

**MERCER COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2015**

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October 16, 2015

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Mercer County School District
Harrodsburg, 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 Mercer County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Mercer 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 conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and budgetary comparison information and schedules of district's proportionate share of net pension liabilities on Pages 4 through 10, 42 through 45 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 Mercer County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial

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

Other Reporting Required by *Government Auditing Standards*

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

MERCER COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2015

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

FINANCIAL HIGHLIGHTS

- The beginning General Fund's fund balance was \$3.2 million. The ending fund balance was \$3.0 million. General fund revenues showed an increase of \$568 thousand and expenditures showed an increase of \$878 thousand as compared with the prior year. The General Fund transferred \$63 thousand to the Special Revenue Fund for the technology grant match and \$25 thousand for operations and \$152 thousand to the Debt Service Fund for debt service payments and \$100 thousand to the Construction Fund for construction projects.
- The District had \$31.5 million in revenue and \$31.1 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Total debt service payments for fiscal year 2015 were \$5.9 million in principal payments and \$1.2 million in interest payments. Additionally, the district issued \$4.115 million in new bonds to advance refund the 2010BAB bond issue.
- The District's total net position decreased \$4,370,045 to \$15,203,809. This decrease is due to the implementation of GASB 68 which required a downward adjustment to the beginning net position of \$4,758,000. Current assets decreased \$1,586,585, non-current assets decreased \$22,486 and total liabilities increased \$2,796,158.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The district-wide financial statements can be found on pages 11 - 12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 41 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$15,203,809 as of June 30, 2015.

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

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

Net Position for the period ending June 30, 2015 and June 30, 2014

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

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 4,245,374	\$ 5,850,611	\$ 299,504	\$ 280,852	\$ 4,544,878	\$ 6,131,463
Capital Assets	49,256,273	49,254,641	72,967	97,085	49,329,240	49,351,726
Deferred Outflows	<u>873,980</u>	<u>323,796</u>	<u>-</u>	<u>-</u>	<u>873,980</u>	<u>323,796</u>
Total Assets and Def Outflows	<u>54,375,627</u>	<u>55,429,048</u>	<u>372,471</u>	<u>377,937</u>	<u>54,748,098</u>	<u>55,806,985</u>
Current Liabilities	3,179,419	3,171,183	519	7,669	3,179,938	3,178,852
Non-Current Liabilities	35,849,351	33,054,279	-	-	33,849,351	33,054,279
Deferred Inflows	<u>515,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,000</u>	<u>-</u>
Total Liabilities and Def Inflows	<u>39,543,770</u>	<u>36,225,462</u>	<u>519</u>	<u>7,669</u>	<u>39,544,289</u>	<u>36,233,131</u>
Net Position						
Net Investment in Capital Assets	17,231,819	15,360,137	72,967	97,085	17,304,786	15,457,222
Restricted	389,393	1,662,452	298,985	273,183	688,378	1,935,635
Unrestricted	<u>(2,789,355)</u>	<u>2,180,997</u>	<u>-</u>	<u>-</u>	<u>(2,789,355)</u>	<u>2,180,997</u>
Total Net Position	<u>\$ 14,831,857</u>	<u>\$ 19,203,586</u>	<u>\$ 371,952</u>	<u>\$ 370,268</u>	<u>\$ 15,203,809</u>	<u>\$ 19,573,854</u>

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

	Governmental		Business – Type		Total	
	Activities		Activities		Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
REVENUES						
Program revenues						
Charges for services	\$ 153,023	\$ 2,800	\$ 282,703	\$ 520,813	\$ 435,726	\$ 523,613
Operating grants and contributions	2,845,874	2,922,582	1,078,331	1,032,450	3,924,205	3,955,032
Capital grants	41,089	79,497			41,089	79,497
General revenues						
Property taxes	7,373,352	7,388,666			7,373,352	7,388,666
Motor vehicle taxes	855,402	625,992			855,402	625,992
Utility Taxes	1,631,708	1,653,958			1,631,708	1,653,958
Other taxes	76,666	23,420			76,666	23,420
Investment earnings	35,843	64,940	1,350	2,267	37,193	67,207
State and formula grants	16,951,840	16,655,230			16,951,840	16,655,230
Miscellaneous	172,629	376,894			172,629	376,894
Total revenues	<u>30,137,426</u>	<u>29,793,979</u>	<u>1,362,384</u>	<u>1,555,530</u>	<u>31,499,810</u>	<u>31,349,509</u>
EXPENSES						
Program Activities						
Instructional	18,114,660	17,794,791			19,618,931	17,794,791
Student support	940,306	921,672			1,030,194	921,672
Instructional staff Support	967,603	959,190			1,044,408	959,190
District administrative support	926,233	777,260			952,437	777,260
School administrative support	1,702,145	1,646,484			1,885,548	1,646,484
Business support	468,517	433,328			511,675	433,328
Plant operations and maintenance	2,842,096	2,737,578			2,933,908	2,737,578
Student transportation	2,252,243	2,259,702			2,384,242	2,259,702
Community service activities	251,217	252,533			251,217	252,533
Other	45,145	82,082	9,890		55,035	82,082
Interest costs	1,240,990	1,370,448			1,240,990	1,370,448
Business-type Activities						
Food service			1,316,275	1,527,151	1,316,275	1,527,151
Day Care			34,535	23,712	34,535	23,712
Total expenses	<u>29,751,155</u>	<u>29,235,068</u>	<u>1,360,700</u>	<u>1,550,863</u>	<u>31,111,855</u>	<u>30,785,931</u>
Increase in net position	<u>\$ 386,271</u>	<u>\$ 558,911</u>	<u>\$ 1,684</u>	<u>\$ 4,667</u>	<u>\$ 387,955</u>	<u>\$ 563,578</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2015 and 2014 were \$5,228,850 and \$4,827,274 respectively.

Governmental Activities

For the governmental program expenses, instructional expenses comprise 61% of total expenses, support services equate to 34%, and interest and other expenses make up the remaining 5% of the total.

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

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Instructional	\$ 18,114,660	\$ 17,794,791	15,807,616	15,473,291
Support Services	10,140,555	9,787,230	9,730,063	9,425,561
Other	254,950	282,599	(26,411)	39,186
Interest Costs	<u>1,240,990</u>	<u>1,370,448</u>	<u>1,199,901</u>	<u>1,292,151</u>
Total Expenses	<u>\$ 29,751,155</u>	<u>\$ 29,235,068</u>	<u>\$ 26,711,169</u>	<u>\$ 26,230,189</u>

Business-Type Activities

The business type activities consist of the food service and day care programs. These programs had total revenues of \$1,352,494 and expenses of \$1,350,810 for fiscal year 2015. These revenues were made up of \$282,703 charges for services, \$1,078,331 federal and state operating grants, (\$9,890) loss on disposal of assets, and \$1,350 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2015 was \$30,139,019 and expenditures were \$35,989,811. The most significant net change in fund balance was payment of bond principal of \$5,985,050 of which \$4,040,000 was for the advanced refunding of the 2010BAB issue.

General Fund Budgetary Highlights

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

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$18,493,131 with actual results being \$24,080,475. Budgeted expenditures were \$21,677,131 compared to actual expenditures of \$24,282,592. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$4,950,638 which are not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2014-2015 with a 2% contingency. The District has adopted a budget for 2015-2016 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees decreased for FY 2015 from 18.89% to 17.67%. The Kentucky Teachers Retirement mandated an increase contribution from 1.5% to 2.25% on all employees and increased the federal grants matching from 14.605% to 15.355%.

The SEEK base funding remained at \$3,911 per pupil in FY 2015-2016. The General Fund will be closely monitored to support District staffing. The Local Planning Committee is being reconvened to possibly further downsize the District's buildings from five to four beginning in 2016-17 in order to cover rising costs. The sale of the Lexington Street Building is expected to take place in 2015-16 or early 2016-17.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2015 fiscal year, the District had invested \$49,329,240 in a broad range of capital assets, including equipment, buses, buildings, and land net of accumulated depreciation. This amount represents a net decrease of \$22,486. Depreciation expense for the year was \$2,036,100 and capital additions were \$2,066,419.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2015 and 2014.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 1,467,246	\$ 1,467,246	\$ -	\$ -	\$ 1,467,246	\$ 1,467,246
Construction In Progress	3,314,592	1,726,594	-	-	3,314,592	1,726,594
Buildings and Improvements	42,360,239	43,729,047	-	-	42,360,239	43,729,047
Technology	202,143	367,285	1,040	1,701	203,183	368,986
Vehicles	1,200,200	1,123,707	-	-	1,200,200	1,123,707
General Equipment	711,853	840,762	71,927	95,384	783,780	936,146
Total	\$ 49,256,273	\$ 49,254,641	\$72,967	\$ 97,085	\$ 49,329,240	\$ 49,351,726

The table below shows the changes in capital assets for fiscal years ended June 30, 2015 and 2014.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Beginning Balance	\$ 49,254,641	\$ 49,493,421	\$ 97,085	\$ 113,015	\$ 49,351,726	\$ 49,606,436
Additions	2,066,419	2,076,486	-	-	2,066,419	2,076,486
Retirements	(42,915)	(155,191)	(9,890)	-	(52,805)	(155,191)
Depreciation	(2,021,872)	(2,160,075)	(14,228)	(15,930)	(2,036,100)	(2,176,005)
Ending Balance	\$ 49,256,273	\$ 49,254,641	\$72,967	\$ 97,085	\$ 49,329,240	\$ 49,351,726

Long-Term Debt

At year-end the District had \$31,708,210 in bonds outstanding and \$316,244 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2015 was \$5,879,185 including the \$4,040,000 related to the advanced refunding of the 2010BAB issue and capital lease obligation principal paid was \$105,865. Bond issuance for the year ended June 30, 2015 was \$4,115,000 for the purpose of refinancing Build America Bonds, Series 2010. A total of \$1,973,787 is due within one year.

Contacting the District's Financial Management

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

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	3,783,974	271,124	4,055,098
Accounts Receivable:			
Taxes - Current	179,643		179,643
Taxes - Delinquent	15,258		15,258
Accounts	652	3,717	4,369
Intergovernmental - State	7,753		7,753
Intergovernmental - Federal	258,094		258,094
Inventories for Consumption		24,663	24,663
Total Current Assets	4,245,374	299,504	4,544,878
Noncurrent Assets - Note F			
Land	1,467,246		1,467,246
Construction in Progress	3,314,592		3,314,592
Buildings & Improvements	64,388,019		64,388,019
Furniture & Equipment	8,021,031	195,896	8,216,927
Less: Accumulated Depreciation	(27,934,615)	(122,929)	(28,057,544)
Total Noncurrent Assets	49,256,273	72,967	49,329,240
TOTAL ASSETS	53,501,647	372,471	53,874,118
Deferred Outflows Related to Pensions	590,450		590,450
Deferred Outflows Related to Advanced Bond Refundings	283,530		283,530
TOTAL DEFERRED OUTFLOWS	873,980	0	873,980
TOTAL ASSETS AND DEFERRED OUTFLOWS	54,375,627	372,471	54,748,098
LIABILITIES:			
Current Liabilities:			
Accounts Payable	261,967	519	262,486
Accrued Salaries & Sick Leave - Note A	317,383		317,383
Advances from Grantors	300,344		300,344
KSBIT Assessment - Note Q	86,947		86,947
Bond Obligations - Note D	1,894,857		1,894,857
Capital Lease Obligation - Note E	78,930		78,930
Accrued Interest Payable	238,991		238,991
Total Current Liabilities	3,179,419	519	3,179,938
Noncurrent Liabilities:			
Bond Obligations - Note D	29,813,353		29,813,353
Capital Lease Obligation - Note E	237,314		237,314
KSBIT Assessment - Note Q	257,435		257,435
Net Pension Liability	4,612,000		4,612,000
Accrued Sick Leave - Note A	929,249		929,249
Total Noncurrent Liabilities	35,849,351		35,849,351
TOTAL LIABILITIES	39,028,770	519	39,029,289
Deferred Inflows Related to Pensions	515,000	0	515,000
TOTAL LIABILITIES AND DEFERRED INFLOWS	39,543,770	519	39,544,289
NET POSITION:			
Net Investment in Capital Assets	17,231,819	72,967	17,304,786
Restricted for:			
Capital Projects	101,990		101,990
School Activities	287,403		287,403
Food Service		253,802	253,802
Day Care		45,183	45,183
Unrestricted	(2,789,355)		(2,789,355)
TOTAL NET POSITION	14,831,857	371,952	15,203,809
TOTAL LIABILITIES AND NET POSITION	54,375,627	372,471	54,748,098

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

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

FUNCTION/PROGRAMS	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION			
	EXPENSES	CHARGES FOR	OPERATING	CAPITAL	GOVERNMENTAL	BUSINESS-TYPE	TOTAL
		SERVICES	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS			
GOVERNMENTAL ACTIVITIES:							
Instructional	18,114,660	153,023	2,154,021		(15,807,616)		(15,807,616)
Support Services:							
Student Support Services	940,306		51,732		(888,574)		(888,574)
Staff Support Services	967,603		235,346		(732,257)		(732,257)
District Administration	926,233				(926,233)		(926,233)
School Administration	1,702,145				(1,702,145)		(1,702,145)
Business Support Services	468,517		621		(467,896)		(467,896)
Plant Operation & Maintenance	2,842,096		114,694		(2,727,402)		(2,727,402)
Student Transportation	2,252,243		8,099		(2,244,144)		(2,244,144)
Central Office	2,064				(2,064)		(2,064)
Food Service Operations	39,348				(39,348)		(39,348)
Community Service Operations	251,217		281,361		30,144		30,144
Facilities Acquisition & Construction	3,733				(3,733)		(3,733)
Interest on Long-Term Debt	1,240,990			41,089	(1,199,901)		(1,199,901)
TOTAL GOVERNMENTAL ACTIVITIES	29,751,155	153,023	2,845,874	41,089	(26,711,169)		(26,711,169)
BUSINESS-TYPE ACTIVITIES:							
Day Care	34,535					(34,535)	(34,535)
Food Service	1,316,275	282,703	1,078,331			44,759	44,759
TOTAL BUSINESS-TYPE ACTIVITIES	1,350,810	282,703	1,078,331	0	0	10,224	10,224
TOTAL SCHOOL DISTRICT	31,101,965	435,726	3,924,205	41,089	(26,711,169)	10,224	(26,700,945)
GENERAL REVENUES:							
Taxes:							
Property					7,373,352		7,373,352
Motor Vehicle					855,402		855,402
Utility					1,631,708		1,631,708
Other					76,666		76,666
State Aid - Formula Grants					16,951,840		16,951,840
Investment Earnings					35,843	1,350	37,193
Miscellaneous					174,333		174,333
SPECIAL ITEMS:							
Loss Compensation					41,211		41,211
Gain(Loss) Sale of Assets					(42,915)	(9,890)	(52,805)
TOTAL GENERAL & SPECIAL					27,097,440	(8,540)	27,088,900
CHANGE IN NET POSITION					386,271	1,684	387,955
NET POSITION - BEGINNING AS RESTATED - NOTE R					14,445,586	370,268	14,815,854
NET POSITION - ENDING					14,831,857	371,952	15,203,809

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

MERCER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:						
Cash & Cash Equivalents	3,360,084	34,497	101,990		287,403	3,783,974
Accounts Receivable:						
Taxes - Current	179,643					179,643
Taxes - Delinquent	15,258					15,258
Accounts	652					652
Intergovernmental - State		7,753				7,753
Intergovernmental - Federal		258,094				258,094
TOTAL ASSETS	<u>3,555,637</u>	<u>300,344</u>	<u>101,990</u>	<u>0</u>	<u>287,403</u>	<u>4,245,374</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts Payable	261,967					261,967
Accrued Salaries & Sick Leave	317,383					317,383
Advances from Grantors		300,344				300,344
Total Liabilities	<u>579,350</u>	<u>300,344</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>879,694</u>
Fund Balance:						
Restricted for:						
Capital Projects			101,990			101,990
School Activities					287,403	287,403
Committed For:						
Accrued Sick Leave	929,249					929,249
Unassigned	2,047,038					2,047,038
Total Fund Balance	<u>2,976,287</u>	<u>0</u>	<u>101,990</u>	<u>0</u>	<u>287,403</u>	<u>3,365,680</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>3,555,637</u>	<u>300,344</u>	<u>101,990</u>	<u>0</u>	<u>287,403</u>	<u>4,245,374</u>

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

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

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

TOTAL GOVERNMENTAL FUND BALANCE		3,365,680
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	77,190,888	
Accumulated Depreciation	<u>(27,934,615)</u>	49,256,273
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		283,530
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		590,450
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(31,708,210)	
Capital Lease Obligation	(316,244)	
Accrued Interest on Bonds	(238,991)	
KSBIT Assessment	(344,382)	
Net Pension Liability	(4,612,000)	
Accrued Sick Leave	<u>(929,249)</u>	(38,149,076)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(515,000)</u>
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		 <u><u>14,831,857</u></u>

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

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

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:						
Taxes:						
Property	5,470,176				1,903,176	7,373,352
Motor Vehicle	855,402					855,402
Utility	1,631,708					1,631,708
Other	76,666					76,666
Earnings on Investments	31,641	468	3,734			35,843
Intergovernmental - State	15,850,639	1,201,108		190,888	951,667	18,194,302
Intergovernmental - Federal		1,603,410		41,089		1,644,499
Other Sources	5,670	40,888		1,622	279,176	327,356
TOTAL REVENUES	23,921,902	2,845,874	3,734	233,599	3,134,019	30,139,128
EXPENDITURES:						
Instructional	14,304,063	2,253,542			186,355	16,743,960
Support Services:						
Student Support Services	850,717	54,122				904,839
Staff Support Services	703,341	246,220			24,714	974,275
District Administration	897,234					897,234
School Administration	1,699,780					1,699,780
Business Support Services	545,212	650		67,752		613,614
Plant Operation & Maintenance	2,592,610	119,993				2,712,603
Student Transportation	2,309,746	8,350				2,318,096
Food Service Operation	39,348					39,348
Community Service Operations		251,217				251,217
Facilities Acquisition & Construction			1,591,731			1,591,731
Debt Service:						
Principal				5,985,050		5,985,050
Interest				1,258,064		1,258,064
TOTAL EXPENDITURES	23,942,051	2,934,094	1,591,731	7,310,866	211,069	35,989,811
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(20,149)	(88,220)	(1,587,997)	(7,077,267)	2,922,950	(5,850,683)
OTHER FINANCING SOURCES(USES):						
Proceeds from Sale of Bonds				4,115,000		4,115,000
Loss Compensation	41,211					41,211
Operating Transfers In - Note M	117,362	88,220	100,000	2,962,267	218,279	3,486,128
Operating Transfers Out - Note M	(340,541)				(3,145,587)	(3,486,128)
TOTAL OTHER FINANCING SOURCES	(181,968)	88,220	100,000	7,077,267	(2,927,308)	4,156,211
NET CHANGE IN FUND BALANCES	(202,117)	0	(1,487,997)	0	(4,358)	(1,694,472)
FUND BALANCES - BEGINNING	3,178,402	0	1,589,987	0	291,761	5,060,150
FUND BALANCES - ENDING	2,976,285	0	101,990	0	287,403	3,365,678

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

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

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

NET CHANGES - GOVERNMENTAL FUNDS		(1,694,472)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(2,021,872)	
Capital Outlays	<u>2,066,419</u>	44,547
<p>Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid	5,985,050	
Bond Proceeds	<u>(4,115,000)</u>	1,870,050
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization -Deferred Outflows from Advanced Bond Refundings	(47,514)	
District Pension Contributions	590,450	
Cost of Benefits Earned Net of Employee Contributions	(369,000)	
Deferred Outflows from Advanced Bond Refundings	7,248	
Accrued Interest Payable	57,340	
KSBIT Assessment	144,341	
Accrued Sick Leave	<u>(173,804)</u>	209,061
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Loss - Sale of Assets		<u>(42,915)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>386,271</u></u>

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

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	225,941	45,183	271,124
Accounts Receivables	3,717		3,717
Inventories for Consumption	24,663		24,663
Total Current Assets	254,321	45,183	299,504
Noncurrent Assets:			
Furniture & Equipment	195,896		195,896
Less: Accumulated Depreciation	(122,929)		(122,929)
Total Noncurrent Assets	72,967	0	72,967
TOTAL ASSETS	327,288	45,183	372,471
LIABILITIES:			
Current Liabilities:			
Account Payable	519		519
Total Current Liabilities	519	0	519
Net Position:			
Net Investment in Capital Assets	72,967		72,967
Restricted	253,802	45,183	298,985
Total Net Position	326,769	45,183	371,952
TOTAL LIABILITIES AND NET POSITION	327,288	45,183	372,471

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

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	230,583		230,583
Other Operating Revenues	52,120		52,120
TOTAL OPERATING REVENUES	282,703	0	282,703
OPERATING EXPENSES:			
Salaries & Benefits	605,653	34,535	640,188
Contract Services	41,338		41,338
Materials & Supplies	646,661		646,661
Depreciation - Note F	14,228		14,228
Other Operating Expenses	8,395		8,395
TOTAL OPERATING EXPENSES	1,316,275	34,535	1,350,810
OPERATING INCOME(LOSS)	(1,033,572)	(34,535)	(1,068,107)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	873,818		873,818
State Grants	108,032		108,032
Donated Commodities	96,481		96,481
Loss on Disposal of Assets	(9,890)		(9,890)
Interest Income	1,350		1,350
TOTAL NONOPERATING REVENUE	1,069,791	0	1,069,791
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	36,219	(34,535)	1,684
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSITION	36,219	(34,535)	1,684
TOTAL NET POSITION - BEGINNING	290,550	79,718	370,268
TOTAL NET POSITION - ENDING	326,769	45,183	371,952

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

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

	FOOD SERVICE	DAY CARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Lunchroom Sales	230,583		230,583
Other Activities	52,120		52,120
Cash Paid to/for:			
Employees	(518,318)	(34,535)	(552,853)
Supplies	(562,287)		(562,287)
Other Activities	(49,733)		(49,733)
Net Cash Used by Operating Activities	(847,635)	(34,535)	(882,170)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfer from General Fund			
Federal Grants	873,818		873,818
State Grants	20,697		20,697
Net Cash Provided by Non-Capital and Related Financing Activities	894,515	0	894,515
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of Interest Income	1,350		1,350
Net Increase (Decrease) in Cash and Cash Equivalents	48,230	(34,535)	13,695
Balances, Beginning of Year	177,711	79,718	257,429
Balances, End of Year	225,941	45,183	271,124
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(1,033,572)	(34,535)	(1,068,107)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	14,228		14,228
State On-Behalf Payments	87,335		87,335
Donated Commodities	96,481		96,481
Change in Assets and Liabilities:			
Inventory	(1,240)		(1,240)
Accounts Receivable	(3,717)		(3,717)
Accounts Payable	(7,150)		(7,150)
Net Cash Used by Operating Activities	(847,635)	(34,535)	(882,170)
Schedule of Non-Cash Transactions:			
Donated Commodities	96,481	0	96,481
State On-Behalf Payments	87,335	0	87,335

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

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	106,398
TOTAL ASSETS	<u>106,398</u>
LIABILITIES:	
Due to Student Groups	106,398
TOTAL LIABILITIES	<u>106,398</u>
NET POSITION HELD IN TRUST	<u>0</u>

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

MERCER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Mercer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Mercer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

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

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.626 per \$100 valuation for real property, \$0.626 per \$100 valuation for business personal property, and \$0.491 per \$100 valuation for motor vehicles.

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

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

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

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

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	929,249	Long-Term Sick Leave Commitment

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

Changes in Accounting Principle

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

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

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

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

At year-end, the carrying amount of the District's total cash and cash equivalents was \$4,161,496. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	Bank Balance	Book Balance
Farmers Bank	5,248,944	4,161,496
Breakdown per financial statements:		
Governmental Funds		3,783,974
Proprietary Funds		<u>271,124</u>
Cash per Statement of Net Position		4,055,098
Agency Funds		<u>106,398</u>
Total Cash		<u>4,161,496</u>

NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make payments relating to the bonds issued by the Mercer County School District Finance Corporation aggregating \$41,025,000.

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

2004	2,165,000	2.00% - 3.60%
2005	130,000	3.625% - 4.90%
2007	25,305,000	4.00% - 4.25%
2008	1,395,000	2.40% - 3.30%
2010Refunding	1,785,000	0.50% - 2.60%
2012Refunding	1,885,000	0.75% - 2.125%
2013Refunding	1,845,000	1.05% - 2.00%
2013	2,400,000	2.00% - 4.00%
2014Refunding	4,115,000	1.75% - 3.50%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by Mercer 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.

In 1995 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission’s participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

On July 1, 2014, the District issued \$4,115,000 in Refunding Revenue Bonds with an average interest rate of 2.63 percent to advance refund \$4,040,000 of outstanding 2010 Build America Bonds. The refunding was an advance refunding. The net proceeds of \$4,047,248 (after \$39,860 in bond issuance costs, \$24,730 in bond discount and \$3,162 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited into an irrevocable trust to call the bonds. The net present value of the savings from the new bond issuance is \$156,024 as described in the bond issuance documents.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2015-16	1,894,857	1,134,536	186,832	2,842,561
2016-17	1,955,664	1,073,317	184,962	2,844,019
2017-18	2,011,606	1,010,162	176,242	2,845,527
2018-19	2,047,571	944,061	151,344	2,840,288
2019-20	2,103,512	873,466	137,562	2,839,417
2020-21	2,150,000	800,173	137,563	2,812,611
2021-22	2,220,000	724,909	137,563	2,807,347
2022-23	2,295,000	647,279	137,563	2,804,716
2023-24	2,380,000	563,281	136,850	2,806,432
2024-25	2,465,000	477,999	134,960	2,808,039
2025-26	2,560,000	383,331	134,962	2,808,369
2026-27	2,660,000	285,118	134,962	2,810,156
2027-28	1,020,000	158,934	70,653	1,108,281
2028-29	1,045,000	124,540	70,654	1,098,886
2029-30	1,080,000	87,251	70,655	1,096,597
2030-31	1,115,000	48,250	66,763	1,096,488
2031-32	225,000	23,700	59,642	189,058
2032-33	235,000	14,500	59,643	189,857
2033-34	<u>245,000</u>	<u>4,900</u>	<u>47,740</u>	<u>202,160</u>
	<u>31,708,210</u>	<u>9,379,704</u>	<u>2,237,107</u>	<u>38,850,807</u>

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	33,472,395	4,115,000	5,879,185	31,708,210	1,894,857
Capital Lease Obligations	422,109	-0-	105,865	316,244	78,930
Accrued Sick Leave	<u>1,177,309</u>	<u>178,310</u>	<u>108,988</u>	<u>1,246,631</u>	<u>317,383</u>
Governmental Activities Long-Term Liabilities	<u>35,071,813</u>	<u>4,293,310</u>	<u>6,094,038</u>	<u>33,271,085</u>	<u>2,291,170</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2023. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2015.

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

<u>Classes of Property</u>	<u>Book Value as of June 30, 2015</u>
Buses	970,472
Accumulated Amortization	(647,106)
	<u>323,366</u>

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

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2016	87,239
2017	87,205
2018	29,305
2019	29,441
2020	29,375
Thereafter	<u>78,491</u>
Net minimum lease payments	341,056
Amount representing interest	<u>(24,812)</u>
Present value of net minimum lease payments	<u>316,244</u>

Interest rates on capitalized leases vary from 2.00% to 3.875%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

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

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	1,467,246			1,467,246
Construction	1,726,594	1,587,998		3,314,592
Depreciable Assets:				
Buildings & Building Improvements	64,383,098	147,098	142,177	64,388,019
Technology Equipment	2,320,435		1,388,143	932,292
Vehicles	5,097,892	331,323	291,511	5,137,704
General Equipment	2,359,248		408,213	1,951,035
TOTAL AT HISTORICAL COST	<u>77,354,513</u>	<u>2,066,419</u>	<u>2,230,044</u>	<u>77,190,888</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	20,654,051	1,506,940	133,211	22,027,780
Technology Equipment	1,953,150	139,272	1,362,273	730,149
Vehicles	3,974,185	254,830	291,511	3,937,504
General Equipment	1,518,486	120,830	400,134	1,239,182
TOTAL ACCUMULATED DEPRECIATION	<u>28,099,872</u>	<u>2,021,872</u>	<u>2,187,129</u>	<u>27,934,615</u>
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u>49,254,641</u>	<u>44,547</u>	<u>(42,915)</u>	<u>49,256,273</u>
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	6,897		4,590	2,307
General Equipment	668,452		474,863	193,589
TOTALS AT HISTORICAL COST	<u>675,349</u>	<u>0</u>	<u>479,453</u>	<u>195,896</u>
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	5,196	612	4,541	1,267
General Equipment	573,068	13,616	465,022	121,662
TOTAL ACCUMULATED DEPRECIATION	<u>578,264</u>	<u>14,228</u>	<u>469,562</u>	<u>122,929</u>
PROPRIETARY ACTIVITIES CAPITAL NET	<u>97,085</u>	<u>(14,228)</u>	<u>(9,890)</u>	<u>72,967</u>
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,499,228
Student Support Services				44,768
Staff Support Services				1,300
District Administration				31,435
School Administration				21,188
Business Support Services				3,673
Plant Operation & Maintenance				139,015
Student Transportation				279,201
Community Service Operations				2,064
TOTAL				<u>2,021,872</u>

NOTE G – RETIREMENT PLANS

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Medical Insurance Plan

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 4,612,000
Commonwealth's proportional share of the KTRS net pension liability associated with the District	<u>84,345,557</u>
	<u>\$ 88,957,557</u>

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

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.142144% percent.

For the year ended June 30, 2015, the District recognized pension expense of \$369,000 related to CERS and \$1,987,627 related to KTRS. The District also recognized revenue of \$1,987,627 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	515,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>590,450</u>	<u>-</u>
Total	<u>\$ 590,450</u>	<u>\$ 515,000</u>

\$590,450 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	103,000
2017	103,000
2018	103,000
2019	103,000
2020	103,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	4,016,903	4,612,000	5,207,097
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

NOTE H – CONTINGENCIES

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

NOTE I – INSURANCE AND RELATED ACTIVITIES

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

NOTE J – RISK MANAGEMENT

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

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

NOTE K – DEFICIT OPERATING BALANCES

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

General Fund	20,149
Special Revenue	88,220
Construction	1,587,997
Debt Service	7,077,267
Day Care	34,535

NOTE L – COBRA

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	63,163
Operating	General	Special Revenue	Operations	25,057
Operating	General	Debt Service	Debt Service	152,321
Operating	General	Construction	Construction	100,000
Operating	Building Fund	Debt Service	Debt Service	2,809,945
Operating	Capital Outlay	General	Operations	117,362
Operating	Capital Outlay	Building	Operations	<u>218,280</u>
				<u>3,486,128</u>

NOTE N – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2015.

NOTE O – SUBSEQUENT EVENTS

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

NOTE P – ON-BEHALF PAYMENT

For the year ended June 30, 2015, \$5,228,851 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$4,950,638
Food Service Fund	87,335
Debt Service Fund	<u>190,878</u>
Total	<u>\$5,228,851</u>

NOTE Q – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2015, Mercer County School District's remaining assessment is valued at \$344,382. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2016	86,947
2017	86,947
2018	42,622
2019	42,622
2020	42,622
2021	<u>42,622</u>
Total	<u>344,382</u>

NOTE R – NET POSITION, AS RESTATED

Governmental Accounting Standards Board statement 68 requires changes to the beginning balances of the Statement of Net Position. Beginning net position of the government activities was decreased \$4,758,000 to reflect the District’s proportionate share of the unfunded pension liability of the County Employee Retirement System.

Beginning Net Position as previously reported on June 30, 2014	\$ 19,203,586
Prior period adjustment – Implementation GASB 68:	
Net Pension Liability (measurement date)	(5,379,525)
Deferred outflows – District’s contributions made during fiscal year 2014	<u>621,525</u>
Total prior period adjustment	<u>(4,758,000)</u>
Net Position as restated, July 1, 2014	<u>\$ 14,445,586</u>

NOTE S – COMMITMENTS

Mercer County School District is renovating the 9th grade academy and track at Mercer County High School. Construction for this project is ongoing as of the audit date. It is anticipated that the completion of the project will cost an additional \$89,561.

REQUIRED SUPPLEMENTARY
INFORMATION

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	7,493,000	7,493,000	8,033,952	540,952
Other Local Sources	25,000	25,000	31,641	6,641
State Sources	10,970,131	10,970,131	15,850,639	4,880,508
Other Sources	5,000.00	5,000.00	164,243	159,243
TOTAL REVENUES	18,493,131	18,493,131	24,080,475	5,587,344
EXPENDITURES:				
Instructional	11,450,015	11,450,015	14,304,063	(2,854,048)
Student Support Services	670,563	670,563	850,717	(180,154)
Staff Support Services	541,337	541,337	703,341	(162,004)
District Administration	931,536	931,536	897,234	34,302
School Administration	1,370,991	1,370,991	1,699,780	(328,789)
Business Support Services	401,657	401,657	545,212	(143,555)
Plant Operation & Maintenance	2,473,843	2,473,843	2,592,610	(118,767)
Student Transportation	2,180,633	2,180,633	2,309,746	(129,113)
Central Office				
Food Service Operations	57,374	57,374	39,348	18,026
Community Service Operations				
Facility Acquisition & Construction				
Other	1,599,182	1,599,182	340,541	1,258,641
TOTAL EXPENDITURES	21,677,131	21,677,131	24,282,592	(2,605,461)
NET CHANGE IN FUND BALANCE	(3,184,000)	(3,184,000)	(202,117)	2,981,883
FUND BALANCES - BEGINNING	3,184,000	3,184,000	3,178,402	0
FUND BALANCES - ENDING	0	0	2,976,285	2,981,883

On-behalf payments totaling \$4,950,638 are not budgeted by the Mercer County School District.

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

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	12,637	12,637	41,356	28,719
State Sources	1,301,248	1,301,248	1,201,108	(100,140)
Federal Sources	1,699,338	1,631,473	1,603,410	(28,063)
Other Sources	132,699	104,740	88,220	(16,520)
TOTAL REVENUES	3,145,922	3,050,098	2,934,094	(116,004)
EXPENDITURES:				
Instructional	2,447,679	2,347,855	2,253,542	94,313
Student Support Services	36,762	40,762	54,122	(13,360)
Staff Support Services	314,567	314,567	246,220	68,347
District Administration				
School Administration				
Business Support Services			650	(650)
Plant Operation & Maintenance	106,215	106,215	119,993	(13,778)
Student Transportation			8,350	(8,350)
Central Office				
Community Service Operations	240,699	240,699	251,217	(10,518)
Facility Acquisition & Construction				
Other				
TOTAL EXPENDITURES	3,145,922	3,050,098	2,934,094	116,004
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

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

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

	<u>2015</u>
District's proportion of net pension liability	0.0%
District's proportionate share of the net pension liability	\$ 0
State of Kentucky's share of the net pension liability associated with the District	<u>84,345,557</u>
Total	<u>\$ 84,345,557</u>
District's covered-employee payroll	\$ 12,829,760
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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

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

	<u>2015</u>
District's proportion of net pension liability	.142144%
District's proportionate share of the net pension liability	\$ 4,612,000
State of Kentucky's share of the net pension liability associated with the District	<u>0.00</u>
Total	<u>\$ 4,612,000</u>
District's covered-employee payroll	\$ 3,341,312
District's proportionate share of the net pension liability as a percentage of its covered-payroll	138.03%
Plan fiduciary net position as a percentage of the total pension liability	65.96%

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

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

KENTUCKY TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

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

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

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

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

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

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

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

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

OTHER SUPPLEMENTARY
INFORMATION

MERCER COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2015

	CAPITAL OUTLAY FUND	BUILDING FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents			287,403	287,403
Accounts Receivable:				
Taxes				
Accounts				
TOTAL ASSETS	<u>0</u>	<u>0</u>	<u>287,403</u>	<u>287,403</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Restricted for:				
Capital Projects				
Debt Service				
School Activities			287,403	287,403
Committed for:				
Accrued Sick Leave				
Site Based Carryforward				
Unassigned				
Total Fund Balances	<u>0</u>	<u>0</u>	<u>287,403</u>	<u>287,403</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>0</u>	<u>0</u>	<u>287,403</u>	<u>287,403</u>

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

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

	CAPITAL OUTLAY FUND	BUILDING FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes		1,903,176		1,903,176
Intergovernmental - State	263,177	688,490		951,667
Other Sources			279,176	279,176
TOTAL REVENUES	<u>263,177</u>	<u>2,591,666</u>	<u>279,176</u>	<u>3,134,019</u>
EXPENDITURES:				
Instructional			186,355	186,355
Staff Support Services			24,714	24,714
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>211,069</u>	<u>211,069</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	263,177	2,591,666	68,107	2,922,950
OTHER FINANCING SOURCES(USES):				
Operating Transfers In		218,279		218,279
Operating Transfers Out	(335,642)	(2,809,945)		(3,145,587)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(335,642)</u>	<u>(2,591,666)</u>	<u>0</u>	<u>(2,927,308)</u>
NET CHANGE IN FUND BALANCES	<u>(72,465)</u>	<u>0</u>	<u>68,107</u>	<u>(4,358)</u>
FUND BALANCES - BEGINNING	<u>72,465</u>	<u>0</u>	<u>219,296</u>	<u>291,761</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>287,403</u></u>	<u><u>287,403</u></u>

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

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

	FUND BALANCE JULY 1, 2014	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2015
Mercer County High School	59,317	360,278	353,296	66,299
Mercer County 9th Grade Academy	6,802	22	6,824	-
Kenneth King Middle School	18,804	171,253	168,119	21,938
Mercer County Intermediate School	14,750	36,823	37,451	14,122
Mercer County Elementary School	1,807	23,679	23,445	2,041
Harlow Elementary School	<u>6,329</u>	<u>16,069</u>	<u>20,400</u>	<u>1,998</u>
Total Activity Funds (Due to Student Groups)	<u>107,809</u>	<u>608,124</u>	<u>609,535</u>	<u>106,398</u>

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

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	CASH			CASH	ACCOUNTS	ACCOUNTS	FUND
	BALANCE	RECEIPTS	DISBURSEMENTS	BALANCE	RECEIVABLE	PAYABLE	BALANCE
	JULY 1, 2014			JUNE 30, 2015	JUNE 30, 2015	JUNE 30, 2015	JUNE 30, 2015
General Fund	6,648	23,050	22,739	6,959	0	0	6,959
Pennies 4 Patients	0	8,299	8,299	0	0	0	0
Donation WHAS	0	6	0	6	0	0	6
Grad Exp-Homeless	731	0	0	731	0	0	731
Titan School Store	634	840	1,160	314	0	0	314
St. Jude	0	170	170	0	0	0	0
Student Vending	2,978	790	1,829	1,939	0	0	1,939
Pep Club	80	132	0	212	0	0	212
Fines & Fees	4,561	8,023	7,982	4,602	0	0	4,602
Academic Breakfast	1,250	0	0	1,250	0	0	1,250
Faculty Fund	3,946	3,303	5,314	1,935	0	0	1,935
Athletics-General	5,000	53,872	54,323	4,549	0	0	4,549
Football	0	90	90	0	0	0	0
Boys Basketball	0	65	65	0	0	0	0
Girls Basketball	0	65	65	0	0	0	0
Baseball	0	180	180	0	0	0	0
Archery	0	498	498	0	0	0	0
Advertising	0	100	100	0	0	0	0
Beta Club	827	2,382	2,297	912	0	0	912
MCHS Book Club	524	132	154	502	0	0	502
KYA/KUNA	0	2,415	2,313	102	0	0	102
DECA/FBLA Club	504	0	0	504	0	0	504
FCA Club	1,731	0	1,500	231	0	0	231
Journalism	0	80	80	0	0	0	0
FFA Club	217	29,830	24,569	5,478	0	0	5,478
FCCLA CLUB	1,154	8,201	9,034	321	0	0	321
Engineering Club	0	285	0	285	0	0	285
FEA Club	27	433	380	80	0	0	80
NHS	302	1,202	541	963	0	0	963
Spanish Club	53	517	208	362	0	0	362
Student Council	924	15	65	874	0	0	874
Pass Program	37	0	0	37	0	0	37
Key Club	96	550	590	56	0	0	56
Film	0	105	0	105	0	0	105
Senior Banquet	2,032	0	0	2,032	0	0	2,032
Senior Trip	0	3,440	3,145	295	0	0	295
Drama Dept	3	0	3	0	0	0	0
Foreign Language	1	0	1	0	0	0	0
Senior Trip	1	0	1	0	0	0	0
Horticulture	268	0	268	0	0	0	0
Poetry Club	147	0	0	147	0	0	147
Simply in her Beauty	90	0	0	90	0	0	90
SHS Spanish	378	764	765	377	0	0	377
Envirothon Team	151	100	251	0	0	0	0
TATU Club	550	132	0	682	0	0	682
Prom Fund	8,362	9,570	5,512	12,420	0	0	12,420
Driver Ed	0	9,325	9,325	0	0	0	0
Yearbook	11,332	9,438	8,025	12,745	0	0	12,745
Col. Chin Scholarship	(2)	2		0	0	0	0
Project Graduation	3,772	11,372	10,942	4,202	0	0	4,202
Sweep	8	179,041	179,049	0	0	0	0
Total All Funds	59,317	368,814	361,832	66,299	0	0	66,299
Interfund Transfers		(8,536)	(8,536)				0
Total	59,317	360,278	353,296	66,299	0	0	66,299

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Parent Involvement	84.010	3104M	6,019
Title I - Grants to Local Educational Agencies	84.010	3104	173,374
Title I - Grants to Local Educational Agencies	84.010	310A	451,004
Title I - Parent Involvement	84.010	310AM	1,020
Title I - Parent Involvement	84.010	3103M	822
Title I - Neglected and Delinquent Children	84.010	313A	13,980
Title I - Neglected and Delinquent Children	84.010	313AT	4,446
Title I Grants to Local Educational Agencies Total			650,665
Title II, Part A -Teacher Quality Enhancement Grants	84.367	401A	61,951
Title II, Part A -Teacher Quality Enhancement Grants	84.367	4014	65,627
Title II - Part A Total			127,578 *
Rural and Low Income Schools	84.358	350A	29
Rural and Low Income Schools	84.358	3504	32,441
Rural and Low Income Schools Total			32,470
Perkins Voc.	84.048	3483	
Perkins Voc.	84.048	3484A	1,140
Perkins Voc.	84.048	348A	26,777
Perkins Voc. - Total			27,917
Race to the Top	84.395	4521	6,817
IDEA - Special Education - Grants to State	84.027	3373	130
IDEA - Special Education - Grants to State	84.027	3374	279,480
IDEA - Special Education - Grants to State	84.027	337A	372,481
IDEA - Special Education - Preschool Grants	84.173	343A	1,198
IDEA - Special Education - Preschool Grants	84.173	3434	13,187
Special Education Cluster			666,476 *
Total U.S. Department of Education			1,511,923
<u>U.S. Department of Health and Human Services</u>			
Passed-Through Department of Education			
Community Clinical Linkages	93.945	4423	4,000
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
Summer Meal Program	10.559	7690024-14	611
Summer Meal Program	10.559	7740023-14	5,916
National School Lunchroom	10.555	7750002-14	135,492
National School Lunchroom	10.555	7750002-15	532,291
School Breakfast Program	10.553	7760005-14	41,756
School Breakfast Program	10.553	7760005-15	164,279
Child Nutrition Cluster			880,345
Pass-Through State Department of Agriculture			
Food Distribution	10.565	057502-10	96,481
Total U.S. Department of Agriculture			976,826
Total Federal Financial Assistance			2,492,749

* Tested as major program

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

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Mercer 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.

NOTE B – FOOD DISTRIBUTION

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

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster
84.367	Title II, Part A – Teacher Quality

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

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

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2015

There were no prior year audit findings.

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October 16, 2015

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

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

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

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mercer 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 the Mercer County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercer 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 tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

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

Purpose of this Report

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 16, 2015

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

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Mercer County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Mercer County School District's major federal programs for the year ended June 30, 2015. Mercer 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, contract, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mercer 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mercer 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 Mercer County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Mercer 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.

Report on Internal Control Over Compliance

Management of Mercer 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 Mercer 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 Mercer 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 16, 2015

MANAGEMENT LETTER

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

In planning and performing our audit of the financial statements of Mercer County School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Recommendation:

During the course of the audit, it was noted that the school food service sustained a loss for the second year in a row. We recommend that the District monitor the school food service program's profit or loss during the year and consider suspending the indirect cost transfer for years where the school food service is experiencing a loss.

Current Year Status:

The food service for fiscal year 2014-2015 showed a vast improvement by making a \$36,219 profit as compared with a \$33,405 loss in the prior fiscal year.

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 16, 2015

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

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

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

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

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

We were not engaged to report on the budgetary comparison information on pages 38 and 39 or on the schedules of the district's proportionate share of net pension liabilities on pages 44 and 45, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants