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2014
Experience Study	July 1, 2005 – June 30, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

The rates of mortality for the period after service retirement are according to 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 disability retirement. The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected

rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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 asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	30.0%	8.45%
International 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 Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5.00%
Cash	1.0%	3.25%
	<u>100.0%</u>	

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

Deferred Inflows and Outflows, and Pension Expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

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:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 2,049,000	\$ 1,540,000	\$ 1,122,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2015 and 2014, there were no payables to CERS.

(9) COMMITMENTS AND 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 grantors' 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.

The District is obligated on commitments for various contracts in progress at June 30, 2015. A summary of these commitments is as follows:

<u>Fund</u>	<u>Project Description</u>	<u>Total Approved Contract</u>	<u>Paid or Accrued to Date</u>	<u>Out- standing Commitment</u>
Construction Fund	High School Renovation	\$ 5,237,829	\$ 1,417,440	\$ 3,820,389

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District carries their insurance with Kentucky Employers' Mutual Insurance (KEMI), which is located in Lexington Kentucky. KEMI is a mutual insurance company regulated by the Kentucky Department of Insurance. The District pays annual premiums for their coverage. The premium for workers' compensation is based on a formula. The District is assigned a classification code for their industry and each classification code has a corresponding rate. Multiplying the rate times the estimated payroll for operations then dividing by 100 will give the base premium. In some cases, modifiers may also be added, based on eligibility, which may increase or decrease the premium. In other cases, additional coverages may be requested that increase the premium.

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

(11) COBRA

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

(12) ON-BEHALF PAYMENTS

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

<u>Plan / Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System	\$ 450,739
Health Insurance Plan	876,874
Technology	46,649
Debt Service	<u>233,573</u>
Recognized at the fund level	<u>1,607,835</u>
Additional pension expense recognized at the Government-wide level	<u>635,908</u>
Total on-behalf	<u>\$ 2,243,743</u>

With the exception of the amount for debt service, these amounts are included in the Government-wide statement of activities and the Governmental Fund statement of revenues, expenditures, and changes in fund balances as state revenues and expenses allocated to the different functions in the same proportion as full-time employees.

(13) FUND DEFICIT

As of June 30, 2015, the Food Service Fund had a negative net position of \$98,937. This deficit resulted from the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the recording of the fund's proportionate share of net pension liability. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

(14) CHANGE IN ACCOUNTING PRINCIPLE

Net position as of June 30, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Net Position as previously reported at June 30, 2014	<u>\$ 3,187,268</u>	<u>\$ 145,479</u>	<u>\$ 3,332,747</u>
Prior period adjustment implementation of GASB 68:			
Net pension liability (measurement date as of June 30, 2013)	(1,515,991)	(278,734)	(1,794,725)
Deferred outflows District contributions made during fiscal year 2014	<u>169,698</u>	<u>36,027</u>	<u>205,725</u>
Total prior period adjustment	<u>(1,346,293)</u>	<u>(242,707)</u>	<u>(1,589,000)</u>
Net position as restated, June 30, 2014	<u>\$ 1,840,975</u>	<u>\$ (97,228)</u>	<u>\$ 1,743,747</u>

REQUIRED SUPPLEMENTARY INFORMATION

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2015**

	Reporting Fiscal Year (Measurement Date)	
	2015	(2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
District's proportion of the net pension liability		0.048%
District's proportionate share of the net pension liability	\$	1,540,000
District's covered-employee payroll	\$	1,089,066
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		141.406%
Plan fiduciary net position as a percentage of the total pension liability		66.800%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
District's proportion of the net pension liability		0.108%
District's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the District	\$	22,175,552
Total	\$	22,175,552
District's covered-employee payroll	\$	3,381,905
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		0.000%
Plan fiduciary net position as a percentage of the total pension liability		45.590%

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

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 190,958	\$ 205,725
Contributions in relation to the contractually required contribution	<u>190,958</u>	<u>205,725</u>
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 1,080,692	\$ 1,089,066
District's contributions as a percentage of its covered-employee payroll	17.67%	18.89%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 3,787,572	\$ 3,381,905
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%

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

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

(1) CHANGES OF ASSUMPTIONS

KTRS

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.

CERS

There were no changes of assumptions.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.0% to 8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CERS

The actuarially determined contribution rates in the schedule of contributions are calculated on a biennial basis beginning with the fiscal years ended 2015 and 2016, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.5%, average, including inflation
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2015

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

SUPPLEMENTARY INFORMATION

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015**

	District Activity Fund	Capital Outlay Fund	Debt Service Funds	FSPK Building Fund	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 24,367	\$ 40,304	\$ 19,987	\$ 131,046	\$ 215,704
Accounts receivable	-	-	-	-	-
Total assets	<u>\$ 24,367</u>	<u>\$ 40,304</u>	<u>\$ 19,987</u>	<u>\$ 131,046</u>	<u>\$ 215,704</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted for capital expenditures	-	40,304	-	131,046	171,350
Restricted for debt service	-	-	19,987	-	19,987
Assigned to student activities	24,367	-	-	-	24,367
Total fund balance	<u>24,367</u>	<u>40,304</u>	<u>19,987</u>	<u>131,046</u>	<u>215,704</u>
Total liabilities and fund balances	<u>\$ 24,367</u>	<u>\$ 40,304</u>	<u>\$ 19,987</u>	<u>\$ 131,046</u>	<u>\$ 215,704</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015**

	District Activity Fund	Capital Outlay Fund	Debt Service Funds	FSPK Building Fund	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Property taxes	\$ -	\$ -	\$ -	\$ 87,799	\$ 87,799
Earnings on investments	-	-	19,850	-	19,850
Other	80,946	-	-	-	80,946
Intergovernmental - State	-	79,016	233,573	260,146	572,735
Total revenues	80,946	79,016	253,423	347,945	761,330
EXPENDITURES:					
Support services:					
Students	59,937	-	-	-	59,937
Debt service	-	-	589,385	905	590,290
Total expenditures	59,937	-	589,385	905	650,227
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	21,009	79,016	(335,962)	347,040	111,103
OTHER FINANCING SOURCES (USES):					
Proceeds from issuance of debt	-	-	1,672,920	-	1,672,920
Payment to refunded bond escrow agent	-	-	(1,624,287)	-	(1,624,287)
Operating transfers in	3,358	-	307,179	-	310,537
Operating transfers out	-	(91,185)	-	(215,994)	(307,179)
Total other financing sources (uses)	3,358	(91,185)	355,812	(215,994)	51,991
NET CHANGE IN FUND BALANCE	24,367	(12,169)	19,850	131,046	163,094
FUND BALANCE JUNE 30, 2014	-	52,473	137	-	52,610
FUND BALANCE JUNE 30, 2015	\$ 24,367	\$ 40,304	\$ 19,987	\$ 131,046	\$ 215,704

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance June 30, 2014	Receipts	Disbursements	Cash Balance June 30, 2015	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2015
Fairview Independent High School	\$ 54,420	\$ 219,647	\$ 220,770	\$ 53,297	\$ -	\$ -	\$ 53,297
Fairview Independent Elementary School	75,188	43,992	107,135	12,045	-	-	12,045
	<u>\$ 129,608</u>	<u>\$ 263,639</u>	<u>\$ 327,905</u>	<u>\$ 65,342</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,342</u>

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FAIRVIEW INDEPENDENT HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance June 30, 2014	Receipts	Disburse- ments	Transfers	Cash Balance June 30, 2015	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2015
Academic	\$ -	\$ 1,564	\$ 585	\$ -	\$ 979	\$ -	\$ 979
Academic MS	295	7	172	-	130	-	130
Annual	5,418	3,049	2,812	-	5,655	-	5,655
Band A	1,739	20,312	15,007	(692)	6,352	-	6,352
Baseball	2,376	12,345	13,844	-	877	-	877
Baseball MS	759	746	1,505	-	-	-	-
Bowling	766	1,090	1,186	(204)	466	-	466
Boys Basketball	-	16,199	16,139	-	60	-	60
Boys Basketball MS	2,627	3,236	4,962	(275)	626	-	626
Boys Golf	21	5,873	5,894	-	-	-	-
Cheerleaders ACT	913	11,134	10,630	-	1,417	-	1,417
Cheerleaders VAR	-	1,700	1,343	-	357	-	357
Cheerleaders MS	3,084	1,705	4,106	-	683	-	683
Chorus	-	-	2,055	2,055	-	-	-
Chorus ACT	3,877	6,100	1,124	(2,055)	6,798	-	6,798
Coke HS	3,164	578	3,742	-	-	-	-
Cross Country	693	810	848	-	655	-	655
Drama	3,113	1,465	3,763	-	815	-	815
FBLA	65	547	687	75	-	-	-
FCA	244	-	49	-	195	-	195
FEA	96	126	-	-	222	-	222
Football	404	32,376	22,122	-	10,658	-	10,658
Football MS	-	-	-	-	-	-	-
Forensics	919	-	840	-	79	-	79
Girls Basketball	-	10,188	10,119	-	69	-	69
Girls Golf	-	1,944	1,944	-	-	-	-
Girls STEM	346	-	-	-	346	-	346
Golf MS	-	-	-	-	-	-	-
HS Books-State	1,896	414	1,896	-	414	-	414
HS Bookstore	2,034	-	2,034	-	-	-	-
HS General	-	-	-	-	-	-	-
HS Grants	1,689	-	1,689	-	-	-	-
HS Library	45	-	45	-	-	-	-
HS School Pictures	203	-	203	-	-	-	-
Honor Society	190	934	805	-	319	-	319
Honor Society MS	14	-	-	-	14	-	14
Journalism	7	-	-	-	7	-	7
Junior Class	1,791	8,853	7,677	(34)	2,933	-	2,933
Key Club	1,090	1,505	575	-	2,020	-	2,020
Poetry Outloud	2	-	-	-	2	-	2
Senior Class	-	4,936	4,935	-	1	-	1
Senior Class Trip	-	55,094	56,264	1,205	35	-	35
Scholarship Fund	3,420	-	3,420	-	-	-	-
Softball	2,482	4,388	3,128	-	3,742	-	3,742
Spanish Club	438	-	-	-	438	-	438
Special Education	625	-	625	-	-	-	-
Spirit Club	-	-	-	-	-	-	-
STLP	-	-	-	-	-	-	-
STLP Vet Memorial	123	-	-	-	123	-	123
Student Council	4	-	-	-	4	-	4
Student Deposit	2,837	1,320	4,157	-	-	-	-
Tennis	-	1,774	1,774	-	-	-	-
Track	-	1,602	1,602	-	-	-	-
Video Yearbook	2,596	-	-	-	2,596	-	2,596
Volleyball	1,928	5,678	4,463	-	3,143	-	3,143
Interest	87	55	-	(75)	67	-	67
Total	\$ 54,420	\$ 219,647	\$ 220,770	\$ -	\$ 53,297	\$ -	\$ 53,297

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>				
Passed through State Department of Education:				
Title I Grants to Local Educational Agencies	84.010	3100002-14	\$ 231,525	\$ 103,162
Title I Grants to Local Educational Agencies	84.010	3100002-13	35,456	35,456
				<u>138,618</u>
Special Education Cluster (IDEA):				
Special Education Grants to States -IDEA, Part B	84.027	3810002-14	161,979	127,770
Special Education Grants to States -IDEA, Part B	84.027	3810002-13	36,739	36,739
Special Education Preschool Grants	84.173	3800002-14	10,683	10,683
				<u>175,192</u>
Improving Teacher Quality State Grants	84.367	3230002-14	10,932	10,932
Improving Teacher Quality State Grants	84.367	3230002-13	6,351	6,351
				<u>17,283</u>
Total U.S. Department of Education				<u>331,093</u>
<u>U.S. Department of Agriculture</u>				
Child Nutrition Cluster:				
Passed through State Department of Education:				
National School Lunch Program	10.555	7750002-15	-	222,718 *
National School Lunch Program	10.555	7750002-14	-	68,665 *
School Breakfast Program	10.553	7760005-15	-	82,961 *
School Breakfast Program	10.553	7760005-14	-	25,648 *
				<u>399,992</u>
Non-Cash Assistance				
National School Lunch Program - Food Donation	10.555	7750002-15	-	29,922 *
Total Child Nutrition Cluster				<u>429,914</u>
Child & Adult Care Food Program	10.558	7800016-14	-	2,097
Child & Adult Care Food Program	10.558	7800016-15	-	370
Child & Adult Care Food Program	10.558	7790021-15	-	25,255
Child & Adult Care Food Program	10.558	7790021-14	-	4,452
				<u>32,174</u>
Total U.S. Department of Agriculture				<u>462,088</u>
Total Federal Assistance				<u>\$ 793,181</u>

* Denotes major program.

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2015**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Fairview Independent School 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 the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Government, and Non-Profit Organizations. Because the schedule presents only a selected portion of operations of the Fairview Independent School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2015, no commodities were on hand and included in inventory.



Kelley **G**alloway
Smith **G**oolsby, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fairview Independent School District (the "District") as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 23, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. [2015-001]

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies. [2015-002, 2015-003 and 2015-007]

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2015-002 to 2015-015.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Kelley Anthony Smith Anthony, PSC

October 23, 2015
Ashland, Kentucky



Kelley **G**alloway
Smith **G**oolsby, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Fairview Independent School District
Ashland, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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.

Kelley Balloung Smith, CPA, PSC

October 23, 2015
Ashland, Kentucky

**FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

A. SUMMARY OF AUDIT RESULTS

Type of Auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? x yes no

Significant deficiency(ies) identified? x yes no

Noncompliance material to the financial statements noted? x yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified? yes x none reported

Type of audit auditor's report issued on compliance for major programs: Unmodified

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

The District had the following major programs with CFDA numbers in parentheses for the year ended June 30, 2015:

Child Nutrition Cluster (10.553 and 10.555)

Dollar threshold to distinguish between Type A and Type B Programs: \$ 300,000

The District qualified as a low risk auditee x yes no

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

B. FINANCIAL STATEMENT FINDINGS

2015-001 EXAMINATIONS

Condition: During the 2015 fiscal year, the Office of Education Accountability and Kentucky Auditor of Public Accounts performed an examination of the District. The results of these reviews were detailed in the reports dated May 13, 2015 and June 29, 2015, respectively. The following is a summary of the findings contained in the report:

Office of Education Accountability

- The superintendent permitted noncertified staff to supervise and/or instruct students during the instructional day.
- The superintendent impeded the implementation of KRS 160.345 at schools in the District.
- The superintendent violated KRS 160.380(2) and Board policy by hiring certified and classified staff without posting the vacancies as required.
- The superintendent violated KRS 161.020 by allowing employees to work in the District in positions for which they do not possess the appropriate certification.

Kentucky Auditor of Public Accounts

- Approximately \$360,000 was transferred from the District's General Fund to school activity funds with limited or no Board knowledge.
- Based on Redbook regulations, over \$100,000 of District activity funds were inappropriately expended during the two-year examination period.
- It appears the District violated Title IX requirements by spending more for football and boys sports than for girls sports.
- \$32,000 from the FRYSC elementary school activity account was used for high school weight room renovations and the FRYSC Coordinator and Assistant Coordinator subsequently received a \$5,000 salary increase at the Superintendent's direction.
- Individual scholarship donation amounts are not separately accounted for, which impairs transparency.
- The District's activity fund procedures violated basic Redbook operating requirements and adversely impacted the funds' transparency and accounting accuracy.
- School activity funds were managed at the District Central Office rather than at the schools as required by KDE's Redbook regulations and District policies.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

- Board members have a limited understanding of school activity funds and lacked information to monitor financial activity.
- Several staff reported the Superintendent used intimidation tactics so that staff would not question his decisions or discuss his actions.
- The Superintendent circumvented Board oversight, used the District credit card for personal expenses, and provided a 32 percent pay raise for an employee.
- Over a two-year period, the District paid almost \$37,000 for unleaded gasoline with no supporting documentation.
- The District had not established a formal process to hire students for the summer work program.
- The Superintendent allowed the former high school Principal to assume a dual role as Athletic Director causing a conflict of interest that weakened the management controls related to the high school's activity fund.
- A sporting goods contract was entered into without Board knowledge.
- The Board did not consistently perform Superintendent evaluations required by state statutes, District policy, and the Superintendent's contract.
- The District paid the local educational cooperative \$1,050 for Principal Network training not attended by the high school Principal.

Criteria: Policies and procedures should be implemented by the District to ensure funds are being properly expended and to prevent abuse.

Effect: Various KRS's and Redbook requirements were being violated and District funds were not being expended properly.

Recommendation: While efforts have been made to implement recommendations made by the Auditor of Public Accounts, we recommend that the Board and management continue to make improvements to the District's internal controls to prevent further issues. Additionally, we recommend that a copy of the District's purchasing policies and the most recent Redbook be distributed to all activity sponsors for review.

Management's response and corrective action plan: The Findings listed in the Reports of the Office of Education Accountability and the Auditor of Public Accounts largely occurred in fiscal years preceding the year the current audit covers. Many of the Findings that pertained to District finance were well on their way to being corrected prior to the commencement of the Examinations. As of July 1, 2015 the District has a new Superintendent. He and the Finance Officer have fully committed to making sure that all of the Findings are fully addressed and corrected so that moving forward we will be fully compliant with all laws and good stewards of the money provided by the taxpayers to operate the District. We want it known that we take these Findings very seriously and we want to do everything in our power to make sure that it never happens again.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

2015-002 AUDIT ADJUSTMENTS

Condition: While performing our audit on the balance sheet and annual financial report (AFR) provided by the District, we noted several account balances that required adjustments. These adjustments included the following:

- Additional accounts payable
- Commodities received from the USDA
- Additional accounts receivable
- Identifying capital assets

Criteria: All required year-end entries should be posted to the balance sheet and the AFR as part of the annual closing process.

Cause: Historically, the District has not recorded the identified adjustments and has relied upon the audit to identify the correct balances.

Effect: Several account balances were misstated.

Recommendation: We recommend the District record all required adjustments to account balances as part of the annual closing process.

Management's response and corrective action plan: In the future, the District will attempt to make the appropriate entries to record similar transactions identified in the current year's audit adjustments.

2015-003 COMPETITIVE BIDDING

Condition: While reviewing payments in excess of \$20,000 for bid law compliance, we noted a payment to Don Hall Chevrolet in the amount of \$30,323 for the purchase of a 2015 Suburban. According to management, KEDC was contacted for bids but none were received and no advertisement for bid was made. We noted that the Board approved a "bid" of \$26,800 from Don Hall in November 2014 for the purchase of a 2014 Suburban. However, the specifications and price for the 2015 Suburban was not approved by the Board.

Criteria: KRS 424.260 and Board policy requires that all like items purchased during the fiscal year that exceed \$20,000 be purchased through a bid approved by the Board or at state/federal contract pricing.

Effect: Possible noncompliance with KRS 424.260 and Board policy.

Recommendation: We recommend management follow Board policy by placing an advertisement for bid in a local newspaper for required purchases and that final bid amounts and specifications be approved by the Board.

Management's response and corrective action plan: In this instance the District made an attempt to comply with the bidding requirements. However our failure to fully comply was an unintended oversight and the District will comply with this requirement in the future.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

2015-004 CREDIT CARD PURCHASES - FUEL

Condition: While reviewing the credit card statements for October 2014, we noted that receipts for fuel purchases are maintained. However, additional detailed information (vehicle, employee's name, odometer reading and purpose) for the purchases is not being maintained. This was also noted by the Kentucky Auditor of Public Accounts in the report dated June 29, 2015.

Criteria: To properly substantiate fuel purchases, detailed information of fuel purchases should be maintained.

Cause: Oversight.

Effect: Fuel purchases for District vehicles are not being properly substantiated.

Recommendation: The District should develop a form to be maintained in each District owned vehicle that is completed at the time fuel is purchased. This information should then be compared to monthly statement prior to payment.

Management's response and corrective action plan: As noted in the Finding, this was a Finding listed in the Report from the Auditor of Public Accounts. The District has implemented stronger control procedures over the District's fuel purchasing since the beginning of fiscal year 2016. The District will work toward developing a Form to be maintained in each vehicle as recommended.

2015-005 PAYROLL – INCORRECT PAY RATES

Condition: While performing our detailed testing of payroll transactions, we noted two teachers that were compensated at incorrect rates due to being classified at the incorrect Rank. One individual was compensated as a Rank III, while only having a Rank IV certification. The other individual was classified as a Rank I, but only had a Rank II certification. For fiscal year 2015, the two employees were over-compensated by a combined total of approximately \$6,200.

Criteria: In accordance with KRS 157.320, the District adopted a single salary schedule from which all teachers are to be paid based on their Rank and years of experience.

Cause: Oversight.

Effect: The District over-compensated two employees by approximately \$6,200.

Recommendation: We recommend that teacher certifications be obtained upon employment to ensure proper the proper Rank is used to calculate compensation.

Management's response and corrective action plan: Both of the instances in this Finding can initially be attributed to human error. When the problem with the compensation of the Rank IV employee who was being paid at a Rank III rate was discovered by the Payroll Officer, the Payroll Officer was instructed to continue to pay at the Rank III rate by the District Superintendent. This was improper and will not happen again. The District will endeavor to confirm that all certified employees are being paid correctly according to their correct Rank and number of years experience prior to payment.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

2015-006 PAYROLL - ADVANCES

Condition: While performing our detailed testing of payroll transactions, we noted one classified employee who did not work for an extended period during the months of September through December. The employee's paycheck was not fully adjusted to properly reflect the number of days worked during these months. Therefore, the employee received advances for days not worked with the expectation that the amount advanced would be repaid by the end of the school year.

Criteria: Proper procedures should be in place to ensure employees are compensated for only the time worked and approved by the supervisor. Additionally, extensions of credit by the Board are prohibited in Sections 177 and 179 of the State Constitution.

Cause: According to the payroll clerk, the employee's paycheck was not fully adjusted to the number of days worked so that the employee could maintain their health insurance.

Effect: An employee received a short-term extension of credit in violation of the State Constitution.

Recommendation: We recommend that these short-term extensions of credit cease immediately.

Management's response and corrective action plan: This occurred out of compassion for the employee in question. At the time that this was allowed to occur I did not consider that this would constitute a prohibited extension of credit. This will not be allowed to happen again.

2015-007 PURCHASE ORDERS

Condition: We noted several purchase orders that appeared to be created and approved after the order had been placed or received. Additionally, we noted a purchase order that was not signed by the Finance Director.

Criteria: Board policy states that no bill should be paid without a purchase order signed by the Superintendent or the Superintendent designee. This purchase order should be approved prior to any orders being placed.

Cause: Oversight.

Effect: Violation of Board policy.

Recommendation: We recommend District management remind employees that purchase orders should be obtained and approved prior to orders being placed with vendors.

Management's response and corrective action plan: We now have a stronger procedure in place where both the Superintendent and I review and sign all Purchase Orders prior to any orders being placed which we are strictly enforcing. This should make a recurrence of the Finding unlikely moving forward.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

2015-008 TRAVEL REIMBURSEMENT

Condition: While reviewing reimbursements for out-of-District travel, we noted one individual whose meals were charged to the District's credit card along with the cost of the hotel stay. However, the individual also received the daily per diem for meals as a separate travel reimbursement.

Criteria: Board policy allows for individuals traveling out-of-District to be reimbursed a daily per diem for meals. However, the per diem rate should not be paid if the actual cost of the meals are paid by the District.

Cause: Oversight

Effect: Violation of Board policy and duplicate payment of expenses.

Recommendation: We recommend that District management remind individuals of Board policy regarding reimbursements for out-of-District travel. Additionally, the individual who received the duplicate reimbursement should reimburse the District.

Management's response and corrective action plan: This was an inadvertent error on the part of the Finance Officer, who assisted the person in question in preparing their travel reimbursement form without having the room receipt in their possession. We have subsequently strengthened our policy on reimbursement for travel and meal expenses which should make a recurrence of the Finding unlikely moving forward.

2015-009 PURCHASES

Condition: While reviewing the credit card statements for February 2015, we noted a purchase in the amount of \$1,250 for 10 tickets to the Boys Sweet Sixteen Basketball Tournament. However, the individuals who used the tickets were not listed on the purchase order. This was also noted by the Kentucky Auditor of Public Accounts in the report dated June 29, 2015.

Criteria: To properly substantiate purchases, the intended recipient should be documented on the purchase order.

Cause: Oversight.

Effect: Unable to substantiate the individuals who benefited from the purchase of the 10 tickets to the Boys Sweet Sixteen Basketball Tournament.

Recommendation: The District should document the recipient of all purchases on an approved purchase order.

Management's response and corrective action plan: The specific purchase described in the Finding was made by the prior Superintendent. This type of expenditure will not be permitted in the future.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

2015-010 ACTIVITY FUNDS – CASH DEPOSITS

Condition: During our review of deposits for activity funds, we noted three days in which more than \$100 was received in a day, but a deposit wasn't made until several days later.

Criteria: Per "Receipts" section of the Accounting Procedures for Kentucky School Activity Funds ("Redbook"): "All monies collected shall be deposited on a daily basis except for:

- a) A deposit shall be made on any day in which at least \$100 is on hand to deposit. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until the earlier of when \$100 is collected or the weekly deposit is made as required by paragraph c) of this item.
- b) Money collected after school business hours for evening events shall be placed in a night depository or night drop at a bank or in the locked school safe and processed for deposit the following business day by the school treasurer.
- c) At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100."

Cause: Unfamiliarity with Redbook requirements

Effect: Noncompliance with Redbook requirements

Recommendation: We recommend that activity fund deposits be made in accordance with Redbook requirements.

Management's response and corrective action plan: While I am not aware of the specific circumstances of any of these occurrences, they were violations of the Red Book requirements. We recently had a day of Red Book training that addressed this particular requirement among many others and as a result I do not expect this to happen again.

2015-011 ACTIVITY FUNDS - SCHOLARSHIPS

Condition: During our detailed testing of activity fund disbursements, we noted one payment to a student for a scholarship with a voucher signed by the student attached to the purchase order. However, documentation of the award being granted to the student was not attached.

Criteria: The Redbook states that documentation of expenditures should be reviewed and maintained prior to disbursement.

Cause: Unfamiliarity with Redbook requirements.

Effect: Noncompliance with Redbook requirements.

Recommendation: We recommend that documentation, such as board minutes or award letters, for scholarships be maintained with the purchase order and signed voucher to substantiate disbursements for scholarships.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2015

Management's response and corrective action plan We will share this Finding with the appropriate District personnel in order to improve the documentation attached to the pertinent Purchase Orders for Scholarship awards.

2015-012 ACTIVITY FUNDS - MEALS AND REGISTRATION FEES

Condition: During our detailed testing of activity fund disbursements, we noted a payment for the registration fee of a cross country event and meal reimbursements to individuals for out-of-District cross country events with no documentation of the students in attendance.

Criteria: The Redbook allows for payment of student registration fees and travel reimbursements to District employees if students are on the trip. However, the students in attendance should be properly documented and included with the purchase order.

Cause: Unfamiliarity with Redbook requirements.

Effect: Noncompliance with Redbook requirements.

Recommendation: We recommend that the students attending events be documented with the registration fee payments. Additionally, reimbursements for out-of-District travel to employees should be documented using the Travel Voucher (F-SA-16) provided by Redbook and include the students in attendance to document compliance.

Management's response and corrective action plan: We understand that we need to have some form of proof documenting that the reimbursement of a District Employee for meal and/or travel expenses to take students to an out of district competition/event is appropriate, and that the item reviewed by the auditors was lacking in that regard. We also understand that the request for that reimbursement should be submitted on the required Red Book Form and that the item reviewed by the auditors was not on the appropriate Form. We will stress to all coaches and/or activity sponsors that they need to include with their paperwork documentation verifying that students participated in events out of district and further that they utilize the correct Red Book forms.

2015-013 ACTIVITY FUND - BUDGETS

Condition: While progress was made during the current fiscal year in preparing receipt and expenditure budgets for individual activity funds, we noted that budgets were not prepared and submitted to the board for all funds.

Criteria: The Redbook requires budgets for each fund to be prepared by fund sponsors and submitted to the school principal by April 15th. The principal must then submit a combined budget with the individual fund budgets to the Superintendent by May 15th. Local board approval of school activity budgets and fund-raising activities should be completed by the end of May for the following year.

Cause: Oversight.

Effect: Noncompliance with Redbook requirements.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015

Recommendation: Receipt and expenditure budgets for all activity funds should be prepared in accordance with Redbook guidelines (prepared by activity fund sponsor and submitted by the principal) and submitted annually to the Board for approval.

Management's response and corrective action plan: Our High School Principal has a firm grasp on this requirement and the process as outlined in the Red Book will be followed in the future.

2015-014 ACTIVITY FUNDS - DONATIONS

Condition: We noted from our internal control questionnaire that donations of equipment and cash are not being reported to the Board. Additionally, the Donation Acceptance Form (F-SA-18) is not being utilized to monitor donations.

Criteria: The Redbook states that "equipment or other property donations to the school will remain at the school and be included on school inventory records and become the property of the local board. These donated items shall be reported at year-end along with cash donations to the school board." Additionally, the Redbook states that "the Donation Acceptance Form (Form F-SA-18) shall be completed stating the purpose of and any restrictions on the donation received."

Cause: Unfamiliarity with Redbook requirements.

Effect: Noncompliance with Redbook requirements.

Recommendation: We recommend that management report donations to the Board and use the forms included in the Redbook to document compliance.

Management's response and corrective action plan: We already have a new procedure in place, which will become policy after the Board's vote at its October 2015 meeting, regarding donations, which includes a mechanism for the reporting of all donations received in a month to the Board at the following month's Board meeting.

2015-015 ACTIVITY FUND - SIGNATURE STAMP

Condition: While reviewing disbursements made from the activity funds, we noted that a signature stamp is sometimes utilized to approve purchase orders and issue checks.

Criteria: The Redbook states that "signature stamps are not permitted to be used for indicating approval of school activity fund checks or any other financial documents. All checks shall contain the signatures of the principal's designee, and the school treasurer. The principal designee must be someone that has administrative approving authority."

Cause: Unfamiliarity with Redbook requirements.

Effect: Noncompliance with Redbook requirements.

Recommendation: Signature stamps should not be utilized to approve activity fund purchase orders or to issue checks.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2015

Management's response and corrective action plan: The use of a signature stamp for Activity Fund disbursements was permanently discontinued effective July 1, 2015.

Mr. Ernst P. Sharp, II, Finance Officer, is responsible for implementing the above corrective actions.

C. FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None noted in current year.

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

<u>Finding</u>	<u>Findings/Noncompliance</u>
2014-01	<p>We recommend the District record all required adjustments to account balances as part of the annual closing process.</p> <p><u>Status</u></p> <p>Repeat finding - See 2015-002.</p>
2014-02	<p>We recommend that short-term extensions of credit to employees cease immediately.</p> <p><u>Status</u></p> <p>Repeat finding - See 2015-006.</p>
2014-03	<p>We recommend that a contract of employment be executed for all employees before the beginning of the fiscal year. Additionally, the District should execute new contracts if any terms of the original contract change during the year.</p> <p><u>Status</u></p> <p>Corrected.</p>
2014-04	<p>We recommend that the District designate a responsible individual to advertise tax rates upon approval by the Kentucky Board of Education. This individual should also maintain copies of the advertisement.</p> <p><u>Status</u></p> <p>Corrected – The tax rates for the 2015 fiscal year were published.</p>
2014-05	<p>We recommend that the District document the reason an expenditure does not require an advertisement for bids.</p> <p><u>Status</u></p> <p>Repeat finding concerning bid requirements- See 2015-003.</p>

FAIRVIEW INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2015

There were no matters to be communicated in a management letter in the current year. All comments, including uncorrected management letter comments from the previous year, were included in the Schedule of Findings and Questioned Costs on pages 55 through 64.