

**FRANKFORT INDEPENDENT
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2015**

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October 16, 2015

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Frankfort Independent School District
959 Leestown Lane
Frankfort, KY 40601

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 Frankfort Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Frankfort Independent School 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, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Frankfort Independent School District as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and schedules of district's proportionate share of net pension liabilities on Pages 4 through 10, 43 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial

statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2015, on our consideration of Frankfort 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 reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Frankfort Independent School District's internal control over financial reporting and compliance.
Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

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

FINANCIAL HIGHLIGHTS

- The June 30, 2015 cash balance for the District was \$814,475 as compared with the beginning cash balance of \$1,847,074. The ending cash balance consists of General Fund of \$503,235, Special Revenue of \$17,579, Capital Outlay of \$8,093, Building (FSPK) Fund of \$141,874, Construction Fund of \$133,482, Food Service of \$18,325 and Day Care of (\$8,113).
- District-wide net position increased \$118,836 during the 2015 fiscal year. Total long-term obligations had a net decrease of \$269,958.
- The General Fund had \$7,862,045 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There was \$7,889,213 in General Fund expenditures.
- General Fund revenue increased \$452,234 from last fiscal year and General Fund expenses decreased \$17,165.
- The financial statements reflect revenues of \$1,859,309 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

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

District-wide financial statements

The district-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 only result in cash flows in future fiscal periods.

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

The district-wide financial statements can be found on pages 11-12 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. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our food service and child care operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-21 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 district-wide and fund financial statements.

The notes to the financial statements can be found on pages 22-42 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$1,164,460 as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) 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 and June 30, 2014

A comparison of June 30, 2015 and June 30, 2014 government-wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 1,019,174	\$ 2,144,755	\$ 20,219	\$ 24,237	\$ 1,039,393	\$ 2,168,992
Capital Assets	8,793,916	8,126,195	295,656	331,085	9,089,572	8,457,280
Total Assets	<u>9,813,090</u>	<u>10,270,950</u>	<u>315,875</u>	<u>355,322</u>	<u>10,128,965</u>	<u>10,626,272</u>
Deferred Outflows	398,051	21,166	-	-	-	21,166
Current Liabilities	632,417	758,453	505	804	632,922	759,257
Non-Current Liabilities	8,209,264	6,631,187	-	-	8,209,264	6,631,187
Total Liabilities	<u>8,841,681</u>	<u>7,389,640</u>	<u>505</u>	<u>804</u>	<u>8,842,186</u>	<u>7,390,444</u>
Deferred Inflows	205,000	-	-	-	205,000	-
Net Position						
Investment in capital assets (net of related debt)	2,392,975	1,579,541	295,656	331,085	2,688,631	1,910,626
Restricted	288,487	1,314,448	19,714	23,433	308,201	1,337,881
Unrestricted	(1,517,002)	8,487	-	-	(1,517,002)	8,487
Total Net Position	<u>\$ 1,164,460</u>	<u>\$ 2,902,476</u>	<u>\$ 315,370</u>	<u>\$ 354,518</u>	<u>\$ 1,479,830</u>	<u>\$ 3,256,994</u>

The following table presents changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
REVENUES						
Program revenues						
Charges for services	114,306	90,877	204,580	235,123	318,886	326,000
Operating grants/Contributions	1,018,436	935,014	571,964	621,681	1,590,400	1,556,695
Capital Grants/Contributions	58,385	19,926			58,385	19,926
Fund transfers/gain loss	(65,836)	(222,628)	65,836	222,628		
General revenues						
Property taxes	1,816,764	1,756,826			1,816,764	1,756,826
Motor vehicle taxes	93,337	86,179			93,337	86,179
Utility Taxes	820,734	849,991			820,734	849,991
Taxes, Other	13,575	58,437			13,575	58,437
Investment earnings	7,327	5,892			7,327	5,892
State and formula grants	5,331,061	4,775,298			5,331,061	4,775,298
Miscellaneous	135,515	201,798			135,515	201,798
Total revenues	<u>9,343,604</u>	<u>8,557,610</u>	<u>842,380</u>	<u>1,079,432</u>	<u>10,185,984</u>	<u>9,637,042</u>
EXPENSES						
Instructional	5,518,163	6,048,882			5,518,163	6,048,882
Student support	521,427	356,035			521,427	356,035
Instructional staff Support	560,313	530,378			560,313	530,378
District administrative support	217,611	179,560			217,611	179,560
School administrative support	571,654	440,462			571,654	440,462
Business support	335,561	495,869			335,561	495,869
Plant operations and maintenance	819,858	1,055,962			819,858	1,055,962
Student transportation	333,541	309,286			333,541	309,286
Community Service Operations	77,868	76,911			77,868	76,911
Other		856				856
Interest on Long Term Debt	229,624	230,960			229,624	223,863
Business-type Activities						
Child Care			325,094	380,735	325,094	396,693
Food Service			556,434	588,792	556,434	547,504
Total expenses	<u>9,185,620</u>	<u>9,725,161</u>	<u>881,528</u>	<u>969,527</u>	<u>10,067,148</u>	<u>10,694,688</u>
Increase (decrease) in net position	<u>\$ 157,984</u>	<u>\$ (1,167,551)</u>	<u>\$ (39,148)</u>	<u>\$ 109,905</u>	<u>\$ 118,836</u>	<u>\$ (1,057,646)</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2014 were \$1,593,715 and 2015 were \$1,859,309.

Governmental Activities

For the governmental program expenses instructional expenses comprise 60% of total expenses, support services equate to 37%, and interest and other expenses make up the remaining 3% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Instructional	\$ 5,518,163	\$ 6,048,882	\$ 4,595,302	\$ 5,261,473
Support Services	3,359,965	3,367,552	3,222,463	3,203,307
Other	77,868	77,767	5,489	3,530
Interest Costs	<u>229,624</u>	<u>230,960</u>	<u>171,239</u>	<u>211,034</u>
Total Expenses	<u>\$ 9,185,620</u>	<u>\$ 9,725,161</u>	<u>\$ 7,994,493</u>	<u>\$ 8,679,344</u>

Business-Type Activities

The business type activities at the District are Food Service and Day Care. These programs had total revenues of \$ 842,380 and expenses of \$881,528 for fiscal year 2015. These revenues were made up of \$204,580 charges for services, \$65,836 transfers from governmental funds and \$571,964 federal and state operating grants. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2015 was \$12,126,985 and expenditures were \$13,181,122. The net change in fund balance was a decrease of \$1,054,137.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significantly budgeted fund is the General Fund. The General Fund had budgeted revenues of \$7,428,436 with actual results being \$7,862,045 for a favorable difference of \$433,609. Budgeted expenditures were \$8,075,112 compared to actual expenditures of \$7,889,213 for a favorable difference of \$185,899. Both favorable differences were results of excess anticipated revenues and decreased costs within the District.

Future Budgetary Implications

In Kentucky, the public schools 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 overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a budget for fiscal year 2015-2016 with a contingency in excess of the state minimum requirement.

Significant Board action that impacts the finances includes the Board's salary schedules which include a state mandated 1% raise for the 2014-2015 school year for both certified and classified staff. The State increased the SEEK base from \$3,911 to \$3,981 for the FY 2016. While the District is not currently seeing significant growth in attendance and membership, it is spending additional money to make more opportunities available to segments of our population that have not seen adequate educational achievement. The District has attempted to remedy this inadequate growth by spending more on additional staff and professional development in addition to technology and materials for mathematics and literacy assessment and learning.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2015 fiscal year, the District had \$9,089,572 net of depreciation invested in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net increase of \$632,292. Depreciation expense for the year was \$459,498 and capital additions were \$1,091,800. During the year no assets were retired.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	2015	2014	2015	2014	2015	2014
Land	\$ 798,379	\$ 798,379	\$ -	\$ -	\$ 798,379	\$ 798,379
Construction in Progress	-0-	505,313	-	-	-0-	505,313
Land Improvements	4,120	6,586	-	-	4,120	6,586
Buildings and Improvements	7,745,006	6,499,434	-	-	7,745,006	6,499,434
Technology	8,695	32,232	687	1,617	9,382	33,849
Vehicles	193,063	234,941	-	-	193,063	234,941
General Equipment	44,653	49,310	294,969	329,468	339,622	378,778
Total	\$ 8,793,916	\$ 8,126,195	\$ 295,656	\$ 331,085	\$ 9,089,572	\$ 8,457,280

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	2015	2014	2015	2014	2015	2014
Beginning Balance	\$ 8,126,185	\$ 7,935,555	\$ 331,085	\$ 132,981	\$ 8,457,270	\$ 8,068,536
Additions	1,091,800	611,131	-	216,960	1,091,800	828,091
Retirements	-	-	-	-	-	-
Depreciation	(424,069)	(420,491)	(35,429)	(18,856)	(459,498)	(439,347)
Ending Balance	\$ 8,793,916	\$ 8,126,195	\$ 295,656	\$ 331,085	\$ 9,089,572	\$ 8,457,280

Long-Term Debt

At June 30, 2015, the school district had \$6,395,000 in bonds outstanding, of which \$2,210,527 is to be paid from the SFCC funding provided by the State of Kentucky. A total of \$538,893 including interest is due within one year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (502)875-8661.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	804,263	10,212	814,475
Accounts Receivable:			
Taxes - Current	133,966		133,966
Taxes - Delinquent	9,321		9,321
Accounts	13,048	8,151	21,199
Intergovernmental - State	4,576		4,576
Intergovernmental - Federal	54,000		54,000
Inventories for Consumption		1,856	1,856
Total Current Assets	1,019,174	20,219	1,039,393
Noncurrent Assets - Note F			
Land	798,379		798,379
Buildings & Improvements	13,018,596		13,018,596
Furniture & Equipment	2,195,204	505,691	2,700,895
Less: Accumulated Depreciation	(7,218,263)	(210,035)	(7,428,298)
Total Noncurrent Assets	8,793,916	295,656	9,089,572
TOTAL ASSETS	9,813,090	315,875	10,128,965
Deferred Outflows Related to Pensions	231,390		231,390
Deferred Outflows Related to Advanced Bond Refundings	166,661		166,661
TOTAL ASSETS AND DEFERRED OUTFLOWS	10,211,141	315,875	10,527,016
LIABILITIES:			
Current Liabilities:			
Accounts Payable	36,864	505	37,369
Accrued Salaries & Sick Leave - Note A	64,940		64,940
Advances from Grantors	59,973		59,973
KSBIT Assessment	39,120		39,120
Bond Obligations - Note D	375,000		375,000
Capital Lease Obligation - Note E	5,941		5,941
Accrued Interest Payable	50,579		50,579
Total Current Liabilities	632,417	505	632,922
Noncurrent Liabilities:			
Bond Obligations - Note D	6,020,000		6,020,000
Net Pension Liability	1,838,000		1,838,000
KSBIT Assessment - Note R	114,375		114,375
Accrued Sick Leave - Note A	236,889		236,889
Total Noncurrent Liabilities	8,209,264		8,209,264
TOTAL LIABILITIES	8,841,681	505	8,842,186
Deferred Inflows Related to Pensions	205,000		205,000
TOTAL LIABILITIES AND DEFERRED INFLOWS	9,046,681	505	9,047,186
NET POSITION:			
Net Investment in Capital Assets	2,392,975	295,656	2,688,631
Restricted for:			
Capital Projects	133,482		133,482
SFCC Escrow	149,967		149,967
Other Purposes	5,038		5,038
Food Service		19,714	19,714
Unrestricted	(1,517,002)		(1,517,002)
TOTAL NET POSITION	1,164,460	315,370	1,479,830
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	10,211,141	315,875	10,527,016

See independent auditor's report and accompanying notes to financial statements.

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

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING	CAPITAL	GOVERNMENTAL BUSINESS-TYPE		
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	ACTIVITIES	ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	5,518,163	114,306	808,555		(4,595,302)		(4,595,302)
Support Services:							
Student Support Services	521,427		21,751		(499,676)		(499,676)
Staff Support Services	560,313		101,173		(459,140)		(459,140)
District Administration	217,611				(217,611)		(217,611)
School Administration	571,654				(571,654)		(571,654)
Business Support Services	335,561				(335,561)		(335,561)
Plant Operation & Maintenance	819,858				(819,858)		(819,858)
Student Transportation	333,541		14,578		(318,963)		(318,963)
Community Service Operations	77,868		72,379		(5,489)		(5,489)
Facility Acquisition & Construction					0		0
Interest on Long-Term Debt	229,624			58,385	(171,239)		(171,239)
TOTAL GOVERNMENTAL ACTIVITIES	<u>9,185,620</u>	<u>114,306</u>	<u>1,018,436</u>	<u>58,385</u>	<u>(7,994,493)</u>		<u>(7,994,493)</u>
BUSINESS-TYPE ACTIVITIES:							
Day Care	325,094	147,843	111,415			(65,836)	(65,836)
Food Service	556,434	56,737	460,549			(39,148)	(39,148)
TOTAL BUSINESS-TYPE ACTIVITIES	<u>881,528</u>	<u>204,580</u>	<u>571,964</u>	<u>0</u>	<u>0</u>	<u>(104,984)</u>	<u>(104,984)</u>
TOTAL SCHOOL DISTRICT	<u>10,067,148</u>	<u>318,886</u>	<u>1,590,400</u>	<u>58,385</u>	<u>(7,994,493)</u>	<u>(104,984)</u>	<u>(8,099,477)</u>
GENERAL REVENUES:							
Taxes:							
Property					1,816,764		1,816,764
Motor Vehicle					93,337		93,337
Utility					820,734		820,734
Other					13,575		13,575
State Aid - Formula Grants					5,331,061		5,331,061
Investment Earnings					7,327		7,327
Miscellaneous					135,515		135,515
SPECIAL ITEMS:							
Interfund Transfers (Expense)					(65,836)	65,836	0
TOTAL GENERAL & SPECIAL					<u>8,152,477</u>	<u>65,836</u>	<u>8,218,313</u>
CHANGE IN NET POSITION					157,984	(39,148)	118,836
NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE T					<u>1,006,476</u>	<u>354,518</u>	<u>1,360,994</u>
NET POSITION - ENDING					<u>1,164,460</u>	<u>315,370</u>	<u>1,479,830</u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	503,235	17,579		133,482	149,967	804,263
Accounts Receivable:						
Taxes - Current	133,966					133,966
Taxes - Delinquent	9,321					9,321
Accounts	13,048					13,048
Intergovernmental - State	4,576					4,576
Intergovernmental - Federal		54,000				54,000
TOTAL ASSETS	<u>664,146</u>	<u>71,579</u>	<u>0</u>	<u>133,482</u>	<u>149,967</u>	<u>1,019,174</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	25,258	11,606				36,864
Accrued Salaries & Sick Leave	15,350					15,350
Advances from Grantors		59,973				59,973
Total Liabilities	<u>40,608</u>	<u>71,579</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>112,187</u>
Fund Balance:						
Restricted for:						
Capital Projects				133,482		133,482
SFCC Escrow					149,967	149,967
Committed:						
Other	5,038					5,038
Unassigned	618,500					618,500
Total Fund Balance	<u>623,538</u>	<u>0</u>	<u>0</u>	<u>133,482</u>	<u>149,967</u>	<u>906,987</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>664,146</u>	<u>71,579</u>	<u>0</u>	<u>133,482</u>	<u>149,967</u>	<u>1,019,174</u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

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

TOTAL GOVERNMENTAL FUND BALANCE		906,987
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	16,012,179	
Accumulated Depreciation	<u>(7,218,263)</u>	8,793,916
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		
		166,661
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		
		231,390
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(6,395,000)	
KSBIT Assessment	(153,495)	
Capital Lease Obligation	(5,941)	
Net Pension Liability	(1,838,000)	
Accrued Interest on Bonds	(50,579)	
Accrued Sick Leave	<u>(286,479)</u>	(8,729,494)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		
		<u>(205,000)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>1,164,460</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes:						
Property	1,696,523				120,241	1,816,764
Motor Vehicle	93,337					93,337
Utility	820,734					820,734
Other	13,575					13,575
Earnings on Investments	5,812			1,515		7,327
Intergovernmental - State	4,977,597	318,381	174,687		237,162	5,707,827
Intergovernmental - Federal		700,055				700,055
Other Sources	189,764	60,057				249,821
TOTAL REVENUES	7,797,342	1,078,493	174,687	1,515	357,403	9,409,440
EXPENDITURES:						
Instructional	4,492,843	869,867				5,362,710
Support Services:						
Student Support Services	497,564	23,400				520,964
Staff Support Services	449,940	108,845				558,785
District Administration	209,180					209,180
School Administration	578,243					578,243
Business Support Services	402,536					402,536
Plant Operation & Maintenance	795,039					795,039
Student Transportation	282,583	15,683				298,266
Community Service Operations		77,868				77,868
Facilities Acquisition & Construction				1,055,760		1,055,760
Debt Service:						
Principal			2,420,713			2,420,713
Interest			392,677			392,677
TOTAL EXPENDITURES	7,707,928	1,095,663	2,813,390	1,055,760	0	12,672,741
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	89,414	(17,170)	(2,638,703)	(1,054,245)	357,403	(3,263,301)
OTHER FINANCING SOURCES(USES):						
Proceeds from Bond Issuance			2,275,000			2,275,000
Operating Transfers In - Note N	64,703	17,170	360,672			442,545
Operating Transfers Out - Note N	(181,285)				(327,096)	(508,381)
TOTAL OTHER FINANCING SOURCES	(116,582)	17,170	2,635,672	0	(327,096)	2,209,164
NET CHANGE IN FUND BALANCES	(27,168)	0	(3,031)	(1,054,245)	30,307	(1,054,137)
FUND BALANCES - BEGINNING	650,706	0	3,031	1,187,727	119,660	1,961,124
FUND BALANCES - ENDING	623,538	0	0	133,482	149,967	906,987

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT 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

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

NET CHANGES - GOVERNMENTAL FUNDS		(1,054,137)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(424,069)	
Capital Outlays	<u>1,091,800</u>	667,731
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid	2,420,713	
Proceeds from Note Payable	<u>(2,275,000)</u>	145,713
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization-Deferred Outflows on Advanced Refundings of Bonds	(15,449)	
District Pension Contributions	231,390	
Cost of Benefits Earned Net of Employee Contributions	(147,000)	
Deferred Outflows from Advanced Bond Refundings	160,944	
Accrued Interest Payable	17,557	
KSBIT Assessment	64,703	
Accrued Sick Leave	<u>86,532</u>	398,677
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>157,984</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	18,325	(8,113)	10,212
Accounts Receivable		8,151	8,151
Inventories for Consumption	1,856		1,856
Total Current Assets	20,181	38	20,219
Noncurrent Assets:			
Furniture & Equipment	505,691		505,691
Less: Accumulated Depreciation	(210,035)		(210,035)
Total Noncurrent Assets	295,656	0	295,656
TOTAL ASSETS	315,837	38	315,875
LIABILITIES:			
Current Liabilities:			
Account Payable	467	38	505
Total Current Liabilities	467	38	505
Net Position:			
Net Investment in Capital Assets	295,656		295,656
Restricted	19,714	0	19,714
Total Net Position	315,370	0	315,370
TOTAL LIABILITIES AND NET POSITION	315,837	38	315,875

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	22,783		22,783
Other Operating Revenues	33,954	147,843	181,797
TOTAL OPERATING REVENUES	56,737	147,843	204,580
OPERATING EXPENSES:			
Salaries & Benefits	245,285	308,321	553,606
Contract Services	6,898	2,408	9,306
Materials & Supplies	268,222	13,458	281,680
Depreciation - Note F	35,429		35,429
Other Operating Expenses	600	907	1,507
TOTAL OPERATING EXPENSES	556,434	325,094	881,528
OPERATING INCOME(LOSS)	(499,697)	(177,251)	(676,948)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	401,352		401,352
State Grants	37,567	111,415	148,982
Donated Commodities	21,630		21,630
Transfers In		65,836	65,836
TOTAL NONOPERATING REVENUE	460,549	177,251	637,800
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(39,148)	0	(39,148)
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSTION	(39,148)	0	(39,148)
TOTAL NET POSITION - BEGINNING	354,518	0	354,518
TOTAL NET POSITION - ENDING	315,370	0	315,370

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>FOOD SERVICE</u>	<u>DAY CARE FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Operating Revenue	56,737	165,707	222,444
Cash Paid to/for:			
Employees	(212,494)	(265,781)	(478,275)
Supplies	(242,568)	(13,824)	(256,392)
Other Activities	(7,498)	(3,315)	(10,813)
	<u>(405,823)</u>	<u>(117,213)</u>	<u>(523,036)</u>
Net Cash Provided (Used) by Operating Activities			
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfer from General Fund		65,836	65,836
Federal Grants	413,647		413,647
State Grants	4,776	68,875	73,651
	<u>418,423</u>	<u>134,711</u>	<u>553,134</u>
Net Cash Provided by Non-Capital and Related Financing Activities			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
	0	0	0
CASH FLOWS FROM INVESTING ACTIVITIES			
	<u>0</u>	<u>0</u>	<u>0</u>
Net Increase in Cash and Cash Equivalents	12,600	17,498	30,098
Balances, Beginning of Year	<u>5,725</u>	<u>(25,611)</u>	<u>(19,886)</u>
Balances, End of Year	<u><u>18,325</u></u>	<u><u>(8,113)</u></u>	<u><u>10,212</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(499,697)	(177,251)	(676,948)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	35,429		35,429
State On-Behalf Payments	32,791	42,540	75,331
Donated Commodities	21,630		21,630
Change in Assets and Liabilities:			
Inventory	3,957		3,957
Accounts Receivable		17,864	17,864
Accounts Payable	67	(366)	(299)
	<u>(405,823)</u>	<u>(117,213)</u>	<u>(523,036)</u>
Net Cash Provided (Used) by Operating Activities			
Schedule of Non-Cash Transactions:			
Donated Commodities	21,630	0	21,630
State On-Behalf Payments	32,791	42,540	75,331

See independent auditor's report and accompanying notes to financial statements.

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

	AGENCY FUNDS		
	SCHOOL ACTIVITY FUNDS	OTHER	TOTAL
ASSETS:			
Cash and Cash Equivalents	113,735	28,071	141,806
TOTAL ASSETS	113,735	28,071	141,806
LIABILITIES:			
Due to Scholarship Recipients		28,071	28,071
Due to Student Groups	113,735		113,735
TOTAL LIABILITIES	113,735	28,071	141,806
NET POSITION HELD IN TRUST	0	0	0

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Net Interest and Investment Gains(Losses)	154
Donations	1,000
DEDUCTIONS:	
Supplies	15
Benefits Paid	<u>4,000</u>
Changes in Net Position	(2,861)
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>30,932</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>28,071</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Frankfort Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the 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 organizations are included in the accompanying financial statements:

Frankfort Independent Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Frankfort 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 Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust 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 the 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 and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) 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 Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. 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 cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the 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 on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Deferred Revenue – 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.

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$0.803 per \$100 valuation for real property, \$0.803 per \$100 valuation for business personal property, and \$0.474 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Interfund Balances

On fund financial statements, receivables and payable 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.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received 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 School District’s past experience of making termination payments.

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. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

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 differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

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

On government-wide financial statements, inventories are stated at cost and are expensed when used.

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

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and 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, 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

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Revenue Source

Special Revenue

State, Local and Federal Grants

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 School 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 funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

Changes in Accounting Principle

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

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. See Note H for the impact of the adoption of this standard on beginning net position.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$956,281. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$706,281 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2015, consisted of the following:

	Bank Balance	Book Balance
Community Trust Bank	1,205,206	956,281
Breakdown per financial statements:		
Governmental Funds		804,263
Proprietary Funds		<u>10,212</u>
Subtotal		814,475
Fiduciary Funds		28,071
Agency Funds		<u>113,735</u>
Total Cash and Cash Equivalents All Funds		<u>956,281</u>

NOTE D – INVESTMENTS

The District held no investments on June 30, 2015.

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make payments relating to the bonds issued by the Frankfort Independent School District Finance Corporation aggregating \$6,970,000.

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

2006 Unrefunded	435,000	3.70% - 4.4%
2009	1,115,000	2.00% - 3.00%
2014	1,910,000	1.20% - 3.375%
2014 Refunding	1,235,000	1.20% - 3.375%
2014 Refunding	2,275,000	1.00% - 4.00%

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

The District has “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission’s participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

On September 1, 2014, the District issued \$2,275,000 in Refunding Revenue Bonds with an average interest rate of 2.0 percent to advance refund \$2,065,000 of outstanding 2006 Bonds. The refunding was a partial advance refunding. The net proceeds of \$2,225,944 (after \$28,165 in bond issuance costs, \$17,665 in bond discount and \$3,226 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to call the bonds. The net present value of the savings from the new bond issuance is \$390,569 as described in the bond issuance documents.

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

Year	Principal	Interest	Participation	District's Portion
2015-16	375,000	163,893	174,688	364,206
2016-17	380,000	155,295	174,687	360,608
2017-18	395,000	146,036	174,688	366,349
2018-19	405,000	136,181	174,688	366,494
2019-20	420,000	125,936	174,688	371,249
2020-21	435,000	116,895	174,688	377,207
2021-22	440,000	107,701	174,688	373,014
2022-23	450,000	98,354	174,688	373,666
2023-24	460,000	88,403	174,689	373,714
2024-25	470,000	78,224	174,688	373,536
2025-26	490,000	65,846	174,688	381,159
2026-27	480,000	51,696	156,126	375,572
2027-28	210,000	41,691	109,003	142,688
2028-29	205,000	34,814	109,003	130,811
2029-30	220,000	27,895	109,003	138,892
2030-31	130,000	20,470	109,003	41,467
2031-32	135,000	15,855	109,003	41,852
2032-33	145,000	11,063	109,002	47,060
2033-34	<u>150,000</u>	<u>5,625</u>	<u>109,003</u>	<u>46,622</u>
	<u>6,395,000</u>	<u>1,491,873</u>	<u>2,840,706</u>	<u>5,046,167</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	6,535,000	2,275,000	2,415,000	6,395,000	375,000
Capital Lease Obligations	11,654	0	5,713	5,941	5,941
KISBIT Assessment	218,198	0	64,703	153,495	39,120
Accrued Sick Leave	<u>373,021</u>	<u>5,986</u>	<u>92,528</u>	<u>286,479</u>	<u>49,590</u>
Governmental Activities					
Long-Term Liabilities	<u>7,137,873</u>	<u>2,280,986</u>	<u>2,577,944</u>	<u>6,840,915</u>	<u>469,651</u>

NOTE F - CAPITAL LEASE PAYABLE

The District is the lessee of a bus under a capital lease expiring in fiscal year 2016. The asset and liability under the capital lease is recorded at the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2015.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2015</u>
Gross amount of assets	61,318
Accumulated Amortization	(55,185)
	<u>6,133</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2015:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2016	<u>6,178</u>
Net minimum lease payments	6,178
Amount representing interest	<u>(237)</u>
Present value of net minimum lease payments	<u>5,941</u>

Interest rates on capitalized leases vary from 3.80% to 4.00%. The capital lease provides for the bus to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - CAPITAL ASSETS

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

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	798,379			798,379
Construction In Progress	505,313	(505,313)		-0-
Depreciable Assets:				
Land Improvements	222,610			222,610
Buildings & Building Improvements	11,198,873	1,597,113		12,795,986
Technology Equipment	1,115,906			1,115,906
Vehicles	905,761			905,761
General Equipment	<u>173,537</u>			<u>173,537</u>
TOTAL AT HISTORICAL COST	<u>14,920,379</u>	<u>1,091,800</u>		<u>16,012,179</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	216,024	2,466		218,490
Buildings & Building Improvements	4,699,439	351,541		5,050,980
Technology Equipment	1,083,674	23,537		1,107,211
Vehicles	670,830	4,657		712,698
General Equipment	<u>124,227</u>	<u>41,868</u>		<u>128,884</u>
TOTAL ACCUMULATED DEPRECIATION	<u>6,794,194</u>	<u>424,069</u>		<u>7,218,263</u>
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u><u>8,126,185</u></u>	<u><u>667,731</u></u>	<u><u>-0-</u></u>	<u><u>8,793,916</u></u>
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	13,975			13,975
General Equipment	<u>491,716</u>			<u>491,716</u>
TOTALS AT HISTORICAL COST	<u>505,691</u>	<u>-0-</u>	<u>-0-</u>	<u>505,691</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	12,358	930		13,288
General Equipment	<u>162,248</u>	<u>34,499</u>		<u>196,747</u>
TOTAL ACCUMULATED DEPRECIATION	<u>174,606</u>	<u>35,429</u>		<u>210,035</u>
PROPRIETARY ACTIVITIES CAPITAL NET	<u><u>331,085</u></u>	<u><u>(35,429)</u></u>	<u><u>-0-</u></u>	<u><u>295,656</u></u>
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				297,779
Student Support Services				6,673
Staff Support Services				6,878
District Administration				10,609
School Administration				692
Plant Operation & Maintenance				63,391
Student Transportation				<u>38,047</u>
TOTAL				<u><u>424,069</u></u>

NOTE H – RETIREMENT PLANS

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

General information about the Teachers' Retirement System of the State of Kentucky ("KTRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree 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 Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

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

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Medical Insurance Plan

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 1,838,000
Commonwealth's proportional share of the KTRS net pension liability associated with the District	<u>27,742,148</u>
	<u>\$ 29,580,148</u>

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

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.056646% percent.

For the year ended June 30, 2015, the District recognized pension expense of \$147,000 related to CERS and \$653,752 related to KTRS. The District also recognized revenue of \$653,752 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	205,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>231,390</u>	<u>-</u>
Total	<u>\$ 231,390</u>	<u>\$ 205,000</u>

\$231,390 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2016	41,000
2017	41,000
2018	41,000
2019	41,000
2020	41,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

For KTRS, the discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	1,600,839	1,838,000	2,075,161
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

NOTE I – COMMITMENTS

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2015, as follows:

Year ending June 30:

2016	8,292
2017	7,794
2018	6,298
2019	<u>4,429</u>
Total minimum payments	<u>26,813</u>

NOTE J – 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 based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Netherlands Insurance Company and Catlin Indemnity Company.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	1,054,245
Debt Service Fund	2,638,703
Special Revenue Fund	17,170
Food Service	39,148

NOTE N – COBRA

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

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	17,170
Operating	General	Debt Service	Debt Service	98,279
Operating	SEEK	General	Operating	64,703
Operating	SEEK	Debt Service	Debt Service	6,995
Operating	FSPK	Debt Service	Debt Service	<u>255,398</u>
		Subtotal Governmental Fund Transfers		442,545
Operating	General	Day Care	Operations	<u>65,836</u>
		Total Transferred Funds		<u>508,381</u>

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2015.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 16, 2015. There are no material subsequent events to disclose.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE R – ON-BEHALF PAYMENT

For the year ended June 30, 2015, \$1,859,309 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 1,609,291
Food Service Fund	32,791
Day Care Fund	42,540
Debt Service Fund	<u>174,687</u>
Total	<u>\$ 1,859,309</u>

NOTE S – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2015, Frankfort Independent School District's remaining assessment is valued at \$153,495. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment over a seven year period with the final payment in fiscal year 2021.

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2016	39,121
2017	39,120
2018	18,814
2019	18,814
2020	18,814
2021	<u>18,812</u>
Total	<u>153,495</u>

NOTE T – NET POSITION, AS RESTATED

Governmental Accounting Standards Board statement 68 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the government activities was decreased \$1,896,000 to reflect the District's proportionate share of the unfunded pension liability of the County Employee Retirement System.

Beginning Net Position as previously reported on June 30, 2014	\$ 2,902,476
Prior period adjustment – Implementation GASB 68:	
Net Pension Liability (measurement date)	(2,145,927)
Deferred outflows – District's contributions made during fiscal year 2014	<u>249,927</u>
Total prior period adjustment	<u>(1,896,000)</u>
Net Position as restated, July 1, 2014	<u>\$ 1,006,476</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	2,478,700	2,478,700	2,624,169	145,469
Other Local Sources	5,000	5,000	5,812	812
State Sources	4,722,706	4,722,076	4,977,597	255,521
Federal Sources			0	0
Other Sources	222,030	222,660	254,467	31,807
TOTAL REVENUES	7,428,436	7,428,436	7,862,045	433,609
EXPENDITURES:				
Instructional	4,690,012	4,690,012	4,492,843	197,169
Student Support Services	385,615	385,615	497,564	(111,949)
Staff Support Services	403,215	403,215	449,940	(46,725)
District Administration	186,225	186,225	209,180	(22,955)
School Administration	513,625	513,625	578,243	(64,618)
Business Support Services	305,450	305,450	402,536	(97,086)
Plant Operation & Maintenance	958,825	958,825	795,039	163,786
Student Transportation	299,350	299,350	282,583	16,767
Central Office				0
Food Service Operations				0
Community Service Operations				0
Facility Acquisition & Construction				0
Other	332,795	332,795	181,285	151,510
TOTAL EXPENDITURES	8,075,112	8,075,112	7,889,213	185,899
NET CHANGE IN FUND BALANCE	(646,676)	(646,676)	(27,168)	619,508
FUND BALANCES - BEGINNING	646,676	646,676	650,706	0
FUND BALANCES - ENDING	0	0	623,538	619,508

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT 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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	17,170	17,170	17,170	0
State Sources	357,469	345,231	318,381	(26,850)
Federal Sources	643,880	633,495	700,055	66,560
Other Sources	31,789	20,000	60,057	40,057
TOTAL REVENUES	1,050,308	1,015,896	1,095,663	79,767
EXPENDITURES:				
Instructional	788,917	764,890	869,867	(104,977)
Student Support Services	23,400	23,400	23,400	0
Staff Support Services	140,468	130,083	108,845	21,238
District Administration				0
School Administration				0
Business Support Services				0
Plant Operation & Maintenance				0
Student Transportation	16,405	16,405	15,683	722
Central Office				0
Community Service Operations	81,118	81,118	77,868	3,250
Facility Acquisition & Construction				0
Other				0
TOTAL EXPENDITURES	1,050,308	1,015,896	1,095,663	(79,767)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 KENTUCKY TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>
District's proportion of net pension liability	0.0%
District's proportionate share of the net pension liability	\$ 0
State of Kentucky's share of the net pension liability associated with the District	<u>27,742,148</u>
Total	<u>\$ 27,742,148</u>
District's covered-employee payroll	\$ 4,326,318
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>
District's proportion of net pension liability	.056646%
District's proportionate share of the net pension liability	\$ 1,838,000
State of Kentucky's share of the net pension liability associated with the District	<u>0.00</u>
Total	<u>\$ 1,838,000</u>
District's covered-employee payroll	\$ 1,309,514
District's proportionate share of the net pension liability as a percentage of its covered-payroll	140.39%
Plan fiduciary net position as a percentage of the total pension liability	65.96%

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2015

KENTUCKY TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2015 reported in that schedule:

Valuation Date	June 30, 2013
Inflation	3.50 percent
Salary Increases	4.00 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	4.27 Percent
Measurement Date	4.35 Percent
Year FNP is Projected to be Depleted	2036
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	5.16 percent
Measurement Date	5.23 Percent
Post-Retirement Benefit Increases	1.50% annually

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

The last experience investigation was prepared for the five-year period ending June 30, 2008, and based on the results of an actuarial study and adopted by the board.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, 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 rates reported in that schedule:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5 percent
Salary Increase	4.5 percent, average, including inflation
Investment Rate of Return	7.75 percent, net of pension plan investment expense, including inflation

**OTHER SUPPLEMENTARY
INFORMATION**

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

	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>FSPK BUILDING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
ASSETS:			
Cash & Cash Equivalents	8,093	141,874	149,967
Accounts Receivable:			
Taxes			
Accounts			
	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u><u>8,093</u></u>	<u><u>141,874</u></u>	<u><u>149,967</u></u>
LIABILITIES AND FUND BALANCES:			
Total Liabilities	0	0	0
Fund Balance:			
Restricted for:			
SFCC Escrow	8,093	141,874	149,967
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balance	<u><u>8,093</u></u>	<u><u>141,874</u></u>	<u><u>149,967</u></u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>8,093</u></u>	<u><u>141,874</u></u>	<u><u>149,967</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	<u>SEEK CAPITAL OUTLAY FUND</u>	<u>FSPK BUILDING FUND</u>	<u>TOTAL NON-MAJOR GOVERNMENT FUNDS</u>
REVENUES:			
Taxes		120,241	120,241
Intergovernmental - State	75,322	161,840	237,162
TOTAL REVENUES	<u>75,322</u>	<u>282,081</u>	<u>357,403</u>
EXPENDITURES:			
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	75,322	282,081	357,403
OTHER FINANCING SOURCES(USES):			
Operating Transfers Out	(71,698)	(255,398)	(327,096)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(71,698)</u>	<u>(255,398)</u>	<u>(327,096)</u>
NET CHANGE IN FUND BALANCES	<u>3,624</u>	<u>26,683</u>	<u>30,307</u>
FUND BALANCES - BEGINNING	<u>4,469</u>	<u>115,191</u>	<u>119,660</u>
FUND BALANCES - ENDING	<u><u>8,093</u></u>	<u><u>141,874</u></u>	<u><u>149,967</u></u>

See independent auditor's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015

	FUND BALANCE JULY 1, 2014	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2015
Frankfort Independent High School	138,273	214,932	268,511	84,694
Capital City Preparatory	3,641	2,624	2,980	3,285
Second Street Elementary School	<u>34,238</u>	<u>150,487</u>	<u>158,969</u>	<u>25,756</u>
Total Due to Student Groups	<u><u>176,152</u></u>	<u><u>368,043</u></u>	<u><u>430,460</u></u>	<u><u>113,735</u></u>

See independent accountant's report and accompanying notes to financial statements.

FRANKFORT INDEPENDENT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	CASH BALANCE JULY 1, 2014	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2015	ACCOUNTS RECEIVABLE JUNE 30, 2015	ACCOUNTS PAYABLE JUNE 30, 2015	FUND BALANCE JUNE 30, 2015
Academic Team	168			168			168
PSAT Fees	0	240	214	26			26
Capitolian	120	3,252		3,372			3,372
Faculty Concessions	676	1,615	1,221	1,070			1,070
Interest	2,053	572	2,163	462			462
Graduation	3,181	3,697	6,878	0			0
Guidance	570	310	630	250			250
Miscellaneous	908	13,998	5,337	9,569			9,569
AP Fees	0	11,698	11,672	26			26
SBDM	3,240	6,307	5,989	3,558			3,558
Senior Play	339		339	0			0
Textbooks	7,842		7,842	0			0
Field Trips	8,781		8,781	0			0
Costa Rica Trip	88		88	0			0
Credit Recovery	225		225	0			0
France/Spain Trip	773		773	0			0
Student Locks	5			5			5
C.S. Boyd Scholarship	4,187		500	3,687			3,687
Student Notebooks	2,215	3,975	6,062	128			128
Fees	6,493	11,920	18,253	160			160
Football Trip	16,836	5,660	22,496	0			0
General Athletics	4,188	7,524	9,577	2,135			2,135
Baseball	5,051	6,805	6,350	5,506			5,506
Boys Basketball	4,887	15,555	18,794	1,648			1,648
Girls Basketball	4,682	9,166	11,225	2,623			2,623
Cheerleaders	398	3,364	3,356	406			406
Cross Country	1,383			1,383			1,383
Football	2,108	24,971	24,923	2,156			2,156
Boys Golf	320			320			320
Girls Golf	62			62			62
Boys Soccer	5,633	13,143	16,913	1,863			1,863
Girls Soccer	1,286	5,937	7,404	(181)			(181)
Girls Softball	904	4,613	4,458	1,059			1,059
Boys Tennis	780	650	587	843			843
Girls Tennis	128	150	121	157			157
Track	1,200	200	280	1,120			1,120
District Ball Tournament	60		60	0			0
Swim Team	182	139	139	182			182
Boys Soccer Scotland	1,784	10,079	1,309	10,554			10,554
Athletic Tourney	2,630	6,105	6,397	2,338			2,338
Athletic Fee	4,745	2,042	6,787	0			0
Volleyball	0	1,304	1,220	84			84
FB Jerseys	1,000	1,500	2,500	0			0

Sign Program	4,945	1,350	1,140	5,155			5,155
Preseason Tournament	1,000			1,000			1,000
High School Soccer All A	0	813		813			813
Art Honor Society	393	175		568			568
Beta Club	890	455	585	760			760
Clubs	1,007		1,007	0			0
Student YMCA	141	10,492	10,568	65			65
Drama Club	5,225	4,374	4,258	5,341			5,341
Consumer Science	1,843		1,843	0			0
Spanish Honor Society	180	13,573	13,471	282			282
Interact	241	150	97	294			294
National Honor Society	0	420	334	86			86
Pep Club	0	465	353	112			112
Journalism	219		219	0			0
Student Council	3,004	175	380	2,799			2,799
Miss FHS Pag	485	534	369	650			650
French Honor Society	135		135	0			0
Archery Club	7	226	125	108			108
Dance Club	231		200	31			31
Class of 2014	595		595	0			0
Class of 2015	1,649	4,357	5,973	33			33
Class of 2016	1,757	2,690	3,236	1,211			1,211
Class of 2017	262	745		1,007			1,007
Class o 2018	0	535	340	195			195
Library	747	10		757			757
School Concessions	1,437	116		1,553			1,553
Athletic Concessions	2,012	8,444	9,707	749			749
Art	44	460	504	0			0
Band	654	11,003	7,916	3,741			3,741
Chorus	171		171	0			0
English	426		426	0			0
Life Skills/Food	101		101	0			0
Humanities	415		415	0			0
Math	503		503	0			0
PE/Health	62		197	(135)			(135)
Chemistry	505	370	815	60			60
Social Studies	115		115	0			0
Special ED	530			530			530
Technology	3,250	2,098	5,348	0			0
Aviation	118	200	150	168			168
Science Academy	96		90	6			6
Biology	483	480	948	15			15
Ceramics	20	0	20	0			0
Photography	263	399	662	0			0
Total All Funds	<u>138,273</u>	<u>241,600</u>	<u>295,179</u>	<u>84,694</u>	<u>0</u>	<u>0</u>	<u>84,694</u>
Interfund Transfers		<u>(26,668)</u>	<u>(26,668)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>138,273</u>	<u>214,932</u>	<u>268,511</u>	<u>84,694</u>	<u>0</u>	<u>0</u>	<u>84,694</u>

FRANKFORT INDEMENTENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3104	12,639
Title I - Parent Involvement	84.010	310A	255,011
Title I Cluster			<u>267,650</u>
Career & Technical Education	84.048	348A	8,718
Title II - Part A -Teacher Quality Enhancement Grants	84.367	401A	63,865
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	532
Title II			<u>64,397</u>
IDEA - Special Education - Grants to State	84.027	3373	59
IDEA - Special Education - Grants to State	84.027	3374	71,542
IDEA - Special Education - Grants to State	84.027	337A	265,192
IDEA - Special Education - Preschool Grants	84.173	3434	47
IDEA - Special Education - Preschool Grants	84.173	343A	22,450
Special Education Cluster			<u>359,290</u> *
Total U.S. Department of Education			<u>700,055</u>
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-14	61,314
National School Lunchroom	10.555	7750002-15	194,148
School Breakfast Program	10.553	7760005-14	30,281
School Breakfast Program	10.553	7760005-15	84,790
Summer Meal Program	10.559	7690024-14	1,849
Summer Meal Program	10.559	7740023-14	17,955
Child Nutrition Cluster			<u>390,337</u>
Child and Adult Food Care Program	10.558	7790021-14	3,992
Child and Adult Food Care Program	10.558	7790021-15	16,735
Child and Adult Food Care Program	10.558	7800016-14	262
Child and Adult Food Care Program	10.558	7800016-15	1,123
Child and Adult Food Care Program			<u>22,112</u>
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	21,630
Total U.S. Department of Agriculture			<u>434,079</u>
Total Federal Financial Assistance			<u><u>1,134,134</u></u>

* Tested as major program

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster

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

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2015

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.
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October 16, 2015

**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**

Members of the Board of Education
Frankfort Independent School District
959 Leestown Lane
Frankfort, KY 40601

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Frankfort Independent School District's basic financial statements, and have issued our report thereon dated October 16, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Frankfort Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Frankfort Independent School District in a separate letter dated October 16, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 16, 2015

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

Members of the Board of Education
Frankfort Independent School District
959 Leestown Lane
Frankfort, KY 40601

Report on Compliance for Each Major Federal Program

We have audited the Frankfort 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 Frankfort Independent School District's major federal programs for the year ended June 30, 2015. Frankfort 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, contract, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Frankfort 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. 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 Frankfort 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 Frankfort Independent School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Frankfort 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 Frankfort Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Frankfort 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.

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October 16, 2015

MANAGEMENT LETTER

Members of the Board of Education
Frankfort Independent School District
959 Leestown Lane
Frankfort, KY 40601

In planning and performing our audit of the financial statements of Frankfort Independent School District for the year ended June 30, 2015, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2014, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year Recommendation:

During the audit of the school activity fund receipts, a few instances were noted where the Multiple Receipt Form was not properly completed. The form should be signed by the students and the sponsor collecting the money according to Redbook policies and procedures. We recommend that Multiple Receipt Forms be completed for applicable deposits according to guidelines outlined in the Redbook.

Current Year Finding:

No matters were noted regarding multiple receipt forms.

Prior Year Recommendation:

During the audit of the school activity funds, it was noted that expenditures were made for amounts greater than the amount approved on the purchase order. We recommend that new or revised purchase orders be completed when disbursements would exceed the expenditure originally approved.

Current Year Finding:

No such matters were noted.

Current Year Recommendation:

During the audit of the school activity fund disbursements, there were instances where disbursements were made without supporting invoices for the transaction. The Redbook requires that all disbursements be supported by proper documentation prior to release of funds.

Management Response:

We will take measures to ensure that all principals and school treasurers follow the requirements of the Redbook related to disbursements from the school activity accounts.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 16, 2015

Members of the Board of Education
Frankfort Independent School District
959 Leestown Lane
Frankfort, KY 40601

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frankfort Independent School District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 20, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Frankfort Independent School District are described in Note A to the financial statements. As described in Notes A and H to the financial statements, the Frankfort Independent School District changed accounting policies related to accounting and reporting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*, in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 16, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Frankfort Independent School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Frankfort Independent School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 43 and 44, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Frankfort Independent School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants