

KNOX COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015
WITH
REPORT OF INDEPENDENT AUDITORS**

TABLE OF CONTENTS

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities	14
Statement of Net Position – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	16
Statement of Cash Flows – Proprietary Funds	17
Statement of Fiduciary Net Position – Fiduciary Funds	18
Notes to the Basic Financial Statements	19

Supplementary Information

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	43
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	44
Notes to Required Supplementary Information – Budget and Actual – General Fund.....	45
Combining Balance Sheet – Nonmajor Governmental Funds.....	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	47
Schedule of the District's Proportionate Share of the Net Pension Liability – County Employees Retirement System	48
Schedule of District Contributions – County Employees Retirement System	49
Schedule of the State's Proportionate Share of the Net Pension Liability – Kentucky Teachers' Retirement System.....	50
Schedule of State Contributions – Kentucky Teacher's Retirement System	51
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Elementary and Middle School Activity Funds.....	52
Statement of Revenues, Expenditures, and Changes in Fund Balances – Knox Central High School Activity Fund.....	53
Statement of Receipts, Disbursements, and Fund Balances – Lynn Camp High School Activity Fund.....	55
Schedule of Expenditures of Federal Awards	59
Notes to the Schedule of Expenditures of Federal Awards	62
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; And Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.....	65
Schedule of Findings and Questioned Costs – Major Programs.....	68
Schedule of Prior Year Audit Findings	70
Independent Auditors' Transmittal Letter for Management Letter Comments.....	72
Management Letter Comments.....	73



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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Knox County School District
Barbourville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinions

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

Emphasis of Matter

As described in Note 12 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective, July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and the Schedules of District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions per the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 13, 2015, on our consideration of Knox County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Knox County School District's internal control over financial reporting and compliance.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 13, 2015

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) For the year ended June 30, 2015

The management of Knox County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2015. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- Effective July 1, 2015, the District approved a 1% salary increase for all full time certified and classified employees for fiscal year 2014-2015 in accordance with the Legislative requirements of House Bill 235 (2014). This increase was in addition to increases provided for changes in the normal rank and step increases attained by the full time employees.
- Total Payroll related On Behalf payments was \$8,486,492 in 2015 and \$7,710,574 in 2014. The increase is primarily in Kentucky Teacher Retirement System's calculated employer on behalf amounts required to be reported in accordance with the new GASB 68 standard. The District's on behalf teacher retirement amount was \$3,188,146 in 2015 and \$2,321,516 in 2014.
- The District provides all day kindergarten and is only funded for half day kindergarten from the state.
- The District supplements the transportation expenses that are unfunded by the state through the SEEK allocation.
- The ending cash balance for the District, was \$4,087,406 in 2015 and \$4,449,945 in 2014. In 2015 and 2014, cash of \$500,155 and \$858,251, respectively, was reserved for capital projects. In 2015 and 2014, cash of \$216,836 and \$150,073, respectively, was assigned for purchase obligations.
- The General Fund had \$35,865,209 in revenue, excluding interfund transfers and proceeds from the sale of assets, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$36,061,950 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with the community input and keeping with the Kentucky Department of Education stringent compliance regulations. The total facility related bond debt decreased by \$2,465,000 during the current fiscal year.
- The District issued KISTA bonds in March 2014 for the purchase and financing of ten buses in the amount of \$940,040. The bonds' interest and principal will be repaid over ten years beginning in September 2014. The District made the first principal payment in 2015 of \$101,476 leaving a balance of \$838,294 at June 30, 2015.
- The District's share of the KISBIT court approved assessments for the Workers Compensation Fund and the Property and Liability Fund total \$634,323. The District is making annual payments toward this obligation. The balance owed at June 30, 2015 for both funds totaled \$426,758.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on the table of contents of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 9 to 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District used 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.

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED

For the year ended June 30, 2015

Net Position for the period ending June 30, 2015

Fiscal year 2015 government-wide net position compared to 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 6,793,161	\$ 7,366,901
Capital assets	63,344,458	65,711,413
Total assets	<u>\$ 70,137,619</u>	<u>\$ 73,078,314</u>
Deferred outflow of resources	<u>\$ 2,046,418</u>	<u>\$ 999,093</u>
Current liabilities	\$ 4,859,271	\$ 4,994,380
Noncurrent liabilities	48,922,491	42,582,782
Total liabilities	<u>\$ 53,781,762</u>	<u>\$ 47,577,162</u>
Deferred inflow of resources	<u>\$ 1,009,000</u>	<u>\$ -</u>
Net investment in capital assets, net of debt	\$ 22,287,064	\$ 22,169,449
Restricted net position	462,927	1,778,792
Unrestricted net position	(5,356,716)	2,551,604
Total net position	<u>\$ 17,393,275</u>	<u>\$ 26,499,845</u>

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental assets exceeded liabilities by approximately \$16,674,102; proprietary assets exceeded liabilities by \$719,173 and total assets exceeded liabilities by \$17,393,275 at June 30, 2015.

The District had an overall decrease in unrestricted net position of \$7,908,320, comprised of a decrease in governmental activities unrestricted net position of \$7,908,320.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2015 and 2014.

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED
For the year ended June 30, 2015

	<u>2015</u>	<u>2014</u>
Revenues and other financing sources		
Local revenue sources	\$ 7,150,368	\$ 6,835,984
State revenue sources	34,829,228	32,811,277
Federal revenue	5,872,687	5,995,120
Total revenue	<u>47,852,283</u>	<u>45,642,381</u>
Expenditures and other financing uses		
Instruction	28,261,779	27,029,203
Student support services	2,367,680	2,209,951
Instructional support	1,737,348	1,887,217
District administration	949,621	827,657
School administration	2,233,771	2,162,364
Business operations	789,091	738,954
Plant operation and maintenance	4,534,524	4,826,103
Student transportation	3,079,781	4,125,479
Other instructional	-	47,485
Community services	529,520	494,927
Debt service	3,883,484	3,753,816
Facilities acquisition and construction	157,284	3,347,596
Total expenditures	<u>48,523,883</u>	<u>51,450,752</u>
Excess revenues (expenditures)	<u>\$ (671,600)</u>	<u>\$ (5,808,371)</u>
Other financing sources (uses)		
Proceeds from sale of fixed assets	\$ -	\$ 37,022
Bond proceeds	-	940,040
Transfers in	2,584,169	2,257,945
Transfers out	(2,498,341)	(2,196,103)
Proceeds from refunding of bonds	-	-
Total other financing sources (uses)	<u>\$ 85,828</u>	<u>\$ 1,038,904</u>
Net change in fund balance	<u>\$ (585,772)</u>	<u>\$ (4,769,467)</u>

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

BUDGETARY IMPLICATION

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$803,514 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED

For the year ended June 30, 2015

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2015 were \$35,865,209 excluding transfers.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$487,456 more than budget or 1.38% more than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2015 was \$36,061,950.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$2,939,377 or 7.54% less than budgeted.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent at 606-546-3157, ext. 2400, Director of Financial Services at 606-546-3157, ext. 2425, or by mail at 2200 Daniel Boone Drive, Barbourville, Kentucky 40906.

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,315,470	\$ 771,936	\$ 4,087,406
Investments	1,235,355	-	1,235,355
Accounts receivable:			
Taxes	242,079	-	242,079
Other	96,500	-	96,500
Intergovernmental - State	52,622	-	52,622
Intergovernmental - Federal	982,255	39,956	1,022,211
Inventory	-	56,988	56,988
Capital Assets, net			
Nondepreciable	2,157,538	-	2,157,538
Depreciable	<u>60,227,554</u>	<u>959,366</u>	<u>61,186,920</u>
Total assets	<u>68,309,373</u>	<u>1,828,246</u>	<u>70,137,619</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred amounts from refunding bonds	905,900	-	905,900
Deferred pension contributions	<u>1,000,848</u>	<u>139,670</u>	<u>1,140,518</u>
	<u>1,906,748</u>	<u>139,670</u>	<u>2,046,418</u>
LIABILITIES			
Accounts payable	442,216	54,036	496,252
Unearned revenue	223,154	-	223,154
Accrued salaries and benefits payable	788,748	-	788,748
Payroll taxes payable	90,922	-	90,922
Current portion of accumulated sick leave	150,283	-	150,283
Current portion of KSBIT assessment payable	136,438	-	136,438
Current portion of capital lease obligations	103,802	-	103,802
Current maturities of bond obligations	2,450,000	-	2,450,000
Interest payable	419,672	-	419,672
Net pension liability - noncurrent	7,964,263	1,074,737	9,039,000
Noncurrent portion of KSBIT assessment payable	290,320	-	290,320
Noncurrent portion of capital lease obligations	734,492	-	734,492
Noncurrent maturities of bond obligations	38,675,000	-	38,675,000
Noncurrent portion of accumulated sick leave	<u>183,679</u>	<u>-</u>	<u>183,679</u>
Total liabilities	<u>52,652,989</u>	<u>1,128,773</u>	<u>53,781,762</u>
DEFERRED INFLOW OF RESOURCES			
Deferred amounts from pension changes	<u>889,030</u>	<u>119,970</u>	<u>1,009,000</u>
NET POSITION			
Net investment in capital assets	21,327,698	959,366	22,287,064
Restricted for:			
Capital expenditures	500,155	-	500,155
Other	202,965	(240,193)	(37,228)
Unrestricted	<u>(5,356,716)</u>	<u>-</u>	<u>(5,356,716)</u>
Total net position	<u>\$ 16,674,102</u>	<u>\$ 719,173</u>	<u>\$ 17,393,275</u>

KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2015

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental activities							
Instruction	\$ 32,287,788	\$ 226,260	\$ 14,754,679	\$ -	\$ (17,306,849)	\$ -	\$ (17,306,849)
Student	2,310,219	-	843,605	-	(1,466,614)	-	(1,466,614)
Instructional support	1,871,866	-	948,505	-	(923,361)	-	(923,361)
District administration	1,024,642	-	169,342	-	(855,300)	-	(855,300)
School administration	2,402,915	-	742,557	-	(1,660,358)	-	(1,660,358)
Business support	848,573	-	252,774	-	(595,799)	-	(595,799)
Plant operations and maintenance	5,348,064	-	965,939	-	(4,382,125)	-	(4,382,125)
Student transportation	3,523,422	-	848,825	-	(2,674,597)	-	(2,674,597)
Community services	569,560	-	562,460	-	(7,100)	-	(7,100)
Interest on long-term debt	1,165,827	-	-	1,688,499	522,672	-	522,672
Total governmental activities	51,352,876	226,260	20,088,686	1,688,499	(29,349,431)	-	(29,349,431)
Business-type activities							
Food service	3,229,498	167,621	3,090,713	-	-	28,836	28,836
Community service operations	1,268	-	-	-	-	(1,268)	(1,268)
Total business-type activities	3,230,766	167,621	3,090,713	-	-	27,568	27,568
Total primary government	\$ 54,583,642	\$ 393,881	\$ 23,179,399	\$ 1,688,499	(29,349,431)	27,568	(29,321,863)
General revenues							
Taxes:							
Property					4,477,858	-	4,477,858
Motor vehicle					661,825	-	661,825
Utility					1,365,371	-	1,365,371
Unmined minerals					42,842	-	42,842
Earnings on investments					29,263	4,338	33,601
State grants					22,300,412	-	22,300,412
Other local amounts					412,601	-	412,601
Transfers					85,826	(85,828)	(2)
Gain/(loss) on disposal of assets					(57,885)	(710)	(58,595)
Total general revenues					29,318,113	(82,200)	29,235,913
Change in net position					(31,318)	(54,632)	(85,950)
Restated net position beginning of year					16,705,420	773,805	17,479,225
Net position as of June 30, 2015					\$ 16,674,102	\$ 719,173	\$ 17,393,275

The accompanying notes are an integral part of these financial statements

KNOX COUNTY SCHOOL DISTRICT

**BALANCE SHEET -
GOVERNMENTAL FUNDS
June 30, 2015**

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 3,675,671	\$ -	\$ 326,758	\$ 7,412	\$ 4,009,841
Investments	1,023,304	-	173,250	38,801	1,235,355
Prepaid expenses	-	-	-	-	-
Accounts receivable:					
Taxes	242,079	-	-	-	242,079
Other	41,391	54,631	147	331	96,500
Intergovernmental - State	-	52,622	-	-	52,622
Intergovernmental - Federal	-	982,255	-	-	982,255
Total assets	\$ 4,982,445	\$ 1,089,508	\$ 500,155	\$ 46,544	\$ 6,618,652
LIABILITIES AND FUND BALANCES					
Liabilities					
Checks written in excess of account balance	\$ -	\$ 694,371	\$ -	\$ -	\$ 694,371
Accounts payable	270,066	171,983	-	167	442,216
Unearned revenue	-	223,154	-	-	223,154
Accrued salaries & benefit payable	788,748	-	-	-	788,748
Payroll taxes payable	90,922	-	-	-	90,922
Current portion of accumulated sick leave	150,283	-	-	-	150,283
Total liabilities	1,300,019	1,089,508	-	167	2,389,694
Fund balances					
Non-spendable	-	-	-	38,801	38,801
Restricted	195,389	-	500,155	7,576	703,120
Committed	86,442	-	-	-	86,442
Assigned	216,836	-	-	-	216,836
Unassigned	3,183,759	-	-	-	3,183,759
Total fund balances	3,682,426	-	500,155	46,377	4,228,958
Total liabilities and fund balances	\$ 4,982,445	\$ 1,089,508	\$ 500,155	\$ 46,544	\$ 6,618,652

KNOX COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION
Year ended June 30, 2015**

Total fund balances - governmental funds	\$ 4,228,958
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	62,385,092
Deferred outflows of resources are not recorded in the government fund financial statements because they do not affect current resources but are recorded in the statement of net position.	1,906,748
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(41,125,000)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(838,294)
The long term portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(183,679)
KSBIT assessment payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(426,758)
Net pension obligation is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(7,964,263)
Deferred inflows of resources are not recorded in the government fund financials because they do not affect current resources but are recorded in the statement of net position.	(889,030)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(419,672)</u>
Total net position - governmental activities	<u>\$ 16,674,102</u>

KNOX COUNTY SCHOOL DISTRICT

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

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ 3,960,675	\$ -	\$ -	\$ 517,183	\$ 4,477,858
Motor vehicle	661,825	-	-	-	661,825
Utility	1,365,371	-	-	-	1,365,371
Unmined minerals tax	42,842	-	-	-	42,842
Earnings on investments	28,795	51	345	72	29,263
Other local	389,260	160,608	-	23,341	573,209
Intergovernmental - State	29,190,180	2,629,262	-	3,009,786	34,829,228
Intergovernmental - Federal	226,261	5,646,426	-	-	5,872,687
Total revenues	35,865,209	8,436,347	345	3,550,382	47,852,283
Expenditures					
Current:					
Instruction	21,176,317	7,082,210	-	3,252	28,261,779
Student	2,283,301	84,379	-	-	2,367,680
Instructional support	1,128,532	606,308	-	2,508	1,737,348
District administration	948,983	638	-	-	949,621
School administration	2,233,771	-	-	-	2,233,771
Business support	737,623	51,468	-	-	789,091
Plant operations and maintenance	4,407,059	119,991	-	7,474	4,534,524
Student transportation	3,015,275	58,627	-	5,879	3,079,781
Community services	8,705	520,815	-	-	529,520
Building acquisition and construction	-	-	157,284	-	157,284
Debt service	122,384	-	-	3,761,100	3,883,484
Total expenditures	36,061,950	8,524,436	157,284	3,780,213	48,523,883
Excess (deficit) of revenues over (under) expenditures	(196,741)	(88,089)	(156,939)	(229,831)	(671,600)
Other financing sources (uses)					
Transfers in	241,120	93,699	156,750	2,092,600	2,584,169
Transfers out	(477,512)	(5,610)	-	(2,015,219)	(2,498,341)
Total other financing sources (uses)	(236,392)	88,089	156,750	77,381	85,828
Net change in fund balance	(433,133)	-	(189)	(152,450)	(585,772)
Fund balance as of June 30, 2014	4,115,559	-	500,344	198,827	4,814,730
Fund balance as of June 30, 2015	\$ 3,682,426	\$ -	\$ 500,155	\$ 46,377	\$ 4,228,958

KNOX COUNTY SCHOOL DISTRICT

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

Net change in total fund balances - governmental funds	\$ (585,772)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which depreciation exceeds capital outlay expense for the year.	(2,210,392)
Amortization of deferred outflows or resources is not recognized in the governmental fund financial statements but is a component of interest in the statement of activities.	(93,193)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position.	2,785,328
Bond and capital lease proceeds are recognized as revenue in the governmental fund financial statements but are increases in liabilities in the statement of net position.	-
Interest payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are expensed as incurred in the statement of activities.	25,522
Pension expense is not recognized on the governmental fund financial statements but is recognized as an expense on the statement of activities	(905,225)
Deferred outflows resulting from pension contributions after their net pension liability measurement date are recognized as assets on the statement of net position but are expensed in the fund financial statements.	1,000,848
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	9,451
Gains and losses on the disposal of assets are not recorded in the governmental funds but are recorded in the statement of revenues, expenses, and changes in net position.	<u>(57,885)</u>
Change in net position - governmental activities	<u>\$ (31,318)</u>

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION -
 PROPRIETARY FUNDS
 June 30, 2015

	Food Service Fund	Other Enterprise Funds	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 771,936	\$ -	\$ 771,936
Accounts receivable	39,956	-	39,956
Inventory	56,988	-	56,988
Total current assets	<u>868,880</u>	<u>-</u>	<u>868,880</u>
Noncurrent assets			
Capital assets	2,980,768	-	2,980,768
Less accumulated depreciation	<u>(2,021,402)</u>	<u>-</u>	<u>(2,021,402)</u>
Total noncurrent assets	<u>959,366</u>	<u>-</u>	<u>959,366</u>
Total assets	<u>1,828,246</u>	<u>-</u>	<u>1,828,246</u>
Deferred outflow of resources			
Deferred outflows of contributions	<u>139,670</u>	<u>-</u>	<u>139,670</u>
LIABILITIES			
Current liabilities			
Accounts payable	<u>54,036</u>	<u>-</u>	<u>54,036</u>
Noncurrent liabilities			
Net pension liability	<u>1,074,737</u>	<u>-</u>	<u>1,074,737</u>
Total liabilities	<u>1,128,773</u>	<u>-</u>	<u>1,128,773</u>
Deferred inflow of resources			
Deferred inflows related to pension expense	<u>119,970</u>	<u>-</u>	<u>119,970</u>
NET POSITION			
Net investment in capital assets	959,366	-	959,366
Restricted for:			
Other	(240,193)	-	(240,193)
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u>\$ 719,173</u>	<u>\$ -</u>	<u>\$ 719,173</u>

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -
 PROPRIETARY FUNDS
 Year ended June 30, 2015

	Food Service Fund	Other Enterprise Funds	Total
Operating revenues			
Lunchroom sales	\$ 167,621	\$ -	\$ 167,621
Tuition and fees	-	-	-
Total operating revenues	<u>167,621</u>	<u>-</u>	<u>167,621</u>
Operating expenses			
Salaries and wages	790,436	-	790,436
Employee benefits	342,058	-	342,058
Pension expense	122,155	-	122,155
Materials and supplies	1,874,480	-	1,874,480
Other	-	1,268	1,268
Depreciation	100,369	-	100,369
Total operating expenses	<u>3,229,498</u>	<u>1,268</u>	<u>3,230,766</u>
Operating loss	<u>(3,061,877)</u>	<u>(1,268)</u>	<u>(3,063,145)</u>
Nonoperating revenues			
Federal grants	2,624,491	-	2,624,491
State grants	301,999	-	301,999
Donated commodities	164,223	-	164,223
Interest income	4,336	2	4,338
Loss on disposal of assets	(710)	-	(710)
Total nonoperating revenues/(expenses)	<u>3,094,339</u>	<u>2</u>	<u>3,094,341</u>
Income before contributions	32,462	(1,266)	31,196
Transfers and special items			
Transfers in (out)	<u>(87,094)</u>	<u>1,266</u>	<u>(85,828)</u>
Change in net position	<u>(54,632)</u>	<u>-</u>	<u>(54,632)</u>
Net position as of June 30, 2014 (restated)	<u>773,805</u>	<u>-</u>	<u>773,805</u>
Net position as of June 30, 2015	<u>\$ 719,173</u>	<u>\$ -</u>	<u>\$ 719,173</u>

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS -
 PROPRIETARY FUNDS
 Year ended June 30, 2015

	Food Service Fund	Other Enterprise Funds	Total
Cash flows from operating activities			
Cash received from:			
Lunchroom sales	\$ 167,621	\$ -	\$ 167,621
Other activities	-	-	-
Cash paid to/for:			
Employees	(1,272,164)	-	(1,272,164)
Supplies	(1,748,982)	(1,268)	(1,750,250)
Net cash used in operating activities	<u>(2,853,525)</u>	<u>(1,268)</u>	<u>(2,854,793)</u>
Cash flows from non-capital financing activities			
Grants received	2,886,533	-	2,886,533
Transfer from (to) general fund	(87,094)	1,266	(85,828)
Net cash used in non-capital financing activities	<u>2,799,439</u>	<u>1,266</u>	<u>2,800,705</u>
Cash flows from investing activities			
Purchase of fixed assets	(2,400)	-	(2,400)
Interest received on investments	4,336	2	4,338
Net cash used in capital and related activities	<u>1,936</u>	<u>2</u>	<u>1,938</u>
Net increase in cash and cash equivalents	(52,150)	-	(52,150)
Cash and cash equivalents as of June 30, 2014	824,086	-	824,086
Cash and cash equivalents as of June 30, 2015	<u>\$ 771,936</u>	<u>\$ -</u>	<u>\$ 771,936</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income/ (loss)	\$ (3,061,877)	\$ (1,268)	\$ (3,063,145)
Adjustments to reconcile change in net position to net cash used in operating activities:			
(Increase) Decrease in accounts receivable	-	-	-
(Increase) Decrease in Inventory	27,590	-	27,590
Increase (Decrease) in accounts payable	(66,315)	-	(66,315)
Pension expense	(17,515)	-	(17,515)
Donated commodities	164,223	-	164,223
Depreciation	100,369	-	100,369
Net cash used in operating activities	<u>\$ (2,853,525)</u>	<u>\$ (1,268)</u>	<u>\$ (2,854,793)</u>
Schedule of non-cash transactions:			
Loss on disposal of assets	\$ (710)	\$ -	\$ (710)
Depreciation	100,369	-	100,369
Donated commodities	164,223	-	164,223
Total non-cash transactions	<u>\$ 263,882</u>	<u>\$ -</u>	<u>\$ 263,882</u>

KNOX COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION -

FIDUCIARY FUNDS

June 30, 2015

	Agency Funds	Total Fiduciary Funds
	<u> </u>	<u> </u>
ASSETS		
Cash	\$ 368,181	\$ 368,181
Accounts receivable	<u>279</u>	<u>279</u>
Total assets	<u>368,460</u>	<u>368,460</u>
LIABILITIES		
Accounts payable	4,182	4,182
Due to student groups	<u>364,278</u>	<u>364,278</u>
Total liabilities	<u>368,460</u>	<u>368,460</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>

1. REPORTING ENTITY

The Knox County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Knox County School District ("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 activities relevant to the operation of the Knox County Board of Education. The basic financial statements presented herein do not include funds of groups and organizations, which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

Knox County School District Finance Corporation – In a prior year, the Knox County Board of Education resolved to authorize the establishment of the Knox County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the "Corporation") to act as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

The following is a summary of the basis of presentation:

Government-wide Financial Statements - The statement of net position and the statement of revenues, expenses, and changes in net position 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, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

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

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

The District has the following funds:

I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balance is considered resources available for use. This is always a major fund of the District.

The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of 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 included in this report. This is a major fund of the District.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

I. Government Fund Types - continued

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (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 and/or remodeling. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

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

II. Proprietary Fund Types (Enterprise Funds)

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

The Child Care Fund accounts for the funds raised at schools providing after school care for children.

The Community Education Fund accounts for services rendered to the public. The fund also accounts for the services printing and copying.

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)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Accounting Procedures for Kentucky 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.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Revenues, Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. 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 resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

Property Taxes

Property taxes are levied by September 30 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 (including exonerations) assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.504 per \$100 valuation for real property, \$.504 per \$100 valuation for business personal property and \$.502 per \$100 valuation for motor vehicles.

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

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 account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

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 on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, 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. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. For purposes of audit presentation, the District only presents the General Fund budget within the financial statements.

Cash and Cash Equivalents

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

Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method; the general fund inventory is stated at cost and uses the first-in, first-out method.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balances

Fund balances are separated into five categories, as required by GASB 54, as follows:

Nonspendable fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

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

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

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board, or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds. The Board has also established a "Rainy Day Fund." The amount committed by the board for the "Rainy Day Fund" is equal to five percent (5%) of total expenditures per the Annual Financial Report reduced by the grand total of on-behalf payments, not to exceed \$2,000,000.

Encumbrances

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

year-end are appropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2015 on the governmental funds balance sheet.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on 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 and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

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

Deferred Inflows and Deferred Outflows of Resources

Deferred inflows and deferred outflows are recorded on the government-wide and proprietary financial statements. The deferred outflows of resources presented were primarily created by the prior refunding of revenue bonds and deferral of pension contributions. Deferred inflows were primarily created by actuarial determinations of net pension liability changes.

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement system of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

3. CUSTODIAL CREDIT RISK - DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2015, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance, collateral agreements, and collateral held by the pledging banks' trust departments in the District's name.

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

	<u>Bank Balance</u>	<u>Book Balance</u>
Forcht Bank	\$ 5,584,416	\$ 5,305,359
Commercial Bank	16,792	16,792
Other	610	610
Forcht Bank (Agency Funds)	372,049	362,853
Hometown Bank of Corbin (Agency Fund)	<u>5,328</u>	<u>5,328</u>
	<u>\$ 5,979,195</u>	<u>\$ 5,690,942</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 4,550,825
Proprietary funds	771,936
Agency funds	<u>368,181</u>
	<u>\$ 5,690,942</u>

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

- Special Revenue Funds
- SEEK Capital Outlay Fund
- Facility Support Program (FSPK) Fund
- School Construction Fund
- School Food Service Fund
- Agency Funds

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

4. INVESTMENTS

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2015, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

5. CAPITAL ASSETS

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

	June 30, 2014		June 30, 2015	
	Balance	Additions	Retirements	Balance
Governmental Activities				
Land & land improvements	\$ 5,748,876	\$ 29,359	\$ -	\$ 5,778,235
Buildings	70,380,322	3,036,094	-	73,416,416
Technology equipment	3,078,974	235,541	276,580	3,037,935
Vehicles	6,238,602	-	-	6,238,602
General equipment	1,416,069	5,543	76,498	1,345,114
Construction work in progress	2,858,822	157,283	3,006,356	9,749
Total historical cost	<u>89,721,665</u>	<u>3,463,820</u>	<u>3,359,434</u>	<u>89,826,051</u>
Less accumulated depreciation	<u>25,068,296</u>	<u>2,667,854</u>	<u>295,191</u>	<u>27,440,959</u>
Governmental capital assets, net	<u>\$ 64,653,369</u>	<u>\$ 795,966</u>	<u>\$ 3,064,243</u>	<u>\$ 62,385,092</u>
Business-type Activities				
Buildings	\$ 1,684,374	\$ -	\$ -	\$ 1,684,374
Technology equipment	35,003	-	378	34,625
General equipment	1,260,962	2,400	1,593	1,261,769
Total historical cost	<u>2,980,339</u>	<u>2,400</u>	<u>1,971</u>	<u>2,980,768</u>
Less accumulated depreciation	<u>1,922,294</u>	<u>100,369</u>	<u>1,261</u>	<u>2,021,402</u>
Business-type capital assets, net	<u>\$ 1,058,045</u>	<u>\$ (97,969)</u>	<u>\$ 710</u>	<u>\$ 959,366</u>

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

5. CAPITAL ASSETS-CONTINUED

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 1,968,901
Student	-
Instruction staff	3,847
District administrative	3,597
School administrative	1,135
Business	132
Plant operation and maintenance	478,028
Student transportation	212,001
Community Services	213
	<u>\$ 2,667,854</u>

6. CAPITAL LEASE PAYABLE

The District has entered into a capital lease agreement for Ipads which will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2015:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2014	Debt Issued	Debt Paid	Balance June 30, 2015	Due Within One Year
5/17/2012	5/17/2015	6.91%	\$ 33,051	\$ 11,017	\$ -	\$ 11,017	\$ -	\$ -
3/1/2014	3/1/2014	2%-3%	940,040	940,040	-	101,746	838,294	103,802
			<u>\$ 973,091</u>	<u>\$ 951,057</u>	<u>\$ -</u>	<u>\$ 112,763</u>	<u>\$ 838,294</u>	<u>\$ 103,802</u>

The following presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2015:

Year	Principal	Interest	Total
2015-16	\$ 103,802	\$ 18,894	\$ 122,696
2016-17	89,071	16,818	105,889
2017-18	90,784	15,036	105,820
2018-19	92,497	13,221	105,718
2019-20	94,600	10,020	104,620
2020-2024	<u>367,540</u>	<u>25,862</u>	<u>393,402</u>
Totals	<u>\$ 838,294</u>	<u>\$ 99,851</u>	\$ 938,145
		Less: amounts representing interest	<u>(99,851)</u>
		Net Capital lease liability	<u>\$ 838,294</u>

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

7. LONG-TERM OBLIGATIONS

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

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2005R	\$ 6,365,000	3% - 3.75%
2012R	\$ 16,340,000	2.00% - 2.75%
2007	\$ 11,040,000	3.50% - 4.25%
2000	\$ 1,000,000	4.75% - 2.25%
2003	\$ 17,610,000	4.375%
2009R	\$ 1,510,000	2.00% - 3.70%
2008	\$ 4,460,000	3.70%
2012	\$ 9,580,000	1.00% - 3.00%
2013	\$ 3,195,000	0.60% - 3.40%

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

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008 the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Position since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

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

See table on next page

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

7. LONG-TERM OBLIGATIONS-CONTINUED

Year	Knox County School District		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2015-16	\$ 1,275,316	\$ 732,363	\$ 1,174,684	\$ 491,738	\$ 2,450,000	\$ 1,224,101
2016-17	1,325,235	694,046	1,204,765	456,320	2,530,000	1,150,366
2017-18	1,373,461	654,612	1,186,539	420,371	2,560,000	1,074,983
2018-19	1,426,239	621,382	1,128,761	386,382	2,555,000	1,007,764
2019-20	1,485,680	582,302	1,164,320	353,022	2,650,000	935,324
2020-21	1,533,497	548,622	1,196,503	317,941	2,730,000	866,563
2021-22	1,589,365	511,994	1,235,635	280,544	2,825,000	792,538
2022-23	1,647,425	471,045	1,272,575	240,733	2,920,000	711,778
2023-24	1,709,182	424,986	1,215,818	199,696	2,925,000	624,682
2024-25	1,768,454	373,904	851,546	162,453	2,620,000	536,357
2025-26	1,844,810	317,454	885,190	129,009	2,730,000	446,463
2026-27	1,779,973	263,426	920,027	94,058	2,700,000	357,484
2027-28	1,864,891	198,581	830,109	60,386	2,695,000	258,967
2028-29	950,000	143,550	180,000	36,728	1,130,000	180,278
2029-30	1,000,000	114,300	190,000	30,608	1,190,000	144,908
2030-31	1,050,000	83,550	195,000	23,293	1,245,000	106,843
2031-32	1,105,000	51,225	200,000	15,785	1,305,000	67,010
2032-33	1,155,000	17,325	210,000	8,085	1,365,000	25,410
	<u>\$ 25,883,528</u>	<u>\$ 6,804,667</u>	<u>\$ 15,241,472</u>	<u>\$ 3,707,152</u>	<u>\$ 41,125,000</u>	<u>\$ 10,511,819</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2015 is as follows:

Revenue Bonds	July 1, 2014	Additions	Deductions	June 30, 2015
2005R	\$ 2,895,000	\$ -	\$ 690,000	\$ 2,205,000
2012R	14,895,000	-	725,000	\$ 14,170,000
2007	8,815,000	-	425,000	\$ 8,390,000
2000	95,000	-	95,000	\$ -
2009R	635,000	-	115,000	\$ 520,000
2008	3,615,000	-	160,000	\$ 3,455,000
2012	9,580,000	-	125,000	\$ 9,455,000
2013	3,060,000	-	130,000	\$ 2,930,000
KSBIT Novation	634,323	-	207,565	\$ 426,758
Accrued Sick Leave	352,145	-	18,183	\$ 333,962
	<u>\$ 44,576,468</u>	<u>\$ -</u>	<u>\$ 2,690,748</u>	<u>\$ 41,885,720</u>

8. 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 of service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years 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 and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

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

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

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

8. RETIREMENT PLANS - CONTINUED

Funding Policy - Funding for the plan is provided through payroll withholdings and matching District contributions. The District contributes 18.63% of the employee's total compensation subject to contribution.

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

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

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

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

8. RETIREMENT PLANS - CONTINUED

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:

District's proportionate share of the CERS net pension liability	\$ 9,039,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>135,289,899</u>
	<u>\$ 144,328,899</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.

8. RETIREMENT PLANS - CONTINUED

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 0.278605%.

For the year ended June 30, 2015, the District recognized pension expense of \$1,027,380 related to CERS and 6,629,480 related to KTRS. The District also recognized revenue of \$6,629,480 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,009,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>1,140,518</u>	<u>-</u>
 Total	 <u><u>\$ 1,140,518</u></u>	 <u><u>\$ 1,009,000</u></u>

\$1,140,518 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	\$ 201,800
2017	\$ 201,800
2018	\$ 201,800
2019	\$ 201,800
2020	\$ 201,800

8. RETIREMENT PLANS - 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:

8. RETIREMENT PLANS - 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	<u>100.0%</u>	

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

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

8. RETIREMENT PLANS - CONTINUED

	1% decrease 6.75%	Current Discount Rate 7.75%	1% increase 8.75%
CERS			
District's proportionate share of net pension liability	\$ 11,869,648	\$ 9,039,000	\$ 6,515,906
 KTRS	 4.23%	 5.23%	 6.23%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

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

The District's contribution (both withholding and match) KTRS for the years ended June 30, 2015, 2014 and 2013 was \$3,454,895, \$2,717,525, and \$2,950,407, respectively. The District's contributions (both withholding and match) CERS for the years ended June 30, 2015, 2014, and 2013 were \$1,481,589, \$1,223,571, and \$1,638,822, respectively. The District met their contribution requirements.

9. LEASES

As of June 30, 2015 the District was not obligated to any non cancelable operating leases.

10. CONTINGENCIES

Grants - 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 on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2015 may be impaired. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

11. LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

12. CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES

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

12. CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES - CONTINUED

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. The adjustment resulted in a \$9,020,620 reduction in beginning net position on the Statement of Activities and an increase of \$1,140,518 of deferred outflows of resources – District contributions subsequent to the measurement date. The resulting restatement of net position was a reduction of \$7,948,068 to the governmental beginning net position and a reduction of \$1,072,552 in the proprietary beginning net position.

13. RISK MANAGEMENT

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. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

14. DEFICIT FUND BALANCES

The District did not have any funds with deficit balances at June 30, 2015. However, there may be funds with deficit operating balances.

15. 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. There were no instances of noncompliance noted.

16. TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 93,699
Operating	General	Debt Service	Debt Service	\$ 382,547
Operating	General	Day Care Operation	Cover Day Care	\$ 1,266
Operating	Special Revenue	General	Indirect Cost	\$ 5,610
Operating	Food Service	General	Indirect Cost	\$ 87,094
Operating	Capital Outlay	Construction	SFCC Escrowed Funds	\$ 156,750
Operating	Capital Outlay	General	COFT	\$ 148,416
Operating	Capital Outlay	Debt Service	Debt Service	\$ 243,253
Operating	Building	Debt Service	Debt Service	\$ 1,466,800

17. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2015, there were no interfund balances outstanding that are reflected in the financial statements.

KNOX COUNTY SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED
Year Ended June 30, 2015

18. ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of revenues, expenses, and changes in net position:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$ 3,188,146
Health and Life insurance	5,298,346
Other	-
Technology	82,571
Debt Service	<u>1,668,500</u>
	<u>\$ 10,237,563</u>

19. JOINT VENTURE

The Knox County Board of Education has a joint venture with the Appalachian Children's Home to provide intangible resources (educators) while the Appalachian Children's Home provides the tangible building and property for the students. This joint venture creates a "school" called the Knox Appalachian School.

The Knox Appalachian School was founded in 2004 as a joint venture with the Appalachian Children's Home and the Knox County Board of Education. The Knox Appalachian School is a public school serving the needs of the children committed to the Appalachian Children's Home.

20. FUND BALANCE DESIGNATIONS

The following funds had non-spendable fund balances as follows:

Fund	Amount	Purpose
Permanent	\$ 38,801	Trust Agreement

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
General	\$ 195,389	Sick leave
District Activity	\$ 4,228	School-level expenditures
Construction	\$ 500,155	Future Construction
Permanent	\$ 3,348	Trust Agreement

The following funds had assigned fund balances as follows:

Fund	Amount	Purpose
General	\$ 216,836	Assigned

20. FUND BALANCE DESIGNATIONS - CONTINUED

The following funds had committed fund balances as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 86,442	Future Construction

21. SUBSEQUENT EVENTS

Management of the District has evaluated subsequent events through the date of the audit report, which is the date the audit report can be released. There were no events as of the date of the financial statements that would require adjustments or to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

KNOX COUNTY SCHOOL DISTRICT

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources				
Taxes:				
Property	\$ 3,518,790	\$ 3,572,996	\$ 3,960,675	\$ 387,679
Motor vehicle	750,683	750,682	661,825	(88,857)
Utility	1,406,833	1,406,833	1,365,371	(41,462)
Unmined minerals tax	50,622	50,622	42,842	(7,780)
Earnings on investments	30,000	30,000	28,795	(1,205)
Other local	186,644	220,694	389,260	168,566
Intergovernmental - State	28,283,032	29,189,835	29,190,180	345
Intergovernmental - Federal	122,590	156,091	226,261	70,170
Total revenues	<u>34,349,194</u>	<u>35,377,753</u>	<u>35,865,209</u>	<u>487,456</u>
Expenditures				
Current:				
Instruction	21,360,715	22,121,286	21,176,317	944,969
Student	2,241,064	2,328,084	2,283,301	44,783
Instructional support	1,190,756	1,167,658	1,128,532	39,126
District administration	1,135,411	1,125,221	948,983	176,238
School administration	2,255,854	2,291,167	2,233,771	57,396
Business support	825,884	803,773	737,623	66,150
Plant operations and maintenance	4,447,050	4,542,615	4,407,059	135,556
Student transportation	3,501,613	3,537,235	3,015,275	521,960
Other instructional	31,088	-	-	-
Community service	6,267	6,706	8,705	(1,999)
Debt service	122,383	122,384	122,384	-
Contingency	803,514	955,198	-	955,198
Total expenditures	<u>37,921,599</u>	<u>39,001,327</u>	<u>36,061,950</u>	<u>2,939,377</u>
Excess (deficit) of revenues over (under) expenditures	(3,572,405)	(3,623,574)	(196,741)	3,426,833
Other financing sources (uses)				
Transfers in	86,454	234,870	241,120	6,250
Transfers out	<u>(345,300)</u>	<u>(442,547)</u>	<u>(477,512)</u>	<u>(34,965)</u>
Total other financing sources (uses)	<u>(258,846)</u>	<u>(207,677)</u>	<u>(236,392)</u>	<u>(28,715)</u>
Net change in fund balance	(3,831,251)	(3,831,251)	(433,133)	3,398,118
Fund balance as of June 30, 2014	<u>4,115,559</u>	<u>4,115,559</u>	<u>4,115,559</u>	-
Fund balance as of June 30, 2015	<u>\$ 284,308</u>	<u>\$ 284,308</u>	<u>\$ 3,682,426</u>	<u>\$ 3,398,118</u>

KNOX COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
Year ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Other local	\$ 54,702	\$ 82,821	\$ 160,659	\$ 77,838
Intergovernmental - State	2,612,156	2,695,638	2,629,262	(66,376)
Intergovernmental - Federal	<u>5,562,823</u>	<u>6,424,760</u>	<u>5,646,426</u>	<u>(778,334)</u>
Total revenues	<u>8,229,681</u>	<u>9,203,219</u>	<u>8,436,347</u>	<u>(766,872)</u>
Expenditures				
Current:				
Instruction	6,862,210	7,776,637	7,082,210	694,427
Student support services	84,777	122,259	84,379	37,880
Instructional support	626,121	658,743	606,308	52,435
District administration	-	-	638	(638)
School administration	-	-	-	-
Business support	50,000	50,000	51,468	(1,468)
Plant operations & maintenance	99,829	103,926	119,991	(16,065)
Student transportation	43,260	56,119	58,627	(2,508)
Community service	<u>517,874</u>	<u>518,892</u>	<u>520,815</u>	<u>(1,923)</u>
Total expenditures	<u>8,284,071</u>	<u>9,286,576</u>	<u>8,524,436</u>	<u>762,140</u>
Deficit of revenues under expenditures	<u>(54,390)</u>	<u>(83,357)</u>	<u>(88,089)</u>	<u>4,732</u>
Other financing sources				
Operating transfers out	(5,610)	(10,342)	(5,610)	4,732
Operating transfers in	<u>60,000</u>	<u>93,699</u>	<u>93,699</u>	<u>-</u>
Total other financing sources	<u>54,390</u>	<u>83,357</u>	<u>88,089</u>	<u>4,732</u>
Net change in fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KNOX COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGET AND ACTUAL - GENERAL FUND

Year ended June 30, 2015

The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education by March 15 of each calendar year, which includes the amount for certified and classified staff, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget.

KNOX COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	District Activity Fund	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Permanent Fund	Total Non-major Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 4,064	\$ -	\$ -	\$ -	\$ 3,348	\$ 7,412
Investments	-	-	-	-	38,801	38,801
Accounts Receivable	331	-	-	-	-	331
Total assets	\$ 4,395	\$ -	\$ -	\$ -	\$ 42,149	\$ 46,544
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	\$ 167	\$ -	\$ -	\$ -	\$ -	\$ 167
Fund Balances:						
Non-spendable	-	-	-	-	38,801	38,801
Restricted	4,228	-	-	-	3,348	7,576
Total liabilities fund balances	\$ 4,395	\$ -	\$ -	\$ -	\$ 42,149	\$ 46,544

KNOX COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2015

	District Activity Fund	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Debt Service Fund	Permanent Fund	Total Non-major Governmental Funds
Revenues						
From local sources:						
Taxes:						
Property	\$ -	\$ -	\$ 517,183	\$ -	\$ -	\$ 517,183
Earnings on investments	-	-	-	-	72	72
Student activity revenue	23,341	-	-	-	-	23,341
Intergovernmental - State	-	391,669	949,617	1,668,500	-	3,009,786
Intergovernmental - Federal	-	-	-	-	-	-
Total revenues	<u>23,341</u>	<u>391,669</u>	<u>1,466,800</u>	<u>1,668,500</u>	<u>72</u>	<u>3,550,382</u>
Expenditures						
Instruction	3,252	-	-	-	-	3,252
Instructional staff	2,508	-	-	-	-	2,508
Plant operations and maintenance	7,474	-	-	-	-	7,474
Student transportation	5,879	-	-	-	-	5,879
Debt service	-	-	-	3,761,100	-	3,761,100
Total expenditures	<u>19,113</u>	<u>-</u>	<u>-</u>	<u>3,761,100</u>	<u>-</u>	<u>3,780,213</u>
Other financing sources (uses)						
Transfers in	-	-	-	2,092,600	-	2,092,600
Transfers out	-	(548,419)	(1,466,800)	-	-	(2,015,219)
Total other financing sources (uses)	<u>-</u>	<u>(548,419)</u>	<u>(1,466,800)</u>	<u>2,092,600</u>	<u>-</u>	<u>77,381</u>
Net change in fund balance	4,228	(156,750)	-	-	72	(152,450)
Fund balance as of June 30, 2014	<u>-</u>	<u>156,750</u>	<u>-</u>	<u>-</u>	<u>42,077</u>	<u>198,827</u>
Fund balance as of June 30, 2015	\$ 4,228	\$ -	\$ -	\$ -	\$ 42,149	\$ 46,377

KNOX COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employees Retirement System
Year ended June 30, 2015

	<u>District's proportion of net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2015	0.28%	\$ 9,039,000	\$ 6,500,512	137.73%	66.80%

* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

KNOX COUNTY SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
County Employees Retirement System
Year ended June 30, 2015

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2015	\$ 1,152,479	\$ 1,152,479	\$ -	\$ 6,562,738	17.56%
2014	\$ 1,207,380	\$ 1,207,380	\$ -	\$ 6,500,512	18.79%

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

KNOX COUNTY SCHOOL DISTRICT

**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

Kentucky Teachers' Retirement System

Year ended June 30, 2015

	<u>State's proportion of net pension liability (asset)</u>	<u>State's proportionate share of the net pension liability (asset)</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2015	100%	\$ 135,289,899	45.59%

* The amounts presented for each fiscal year were determined as of 6/30/14.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

KNOX COUNTY SCHOOL DISTRICT

SCHEDULE OF STATE CONTRIBUTIONS

Kentucky Teachers' Retirement System

June 30, 2015

	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>
2015	\$ 3,188,146	\$ 3,188,146	\$ -

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**KNOX COUNTY SCHOOL DISTRICT
 COMBINED STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS
 Year Ended June 30, 2015**

<u>School/ Activity Fund</u>	<u>Cash and Equivalents June 30, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2015</u>	<u>Accounts Receivable June 30, 2015</u>	<u>Accounts Payable June 30, 2015</u>	<u>Balances June 30, 2015</u>
Knox Middle School	\$ 23,661	\$ 167,255	\$ 159,866	\$ 31,050	\$ -	\$ 3,981	\$ 27,069
Central Elementary	8,659	38,182	38,228	8,613	-	-	8,613
Dewitt Elementary	2,994	26,247	27,917	1,324	-	-	1,324
Flat Lick Elementary	10,920	20,991	24,566	7,345	-	-	7,345
Girdler Elementary	36,072	54,582	65,342	25,312	-	-	25,312
G.R. Hampton Elementary	5,123	9,815	10,074	4,864	63	-	4,927
Jesse D. Lay Elementary	30,284	29,172	30,363	29,093	216	-	29,309
Learning Academy	6,142	3,770	6,225	3,687	-	-	3,687
Lynn Camp Gaming	7	-	-	7	-	-	7
Totals	<u>\$ 123,862</u>	<u>\$ 350,014</u>	<u>\$ 362,581</u>	<u>\$ 111,295</u>	<u>\$ 279</u>	<u>\$ 3,981</u>	<u>\$ 107,593</u>

**KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
KNOX CENTRAL HIGH SCHOOL ACTIVITY FUND
Year ended June 30, 2015**

	Balances June 30, 2014	Receipts	Disbursements	Transfers in (out)	Cash and Cash Equivalents June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Balances June 30, 2015
Academic	\$ 469	\$ 250	\$ 845	\$ 126	\$ -	\$ -	\$ -	\$ -
Athletics	9,784	1,491	10,106	-	1,170	-	-	1,170
Art	435	1,085	439	-	1,081	-	-	1,081
Archery Boys/Girls	-	1,867	1,519	-	348	-	-	348
Band	23	-	-	-	23	-	-	23
Baseball Field	3,466	17,631	19,186	-	1,911	-	-	1,911
Basketball Boys	17,412	42,479	36,499	-	23,392	-	-	23,392
Basketball Girls	5,305	27,803	19,894	-	13,214	-	-	13,214
Beta	892	6,992	6,485	-	1,399	-	-	1,399
Bowling	-	691	460	-	231	-	-	231
Choir	242	5,741	5,248	-	735	-	-	735
Reading Intervention	57	-	57	-	-	-	-	-
Cross Country	165	6,014	4,805	77	1,451	-	-	1,451
Dance Team	710	9,971	7,399	-	3,282	-	-	3,282
First Priority	919	2,020	820	-	2,119	-	-	2,119
Fishing	800	2,641	2,566	-	875	-	-	875
FCCLA	-	15	-	-	15	-	-	15
Football Camp	16,086	30,032	28,507	-	17,611	-	-	17,611
Future Business Leaders	-	8,788	8,213	-	575	-	-	575
Future Educators America	70	-	-	-	70	-	-	70
Future Farmers	3,935	5,271	8,125	-	1,081	-	201	880
Guidance	1,023	384	417	-	990	-	-	990
Golf Boys	832	1,749	1,395	-	1,186	-	-	1,186
Golf Girls	486	556	453	-	589	-	-	589
Horticulture	8,447	4,794	5,570	-	7,671	-	-	7,671
JROTC	790	2,867	3,449	-	208	-	-	208
JUNIORS	5,933	4,460	713	(1,508)	8,172	-	-	8,172
KC Bookstore	11,457	33,186	23,413	-	21,230	-	-	21,230
Library	580	281	117	-	744	-	-	744
Literary Club	3,607	99	-	-	3,706	-	-	3,706
Lockers	12,802	2,360	500	-	14,662	-	-	14,662
Miscellaneous	9,256	1,098	20	-	10,334	-	-	10,334

**KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
KNOX CENTRAL HIGH SCHOOL ACTIVITY FUND -CONTINUED
Year ended June 30, 2015**

	Balances June 30, 2014	Receipts	Disbursements	Transfers in (out)	Cash and Cash Equivalents June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Balances June 30, 2015
Multimedia	113	-	-	-	113	-	-	113
Journalism	17,779	3,397	5,949	-	15,227	-	-	15,227
Odyssey of the Mind	8,168	4,577	12,813	68	-	-	-	-
Parking	5,375	2,140	-	-	7,515	-	-	7,515
Planners	4,764	-	-	-	4,764	-	-	4,764
Read-Learn-Serve	890	3,000	3,774	-	116	-	-	116
Seniors 2014	6,398	990	-	(7,388)	-	-	-	-
Seniors 2015	-	187,122	174,024	1,508	14,606	-	-	14,606
Soccer Boys	-	2,679	1,218	-	1,461	-	-	1,461
Soccer Girls	-	2,765	1,368	-	1,397	-	-	1,397
Softball	4,086	12,187	13,908	(77)	2,288	-	-	2,288
Spanish	159	30	150	-	39	-	-	39
Student Government	28	-	-	(28)	-	-	-	-
Student Vending	11,603	3,915	15,391	7,222	7,349	-	-	7,349
Swimming	1,814	6,464	6,868	-	1,410	-	-	1,410
Teacher Fund	602	1,438	1,790	-	250	-	-	250
Tennis	-	300	20	-	280	-	-	280
Textbook	1,183	436	66	-	1,553	-	-	1,553
The Panther Pride	14,595	19,281	32,334	-	1,542	-	-	1,542
Track	1,713	7,048	6,859	-	1,902	-	-	1,902
Volleyball	<u>3,141</u>	<u>7,423</u>	<u>4,994</u>	<u>-</u>	<u>5,570</u>	<u>-</u>	<u>-</u>	<u>5,570</u>
Subtotal	198,394	487,808	478,746	-	207,457	-	201	207,256
*Knox Central Track	<u>5,373</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,373</u>	<u>-</u>	<u>-</u>	<u>5,373</u>
Total	<u>\$ 203,767</u>	<u>\$ 487,808</u>	<u>\$ 478,746</u>	<u>\$ -</u>	<u>\$ 212,830</u>	<u>\$ -</u>	<u>\$ 201</u>	<u>\$ 212,629</u>

*The District has filed court proceedings to obtain control of the Knox Central Track bank account. The account is using the district's Federal identification

KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
LYNN CAMP SCHOOLS ACTIVITY FUND (FORMERLY LYNN CAMP MIDDLE/HIGH)
Year ended June 30, 2015

	Balances June 30, 2014	Receipts	Disbursements	Transfers in (out)	Cash and Cash Equivalents June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Balances June 30, 2015
Student Generated	\$ 997	\$ 55	\$ 100	\$ (952)	\$ -	\$ -	\$ -	\$ -
Faculty Vending	2,681	869	567	(2,983)	-	-	-	-
Book Rental	1,293	-	-	(1,293)	-	-	-	-
General Fund	6,583	2,324	2,395	(6,512)	-	-	-	-
Snack Shack	26	-	82	56	-	-	-	-
Drop Out Prevention	871	-	-	(871)	-	-	-	-
Attendance Incentives	1,000	-	-	(1,000)	-	-	-	-
Art Fund	1,600	-	-	(1,600)	-	-	-	-
Arts & Humanities	86	597	550	(133)	-	-	-	-
Locker Fees	4,435	645	-	(5,080)	-	-	-	-
Student Parking Fees	2,296	40	107	(2,229)	-	-	-	-
Change	-	-	900	900	-	-	-	-
Counseling	120	-	-	(120)	-	-	-	-
General Athletics	283	-	2,334	2,051	-	-	-	-
Football Prog-Varsity	-	3,508	3,260	(248)	-	-	-	-
Football MS Prog	1,575	1,361	998	(1,938)	-	-	-	-
Basketball Boys Var	832	-	-	(832)	-	-	-	-
Basketball Boys MS	1,958	-	-	(1,958)	-	-	-	-
Basketball Girls VAR	883	135	120	(898)	-	-	-	-
Volleyball Program	-	144	280	136	-	-	-	-
Baseball District	169	-	-	(169)	-	-	-	-
Cross Country Program	-	237	-	(237)	-	-	-	-
Baseball VAR Program	50	-	-	(50)	-	-	-	-
Volleyball Regional Tour	1,866	-	-	(1,866)	-	-	-	-
51st Dist Bball Tour	3,770	-	-	(3,770)	-	-	-	-
Boys Basketball Elm	2,957	-	-	(2,957)	-	-	-	-
Girls Basketball Elm	2,767	95	-	(2,862)	-	-	-	-
Marketing Education	690	-	152	(538)	-	-	-	-
FCCLA	1,012	113	-	(1,125)	-	-	-	-
Agriculture Education	962	115	519	(558)	-	-	-	-
Greenhouse	2,620	-	-	(2,620)	-	-	-	-
Farm	130	100	-	(230)	-	-	-	-
Music	3,510	-	-	(3,510)	-	-	-	-
Technology	259	-	-	(259)	-	-	-	-
General Concessions	234	-	-	(234)	-	-	-	-
Varsity Cheer Program	-	820	-	(820)	-	-	-	-
Jr. High Cheer Program	413	3,049	100	(3,362)	-	-	-	-
Elementary Cheer	1,315	325	-	(1,640)	-	-	-	-
Football Concessions	-	3,265	1,751	(1,514)	-	-	-	-
Football Fundraising	572	7,277	1,700	(6,149)	-	-	-	-
MS Football Fundraising	-	3	1,016	1,013	-	-	-	-
HS Baseball Fundraising	925	470	276	(1,119)	-	-	-	-
Baseball Concessions	-	100	-	(100)	-	-	-	-
Basketball Concessions	4,347	-	-	(4,347)	-	-	-	-
Gym Signs Boys/Girls	-	1,350	-	(1,350)	-	-	-	-

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
 LYNN CAMP SCHOOLS (FORMERLY LYNN CAMP MIDDLE/HIGH SCHOOL) ACTIVITY FUND -CONTINUED
 Year ended June 30, 2015

	Balances			Transfers	Cash and Cash	Accounts	Accounts	Balances
	June 30, 2014	Receipts	Disbursements	in (out)	Equivalents	Receivable	Payable	June 30, 2015
	June 30, 2014				June 30, 2015	June 30, 2015	June 30, 2015	June 30, 2015
Boys Basketball Fundraising	3,853	-	-	(3,853)	-	-	-	-
MS Boys Basketball	346	-	-	(346)	-	-	-	-
Girls basketball	1,514	260	95	(1,679)	-	-	-	-
Girls Volleyball	1,106	1,459	634	(1,931)	-	-	-	-
Softball Fundraising	-	400	-	(400)	-	-	-	-
Bass Fishing	869	200	-	(1,069)	-	-	-	-
Bowling	-	110	-	(110)	-	-	-	-
Tennis Fundraising	1,233	-	-	(1,233)	-	-	-	-
Dance Team (LCHS)	348	-	-	(348)	-	-	-	-
Dance Team Elm	1,246	-	-	(1,246)	-	-	-	-
PEP Club	181	-	-	(181)	-	-	-	-
Academic Team M.S.	625	-	-	(625)	-	-	-	-
Academic Team Elm	21	-	-	(21)	-	-	-	-
Spanish Honor Society	1,614	207	-	(1,821)	-	-	-	-
National Beta Club H	-	705	320	(385)	-	-	-	-
KUNA	116	-	-	(116)	-	-	-	-
Mock Trial	388	-	-	(388)	-	-	-	-
Yearbook Elm	1,137	-	-	(1,137)	-	-	-	-
Yearbook	2,679	-	-	(2,679)	-	-	-	-
Senior Trip Fund	67	-	806	739	-	-	-	-
Jr/Sr Prom Fund	4,091	115	-	(4,206)	-	-	-	-
Library fund	154	-	-	(154)	-	-	-	-
Library Fund Elm	2,289	-	-	(2,289)	-	-	-	-
FRYSC Fundraising	404	1	320	(85)	-	-	-	-
Kings Island Senior	45	-	-	(45)	-	-	-	-
First Priority High School	24	-	-	(24)	-	-	-	-
First Priority Middle School	725	-	-	(725)	-	-	-	-
Science Project	775	-	-	(775)	-	-	-	-
First Robotics	1,604	25	500	(1,129)	-	-	-	-
Alumni Association	250	-	-	(250)	-	-	-	-
2nd grade fundraising	2	-	-	(2)	-	-	-	-
3rd grade fundraising	32	-	-	(32)	-	-	-	-
4th grade fundraising	25	-	-	(25)	-	-	-	-
5th grade fundraising	4	-	-	(4)	-	-	-	-
Kindergarten fundraising	693	-	-	(693)	-	-	-	-
Special Education EBD	20	-	-	(20)	-	-	-	-
Special Education FMD	165	-	-	(165)	-	-	-	-
Bereavement	-	184	-	(184)	-	-	-	-
Student Generated	-	122	3,103	3,006	25	-	-	25
Non- Student Generated	-	5,909	8,930	3,021	-	-	-	-
General Fund	-	1,140	7,607	6,536	69	-	-	69
Snack Shack	-	57	-	(56)	1	-	-	1
Drop out Prevention	-	-	260	871	611	-	-	611
Attendance Incentives	-	-	115	1,000	885	-	-	885
Change	-	-	-	(900)	(900)	-	-	(900)
Library	-	5,199	4,373	455	1,281	-	-	1,281

KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
LYNN CAMP SCHOOLS (FORMERLY LYNN CAMP MIDDLE/HIGH SCHOOL) ACTIVITY FUND -CONTINUED
Year ended June 30, 2015

	Balances		Disbursements	Transfers in (out)	Cash and Cash	Accounts	Accounts	Balances
	June 30, 2014	Receipts			Equivalents	Receivable	Payable	
FRYSC	-	2,220	2,300	85	5	-	-	5
Alumni	-	-	-	250	250	-	-	250
Student Parking	-	60	-	-	60	-	-	60
Bereavement	-	200	384	184	-	-	-	-
General Athletics	-	2,283	2,279	(4)	-	-	-	-
Football	-	18,737	22,996	6,817	2,558	-	-	2,558
Basketball	-	30,844	41,173	15,880	5,551	-	-	5,551
Volleyball	-	1,450	3,556	2,106	-	-	-	-
Baseball	-	4,564	6,889	2,325	-	-	-	-
Softball	-	7,253	9,364	2,111	-	-	-	-
Track	-	587	2,241	1,654	-	-	-	-
Cross Country	-	-	643	643	-	-	-	-
Tennis	-	-	25	2,232	2,207	-	-	2,207
Bass Fishing	-	265	245	1,069	1,089	-	-	1,089
Bowling	-	50	1,540	1,490	-	-	-	-
Soccer	-	747	100	-	647	-	-	647
Cheerleading	-	13,671	16,853	5,822	2,640	-	-	2,640
Dance Team	-	2,690	2,678	1,593	1,605	-	-	1,605
DAF Instruction	-	2,660	4,374	1,724	10	-	-	10
Field Trips Non-Athletic	-	1,719	2,822	1,294	191	-	-	191
DAF Athletics (INC Trans)	-	-	331	331	-	-	-	-
DAF Library	-	-	1,677	1,677	-	-	-	-
DAF Buildings/Grounds	-	585	7,840	7,310	55	-	-	55
Academic Team	-	1,519	1,636	1,055	938	-	-	938
Natl Beta Club	-	2,117	2,135	291	273	-	-	273
1st Priority	-	300	585	749	464	-	-	464
Spanish Honor Society	-	303	2,114	1,821	10	-	-	10
Odyssey of the Mind	-	1,114	1,194	80	-	-	-	-
KYA/Kuna	-	5,470	4,755	116	831	-	-	831
Mock Trial	-	709	800	388	297	-	-	297
PEP Club	-	-	-	181	181	-	-	181
Year Book	-	3,717	3,498	3,816	4,035	-	-	4,035
Science	-	-	74	775	701	-	-	701
1st Robotics	-	7,178	8,306	1,128	-	-	-	-
Art & Humanities	-	2,449	2,763	1,733	1,419	-	-	1,419
Marketing Deca	-	1,381	1,734	538	185	-	-	185
FCCLA	-	710	914	1,125	921	-	-	921
Agriculture FFA	-	690	787	502	405	-	-	405
Greenhouse	-	4,687	6,495	2,620	812	-	-	812
Farm	-	-	286	286	-	-	-	-
Technology	-	-	-	259	259	-	-	259
Music	-	811	3,025	3,242	1,028	-	-	1,028
Drama	-	657	835	178	-	-	-	-
Project Lead the Way	-	4,340	82	-	4,258	-	-	4,258
Senior Class T Shirts	-	45,062	46,678	1,616	-	-	-	-
Middle School	-	1,983	1,627	-	356	-	-	356
Elementary	-	5,047	5,343	752	456	-	-	456
KNOX COUNTY SCHOOL DISTRICT								

KNOX COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES -
LYNN CAMP SCHOOLS (FORMERLY LYNN CAMP MIDDLE/HIGH SCHOOL) ACTIVITY FUND -CONTINUED
Year ended June 30, 2015

	Balances June 30, 2014	Receipts	Disbursements	Transfers in (out)	Cash and Cash Equivalents June 30, 2015	Accounts Receivable June 30, 2015	Accounts Payable June 30, 2015	Balances June 30, 2015
Special Education	-	914	1,049	185	50	-	-	50
Volleyball Regional Tourm	-	-	945	945	-	-	-	-
Basketball Regional Tourm	-	1,500	-	-	1,500	-	-	1,500
51st District BB Tourm	-	-	-	3,110	3,110	-	-	3,110
Bowman Memorial Tourm	-	5,143	-	(4,890)	253	-	-	253
Baseball District Tourm	-	-	-	139	139	-	-	139
Prom	-	3,195	3,537	2,247	1,905	-	-	1,905
Spanish Travel Fund	-	3,430	3,000	-	430	-	-	430
Total accounts	\$ 84,732	\$ 238,101	\$ 278,777	\$ -	\$ 44,056	\$ -	\$ -	\$ 44,056

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

KNOX COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2015

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
School Breakfast Program	10.553		
Fiscal Year 14		7760005 14	\$ 131,753
Fiscal Year 15		7760005 15	470,142
National School Lunch Program	10.555		
Fiscal Year 14		7750002 14	389,553
Fiscal Year 15		510.4950	164,223
Fiscal Year 15		7750002 15	<u>1,493,163</u>
<i>Child Nutrition Cluster Total</i>			<u>2,648,834</u>
Fresh Fruits & Vegetables	10.582		
Fiscal Year 14		7720013 14	11,234
Fiscal Year 15		7720012 15	<u>128,644</u>
			<u>139,878</u>
Total US Department of Agriculture			<u>2,788,712</u>
US Department of Education			
Passed Through State Department of Education			
Adult Education - Basic Grants to States	84.002		
Fiscal Year 15		1200001254	<u>121,753</u>
			<u>121,753</u>
Title I Grants to Local Education Agencies	84.010		
Fiscal Year 13		3100002 13	52,778
Fiscal Year 14		3100002 14	288,049
Fiscal Year 15		3100002 15	2,643,397
Title I Grants to Local Education Agencies-Part D	84.010		
Fiscal Year 14		3100102 14	34,885
Fiscal Year 15		3100102 15	43,913
Title I Grants to Local Education Agencies-School Improvement	84.010		
Fiscal Year 14		3100202 14	<u>37,289</u>
<i>Title I Cluster Total</i>			<u>3,100,311</u>
School Improvement Grant Cluster			
School Improvement Grants, Part G Grants	84.377		
Fiscal Year 14		4604	<u>268,184</u>
School Improvement Grant Cluster			<u>268,184</u>
Special Education Grants to States	84.027		
Fiscal Year 13		3810002 13	202
Fiscal Year 14		3810002 14	12,347
Fiscal Year 15		3810002 15	977,156
Special Education -Preschool Grants	84.173		
Fiscal Year 14		3800002 14	4,011
Fiscal Year 15		3800002 15	<u>72,833</u>
<i>Special Education Cluster Total</i>			<u>1,066,549</u>
Career and Technical Education - Basic Grants to States	84.048		
Fiscal Year 14		4620932 14	29,271
Fiscal Year 15		4620932 15	<u>45,489</u>
			<u>74,760</u>
Rural Education	84.358		
Fiscal Year 15		3140002 15	<u>87,481</u>
			<u>87,481</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth			
Fiscal Year 13	84.013	3133	1,451
Fiscal Year 15	84.013	313A	<u>18,208</u>
			<u>19,659</u>
Improving Teacher Quality State Grants	84.367		
Fiscal Year 14		3230002 14	19,724
Fiscal Year 15		3230002 15	<u>396,280</u>
			<u>416,004</u>
Race to the Top	84.413		
Fiscal Year 15		4521	<u>59,574</u>
			<u>59,574</u>

KNOX COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Year ended June 30, 2015

Twenty-First Century Community Learning Centers	84.287		
Fiscal Year 15		3400002 15	<u>6,262</u>
			<u>6,262</u>
Passed Through Berea College			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		
Fiscal Year 14		3794	59,428
Fiscal Year 15		379A	<u>332,199</u>
			<u>391,627</u>
Passed Through Brushy Fork Institute of Berea College			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011		
Fiscal Year 15		470A	<u>3,479</u>
			<u>3,479</u>
Total US Department of Education			<u>5,615,643</u>
U.S. Department of Commerce			
Passed Through The Center for Rural Development			
Congressionally Identified Awards and Projects	11.469		
Fiscal Year 15		272A	<u>1,381</u>
Total US Department of Commerce			<u>1,381</u>
US Department of Defense			
Passed Through State Department of Education:			
Junior Reserve Officers' Training Corps	12.000		
Fiscal Year 15		5045	<u>89,491</u>
Total US Department of Defense			<u>89,491</u>
US Corporation for National & Community Services			
Passed Through Berea College			
AmeriCorps	94.006		
Fiscal Year 15		587A	<u>29,403</u>
Total US Corporation for National & Community Services			<u>29,403</u>
Total Expenditure of Federal Awards			<u>\$ 8,524,630</u>

KNOX COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015

1. BASIS OF PRESENTATION

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

2. IN-KIND COMMODITIES

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2015 is \$164,223.

3. CLUSTER PROGRAMS

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.278
School Improvement Grants Cluster	
School Improvement Grants	84.377
School Improvement Grants, Recovery Act	84.388



Cloyd & Associates, PSC
Certified Public Accountants

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

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Knox County School District
Barbourville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Knox County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Knox County School District's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control over Financial Reporting

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

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

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



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Compliance and Other Matters

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

We noted other matters involving the internal control over financial reporting that we have reported to the management of Knox County School District in a separate letter dated November 13, 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.

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 13, 2015



Cloyd & Associates, PSC
Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

Kentucky State Committee for
School District Audits
Members of the Board of Education
Knox County School District
Barbourville, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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



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Certified Public Accountants

Report on Internal Control over Compliance

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Knox County School District, as of and for the year ended June 30, 2015, and have issued our report thereon dated November 13, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects in relation to the basic financial statements as a whole.

Purpose of this Report

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

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 13, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

KNOX COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2015

Section I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None Reported
Noncompliance material to financial statement noted	_____	Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Type of auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Title I Grants to Local Education Agencies	84.010
Dollar threshold used to distinguish between Type A and Type B program	\$300,000
Auditee qualified as low risk	<input checked="" type="checkbox"/> Yes _____ No

(continued)

KNOX COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
Year Ended June 30, 2015

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

KNOX COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2015

Financial Statement Findings

There were no prior year financial statement findings.

Federal Award Findings

There were no prior year federal award findings.

MANAGEMENT LETTER COMMENTS



Cloyd & Associates, PSC
Certified Public Accountants

Members of the Board of Education
Knox County School District
Barbourville, Kentucky

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

During our audit we note matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 13, 2015, on the basic financial statements of Knox County School District.

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

Respectfully,

Cloyd & Associates, PSC

Cloyd & Associates, PSC
London, Kentucky
November 13, 2015

KNOX COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS JUNE 30, 2015

Prior Year Comments – School Activity Funds

Knox Central High School

- 1 Only one bank account is allowed at a school for activity funds except for a gaming account as prescribed in the Redbook. Knox Central High School had an additional bank account using the District's federal employer identification number. In addition that bank account had a beginning balance of \$8117 which we could not determine the nature of the balance. The bank statements were the only documentation provided and therefore, we could not audit the invoices and supporting documentation for the receipts and disbursements during the current year. It also appears a check for \$4,000 was written to a former employee after the current audit year; however, auditors were unable to make a determination if this amount was in accordance with Red Book guidelines. We also could not determine with certainty the duration of this bank account. We recommend that management do a thorough examination of the activity that has gone through this account since inception to verify that all expenditures were in accordance with Red Book guidelines. Management has fully cooperated and has taken action to close this account as of the date of this report.

This deficiency was not corrected in the current fiscal year.

Dewitt Elementary

- 2 Multi receipt forms are not being used as prescribed by Redbook.

This deficiency was corrected in the current fiscal year.

Current Year Comments –School Activity Funds

During testing of school activity funds, we noted the following general deficiencies in internal control. The individual schools where these issues were noted are listed:

Knox Central High School

- 1 Only one bank account is allowed at a school for activity funds except for a gaming account as prescribed in the Redbook. Knox Central High School has an additional bank account using the District's federal employer identification number. Auditors were unable to make a determination if this amount was in accordance with Red Book guidelines. We also could not determine with certainty the duration of this bank account. We recommend that management do a thorough examination of the activity that has gone through this account since inception to verify that all expenditures were in accordance with Red Book guidelines. Management has fully cooperated and has taken court action to freeze this account as of the date of this report.

Management response: We were not aware that an account existed at Hometown Bank with the federal identification of the Knox County Board of Education. We have contacted the bank and the account has been frozen pending our review of the account history.

Lynn Camp Schools

- 2 Per Redbook guidelines, individual school activity accounts and the school activity fund bank account as a whole shall not end the fiscal year with a negative (deficit) balance. An individual school activity ("Change") ended the fiscal year with a balance of \$(900).

Management response: The Principal and School Treasurer shall insure that no school activity fund ends the fiscal year (June 30) with a deficit balance. Receivables and payables shall be included when making the calculation of the year end balance. The Principal shall review the activity report with encumbrances before approving purchase requests/orders. Monies will be transferred between accounts to cover balances, when appropriate and all transfers of money to cover deficit balances shall be reimbursed when fund are available. Monies advanced for change will be redeposited prior to the end of the fiscal year (June 30) and a new check for change will be written after July 1st of the new fiscal year.