

**SOMERSET INDEPENDENT  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2015

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

To the Somerset Independent Board of Education and  
State Committee for School District Audits  
Somerset, 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 Somerset Independent School District (District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

## ***Opinions***

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

## ***Change in Accounting Principle***

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

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The additional supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in

the United States of America. In our opinion, the additional supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

*White & Associates, P.C.*

Richmond, Kentucky  
November 13, 2015

## SOMERSET INDEPENDENT SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

**Year ended June 30, 2015**

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

#### **FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the district was \$10,009,847 and the ending cash balance for the district was \$9,118,596.
- Enrollment for 2014/15 school year was 1,610 with ADA of 1,526.
- Total SEEK of 2013/14 was \$5,250,404 and total SEEK for 2014/15 was \$5,591,908. This is an increase of \$341,504 due to an increase in enrollment.
- Total General Fund revenues for the 2013/14 school year were \$12,778,506. Total revenues for 2014/15 school year were \$13,354,384. This is an increase of \$575,878 total for general fund. This increase is due to the SEEK, Property Tax and Tuition.
- Tax rates for 2014/15 school year were set for 68.5 on real estate and 56.8 on motor vehicle; resulting in more revenues for the school district by \$258,095.
- In the fiscal year 2014/15 the board paid \$739,080 in bond principal and interest payments, and KISTA payments of \$68,562. For 2013/14 school year, principal and interest bond payments were \$626,414 and KISTA of \$55,776. The bond payments for FY 2015 will be \$866,446 and KISTA payments of \$61,542.

#### **OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

# SOMERSET INDEPENDENT SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED Year ended June 30, 2015

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

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

See the Table of Contents for the government-wide financial statements.

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

See the Table of Contents for the basic governmental fund financial statements.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. See the Table of Contents for the notes to the financial statements.

### GOVERNMENT-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, governmental assets plus deferred outflows exceeded liabilities by \$12,953.71; proprietary assets exceeded liabilities by \$447,253 and total primary government assets exceeded liabilities by \$13,400,424 at 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 and construction in progress), less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

# SOMERSET INDEPENDENT SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED Year ended June 30, 2015

The following is a summary of the District's net position:

	Government Activities		Business-type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current and other assets	10,132,997	8,833,130	311,269	285,466	10,444,266	9,118,596
Capital assets, net depreciation	16,303,249	18,223,274	227,249	249,234	16,530,499	18,988,677
<b>Total Assets</b>	<b>26,436,247</b>	<b>27,572,574</b>	<b>538,518</b>	<b>534,700</b>	<b>26,974,765</b>	<b>28,107,273</b>
District pension contributions subsequent to the measure date		266,555		8,474		275,029
Loss for the difference in reacquisition and carrying value of refunding debt	187,670	113,580			187,670	113,580
<b>Total Deferred Outflows of Resources</b>	<b>187,670</b>	<b>380,135</b>		<b>8,474</b>	<b>187,670</b>	<b>388,609</b>
Short-term liabilities	1,360,131	1,175,597	1,784	3,066	1,361,915	1,178,663
Other liabilities	12,134,486	13,588,261		83,534	12,134,486	13,588,261
<b>Total Liabilities</b>	<b>13,494,617</b>	<b>14,763,858</b>	<b>1,784</b>	<b>86,600</b>	<b>13,496,401</b>	<b>14,850,458</b>
Net Position						
Invested in capital assets, net of related debt	3,960,958	6,258,105	227,249	218,252	4,188,207	6,476,357
Restricted	2,364,946	1,047,803	309,848	234,269	2,674,430	
Unrestricted	6,803,396	5,647,262			6,803,396	
Deficit				(5,267)		(5,267)
<b>Total Net Position</b>	<b>13,129,300</b>	<b>12,953,171</b>	<b>536,734</b>	<b>447,253</b>	<b>13,666,034</b>	<b>13,400,424</b>

The following is a summary of the District's changes in net position

	Government Activities		Business-type Activities		Total	
	2014	2015	2014	2015	2014	2015
Revenues						
Program revenues						
Charges for services	221,029	70,286	244,333	234,762	465,362	305,048
Operating grants & contributions	1,554,151	5,607,817	724,113	759,647	2,278,264	6,367,464
Capital grants & contributions	661,366	845,545			661,366	845,545
General revenues						
Local taxes	5,509,852	5,708,931			5,509,852	5,708,931
State sources	7,711,621	5,444,338			7,711,621	5,444,338
Other	177,866	380,869	2,895	2,517	180,761	383,386
<b>Total revenues</b>	<b>15,835,885</b>	<b>18,057,786</b>	<b>971,341</b>	<b>996,926</b>	<b>16,807,226</b>	<b>19,054,712</b>
Expenses						
School operation and administration	14,546,582	15,622,168	938,778	1,003,039	15,485,360	16,625,207
Interest on debt service	485,177	413,066			485,177	413,066
<b>Total expenses</b>	<b>15,031,759</b>	<b>16,035,234</b>	<b>938,778</b>	<b>1,003,039</b>	<b>15,970,537</b>	<b>17,038,273</b>
Increase (Decrease) in net position	804,126	2,022,551	32,562	(6,113)	836,688	2,016,438

**SOMERSET INDEPENDENT SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
**Year ended June 30, 2015**

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There has been some decrease in the financial position of the District due to much needed maintenance and repair to our facilities.

**Governmental Activities**

Total net position has decreased from the prior year by \$176,129 including a prior period adjustment.

**Business-Type Activities**

Net position has decreased from the prior year by \$89,481.

**Debt**

Debt decreased by \$.56 million as follows:

Outstanding Debt at Year-End			
(in Millions)		Government	
		Activities	
		<u>2014</u>	<u>2015</u>
General Obligation Bonds	\$	12.2	\$ 11.7
Capital Lease Obligations		<u>.33</u>	<u>.27</u>
 Total Obligations		 <u>\$ 12.53</u>	 <u>\$ 11.97</u>

**Capital Assets**

At the end of the fiscal year 2015, the district had \$18.43 million invested in capital assets, including land, buildings, buses, computers, and other equipment.

		Capital Assets at Year-End					
		(Net of Depreciation, in Millions)					
		Governmental		Business-type		Totals	
		Activities		Activities			
		<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
Land	\$	0.65	0.65	\$		0.65	.65
Buildings & Improvements		8.84	8.43		0.07	0.07	8.91
Technology Equipment		0.36	.43		0.02	0.02	0.38
Vehicles		0.20	.26				0.20
General Equipment		0.20	.08		0.14	0.14	0.16
Construction in Progress		<u>6.23</u>	<u>8.37</u>				<u>6.23</u>
 Totals		 <u>\$ 16.3</u>	 <u>18.2</u>	 <u>\$ 0.23</u>	 <u>.23</u>	 <u>\$ 16.53</u>	 <u>18.43</u>

**SOMERSET INDEPENDENT SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)-CONTINUED**  
**Year ended June 30, 2015**

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

	<u>2014</u>	<u>2015</u>
<b>Revenues and other financing sources</b>		
Local revenue sources	\$ 5,860,324	\$ 5,970,347
State revenue sources	8,607,991	9,302,301
Federal revenue	1,319,148	1,453,724
Other sources	48,420	180,109
Bond proceeds	3,730,000	0
Transfers in	<u>1,192,462</u>	<u>1,086,792</u>
 <b>Total Revenue</b>		
<b>and other financing sources</b>	<u>20,758,345</u>	<u>17,993,273</u>
 <b>Expenditures and other financing uses</b>		
Instruction	9,279,181	9,884,087
Student support services	387,577	417,115
Instructional support	416,656	417,373
District administration	542,052	626,088
School administration	698,855	732,245
Business support	375,192	339,442
Plant operations	1,231,230	1,294,768
Student transportation	412,882	436,129
Building improvements	2,904,104	2,279,752
Community support	162,205	120,092
Debt service	889,504	978,612
Transfers out	<u>1,192,462</u>	<u>1,086,792</u>
 <b>Total Expenditures</b>		
<b>and other financing uses</b>	<u>18,491,900</u>	<u>18,612,495</u>
 <b>Net change in fund balance</b>	 \$ <u>2,266,445</u>	 \$ <u>(619,221)</u>

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

**SOMERSET INDEPENDENT SCHOOL DISTRICT**

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

**Year ended June 30, 2015**

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**BUDGETARY IMPLICATION**

In Kentucky the public school fiscal year is from July 1-June 30; other programs, i.e., some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with a contingency of 22%.

Questions regarding this report should be directed to the Superintendent (606) 679-4451, or to the Director of Finance (606) 679-4451 or by mail at 305 College Street, Somerset, Kentucky 42501.

Somerset Independent School District  
**Statement of Net Position**  
June 30, 2015

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 8,530,186	\$ 285,466	\$ 8,815,651
Investments	302,945		302,945
Receivables (net)	516,169		516,169
Inventories		30,983	30,983
Capital assets:			
Land, improvements, and construction in progress	9,020,058		9,020,058
Other capital assets, net of depreciation	9,203,216	218,252	9,421,468
Total capital assets	<u>18,223,274</u>	<u>218,252</u>	<u>18,441,526</u>
Total assets	<u>27,572,574</u>	<u>534,700</u>	<u>28,107,273</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
District pension contributions subsequent to the measurement date	266,555	8,474	275,029
Deferred savings from refunding bonds	113,580		113,580
Total deferred outflows of resources	<u>380,135</u>	<u>8,474</u>	<u>388,609</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>27,952,709</u>	<u>543,174</u>	<u>28,495,883</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	205,029	3,066	208,095
Accrued interest payable	18,618		18,618
Unearned revenue	406,460		406,460
Long-term liabilities:			
Due within 1 year:			
Bond obligations	491,000		491,000
Capital lease obligations	54,490		54,490
Total due within 1 year	<u>545,490</u>	<u>-</u>	<u>545,490</u>
Due in more than 1 year:			
Bond obligations	11,208,163		11,208,163
Capital lease obligations	211,516		211,516
Sick leave	56,116		56,116
Net pension liability	2,112,466	83,534	2,196,000
Total due in more than 1 year	<u>13,588,261</u>	<u>83,534</u>	<u>13,671,795</u>
Total liabilities	<u>14,763,858</u>	<u>86,600</u>	<u>14,850,459</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual earnings on pension plan investments	235,680	9,320	245,000
<b>NET POSITION</b>			
Net Investment in capital assets	6,258,105	218,252	6,476,357
Expendable restricted for:			
Capital projects	744,858		744,858
Debt service	302,945		302,945
Food service		234,269	234,269
Unrestricted	5,647,262		5,647,262
Deficit		(5,267)	(5,267)
Total net position	<u>12,953,171</u>	<u>447,253</u>	<u>13,400,424</u>
<b>TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 27,952,709</u>	<u>\$ 543,174</u>	<u>\$ 28,495,883</u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Activities**  
Year Ended June 30, 2015

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 10,664,764	\$ 70,286	\$ 4,149,097	\$ -	\$ (6,445,381)		\$ (6,445,381)
Support Services							
Student	411,303		143,840		(267,462)		(267,462)
Instructional Staff	406,423		142,134		(264,290)		(264,290)
District Administration	621,388		217,311		(404,077)		(404,077)
School Administration	729,537		255,133		(474,404)		(474,404)
Business	342,009		119,607		(222,402)		(222,402)
Plant Operation & Maintenance	1,227,294		429,207	524,904	(273,182)		(273,182)
Student Transportation	313,599		109,672		(203,928)		(203,928)
Community Services Operations	119,575		41,818		(77,758)		(77,758)
Amortization	74,090				(74,090)		(74,090)
Depreciation	698,664				(698,664)		(698,664)
Loss on retirement of assets	13,523				(13,523)		(13,523)
Interest on general long-term debt	413,066			320,641	(92,425)		(92,425)
Total governmental activities	<u>16,035,234</u>	<u>70,286</u>	<u>5,607,817</u>	<u>845,545</u>	<u>(9,511,586)</u>		<u>(9,511,586)</u>
Business-type activities:							
Food service operations	859,475	141,626	730,894			\$ 13,045	13,045
Daycare operations	124,136	93,136	28,753			(2,247)	(2,247)
Depreciation	19,429					(19,429)	(19,429)
Total business-type activities	<u>1,003,039</u>	<u>234,762</u>	<u>759,647</u>	<u>-</u>	<u>-</u>	<u>(8,631)</u>	<u>(8,631)</u>
Total primary government	\$ <u>17,038,273</u>	\$ <u>305,048</u>	\$ <u>6,367,464</u>	\$ <u>845,545</u>	<u>(9,511,586)</u>	<u>(8,631)</u>	<u>(9,520,217)</u>
General revenues:							
Taxes:							
Property taxes					4,505,653		4,505,653
Motor vehicle taxes					271,771		271,771
Utility taxes					931,507		931,507
State and formula grants					5,444,338		5,444,338
Unrestricted investment earnings					81,550	2,517	84,067
Other local revenue					119,210		119,210
Sale of equipment					180,109		180,109
Total general revenues					<u>11,534,138</u>	<u>2,517</u>	<u>11,536,655</u>
Change in net position					2,022,551	(6,113)	2,016,438
Net position - beginning					13,129,300	536,734	13,666,034
Prior period adjustment-1 See note Q					(2,108,262)	(83,367)	(2,191,629)
Prior period adjustment-2					(90,419)		(90,419)
Restated net position - beginning					<u>10,930,619</u>	<u>453,367</u>	<u>11,383,986</u>
Net position - ending					\$ <u>12,953,171</u>	\$ <u>447,253</u>	\$ <u>13,400,424</u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2015

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Construction</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 7,661,196	\$ 119,813	\$ 384,768	\$	\$ 364,409	\$ 8,530,186
Investments				302,945		302,945
Receivables, net						
Taxes-current	129,418					129,418
Taxes-delinquent	4,816					4,816
Intergovernmental-federal		381,936				381,936
Total assets	<u>7,795,430</u>	<u>501,748</u>	<u>384,768</u>	<u>302,945</u>	<u>364,409</u>	<u>9,349,299</u>
<b>LIABILITIES</b>						
Accounts payable	105,422	95,288	4,319			205,029
Unearned revenue		406,460				406,460
Total liabilities	<u>105,422</u>	<u>501,748</u>	<u>4,319</u>	<u>-</u>	<u>-</u>	<u>611,489</u>
<b>FUND BALANCE</b>						
Restricted			380,449	302,945	364,409	1,047,803
Unassigned	7,690,008					7,690,008
Total fund balance	<u>7,690,008</u>	<u>-</u>	<u>380,449</u>	<u>302,945</u>	<u>364,409</u>	<u>8,737,810</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 7,795,430</u>	<u>\$ 501,748</u>	<u>\$ 384,768</u>	<u>\$ 302,945</u>	<u>\$ 364,409</u>	<u>\$ 9,349,299</u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
June 30, 2015

<b>Fund balances-total governmental funds</b>	\$	8,737,810
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		18,223,274
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus</p>		113,580
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Accrued interest payable		(18,618)
Bonds payable		(11,965,169)
Sick leave liability		(56,116)
Net pension liability		(2,112,466)
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds</p>		
Deferred outflows of resources related to employer 2015 contributions to pensions		266,555
Deferred inflows of resources related to pensions		(235,680)
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u><u>12,953,171</u></u></b>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 3,777,693	\$ -	\$ -	\$ -	\$ 727,960	\$ 4,505,653
Motor vehicle	271,771					271,771
Utilities	931,507					931,507
Earnings on investments	69,856	247	9,630	1,817		81,550
Tuition	70,286					70,286
Other local revenue	37,711	81,499				119,210
Intergovernmental - state	8,155,369	457,738		154,660	524,904	9,292,672
Intergovernmental - federal	36,734	1,251,009		165,980		1,453,724
Total revenues	<u>13,350,928</u>	<u>1,790,493</u>	<u>9,630</u>	<u>322,458</u>	<u>1,252,864</u>	<u>16,726,372</u>
<b>EXPENDITURES</b>						
Instruction	8,210,033	1,674,054				9,884,087
Support Services						
Student	417,116					417,116
Instructional Staff	403,099	14,275				417,373
District Administration	626,088					626,088
School Administration	732,245					732,245
Business	339,442					339,442
Plant Operation & Maintenance	1,294,768					1,294,768
Student Transportation	418,640	17,489				436,128
Community Services Operations		120,092				120,092
Building Improvements			2,279,752			2,279,752
Debt Service	68,562			910,050		978,612
Total expenditures	<u>12,509,991</u>	<u>1,825,910</u>	<u>2,279,752</u>	<u>910,050</u>	<u>-</u>	<u>17,525,702</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	840,937	(35,417)	(2,270,122)	(587,592)	1,252,864	(799,330)
<b>OTHER FINANCING SOURCES (USES)</b>						
Sale or compensation for loss of assets	3,456		176,653			180,109
Operating transfers in		35,417	312,295	739,080		1,086,792
Operating transfers (out)	(146,471)				(940,321)	(1,086,792)
Total other financing sources and (uses)	<u>(143,015)</u>	<u>35,417</u>	<u>488,948</u>	<u>739,080</u>	<u>(940,321)</u>	<u>180,109</u>
<b>NET CHANGE IN FUND BALANCE</b>	697,922	-	(1,781,174)	151,488	312,543	(619,221)
<b>FUND BALANCE-BEGINNING</b>	<u>6,992,085</u>	<u>-</u>	<u>2,161,623</u>	<u>151,457</u>	<u>51,866</u>	<u>9,357,031</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 7,690,008</u>	<u>\$ -</u>	<u>\$ 380,449</u>	<u>\$ 302,945</u>	<u>\$ 364,409</u>	<u>\$ 8,737,810</u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental  
 Funds to the Statement of Activities**  
 Year ended June 30, 2015

<b>Net change in fund balances-total governmental funds</b>	\$	(619,221)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		26,671
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		2,010,444
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(74,090)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		
		564,792
<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>		
Accrued interest payable		754
KSBIT payable		24,394
Noncurrent sick leave payable		88,807
		88,807
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>2,022,551</b>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 3,710,000	\$ 3,710,000	\$ 3,777,693	\$ 67,693
Motor vehicle	200,000	200,000	271,771	71,771
Utilities	820,000	820,000	931,507	111,507
Earnings on investments	20,000	20,000	69,856	49,856
Tuition	55,000	55,000	70,286	15,286
Other local revenue	10,500	10,500	37,711	27,211
Intergovernmental - state	4,900,391	4,900,391	*	5,457,701
Intergovernmental - federal	25,000	25,000	36,734	11,734
Total revenues	<u>9,740,891</u>	<u>9,740,891</u>	<u>10,653,259</u>	<u>912,368</u>
<b>EXPENDITURES</b>				
Instruction	6,829,864	6,855,876	*	6,078,450
Support Services				
Student	330,168	330,168	*	326,899
Instructional Staff	353,161	358,710	*	317,075
District Administration	1,035,735	1,035,735	*	573,984
School Administration	588,835	597,197	*	586,876
Business	331,620	331,620	*	313,695
Plant Operation & Maintenance	4,394,259	4,394,259	*	1,189,483
Student Transportation	605,422	605,422	*	357,299
Debt Service	62,656	62,656	68,562	(5,906)
Total expenditures	<u>14,531,720</u>	<u>14,571,643</u>	<u>9,812,322</u>	<u>4,759,321</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(4,790,829)	(4,830,752)	840,937	5,671,689
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale or compensation for loss of assets	500	500	3,456	2,956
Operating transfers (out)	(21,779)	(21,779)	(146,471)	(124,692)
Total other financing sources and (uses)	<u>(21,279)</u>	<u>(21,279)</u>	<u>(143,015)</u>	<u>(121,736)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(4,812,108)	(4,852,031)	697,922	5,549,953
<b>FUND BALANCE-BEGINNING</b>	<u>6,843,253</u>	<u>6,843,253</u>	<u>6,992,085</u>	<u>148,832</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 2,031,145</u>	<u>\$ 1,991,222</u>	<u>\$ 7,690,008</u>	<u>\$ 5,698,786</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$2,697,668.

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From Local Sources				
Earnings on investments	\$ -	\$ -	\$ 247	\$ 247
Other local revenue			81,499	81,499
Intergovernmental - state	409,343	603,494	457,738	(145,757)
Intergovernmental - federal	1,040,761	2,085,279	1,251,009	(834,269)
Total revenues	<u>1,450,104</u>	<u>2,688,773</u>	<u>1,790,493</u>	<u>(898,281)</u>
<b>EXPENDITURES</b>				
Instruction	1,329,952	2,603,572	1,674,054	929,518
Support Services				
Instructional Staff	14,761	22,173	14,275	7,898
Student Transportation	12,362	21,395	17,489	3,906
Community Services Operations	114,808	114,552	120,092	(5,540)
Total expenditures	<u>1,471,883</u>	<u>2,761,692</u>	<u>1,825,910</u>	<u>935,783</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(21,779)	(72,919)	(35,417)	37,502
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	<u>21,779</u>	<u>21,779</u>	<u>35,417</u>	<u>13,638</u>
Total other financing sources and (uses)	<u>21,779</u>	<u>21,779</u>	<u>35,417</u>	<u>13,638</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(51,140)	-	51,140
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	<u>\$ -</u>	<u>\$ (51,140)</u>	<u>\$ -</u>	<u>\$ 51,140</u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Fund Net Position**  
**Proprietary Funds**  
June 30, 2015

	Enterprise Funds		
	School Food Services	Other Enterprise Service	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 264,053	\$ 21,413	\$ 285,466
Inventories	30,983		30,983
Capital assets:			
Other capital assets, net of depreciation	218,252		218,252
Total assets	513,287	21,413	534,700
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
District pension contributions subsequent to the measurement date	5,932	2,542	8,474
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	519,219	23,955	543,174
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	1,701	1,366	3,066
Net pension liability	58,474	25,060	83,534
Total liabilities	60,175	26,426	86,600
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual earnings on pension plan investments	6,524	2,796	9,320
<b>NET POSITION</b>			
Net Investment in capital assets	218,252	-	218,252
Restricted for:			
Expendable Restricted for Food Services	234,269		234,269
Deficit		(5,267)	(5,267)
Total net position	452,520	(5,267)	447,253
<b>TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	\$ 519,219	\$ 23,955	\$ 543,174

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2015

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Enterprise Service</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$ 141,626	\$ -	\$ 141,626
Community services		93,136	93,136
Total operating revenues	<u>141,626</u>	<u>93,136</u>	<u>234,762</u>
<b>OPERATING EXPENSES</b>			
Depreciation	19,429		19,429
Food service operations			
Salaries and benefits	319,287		319,287
Operational	540,188		540,188
Day care operations			
Salaries and benefits		93,349	93,349
Operational		30,787	30,787
Total operating expenses	<u>878,904</u>	<u>124,136</u>	<u>1,003,039</u>
Operating income (loss)	<u>(737,278)</u>	<u>(31,000)</u>	<u>(768,277)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal grants	636,698	3,283	639,981
State grants	94,196	25,470	119,666
Earnings from investments	2,517		2,517
Total nonoperating revenues (expenses)	<u>733,411</u>	<u>28,753</u>	<u>762,164</u>
<b>CHANGE IN NET POSITION</b>	(3,867)	(2,247)	(6,113)
<b>NET POSITION-BEGINNING</b>	514,744	21,989	536,734
PRIOR PERIOD ADJUSTMENT	(58,357)	(25,010)	(83,367)
<b>RESTATED NET POSITION-BEGINNING</b>	<u>456,387</u>	<u>(3,021)</u>	<u>453,367</u>
<b>NET POSITION-ENDING</b>	\$ <u>452,520</u>	\$ <u>(5,267)</u>	\$ <u>447,253</u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2015

	Enterprise Funds		
	School Food Services	Other Enterprise Service	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 141,626	\$ 93,136	\$ 234,762
Payments to suppliers	(536,141)	(30,034)	(566,175)
Payments to employees	(319,287)	(93,349)	(412,636)
Net cash provided (used) by operating activities	(713,803)	(30,247)	(744,049)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating grants and contributions	730,894	28,753	759,647
Net pension expense	709	304	1,013
Net cash provided (used) by noncapital financing activities	731,603	29,057	760,660
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(10,431)		(10,431)
Net cash provided (used) by capital and related financing activities	(10,431)	-	(10,431)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	2,517	-	2,517
Net cash provided (used) by investing activities	2,517	-	2,517
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	9,887	(1,190)	8,697
<b>CASH AND CASH EQUIVALENTS-BEGINNING</b>	254,166	22,603	276,769
<b>CASH AND CASH EQUIVALENTS-ENDING</b>	\$ 264,053	\$ 21,413	\$ 285,466
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>			
Operating income (loss)	\$ (737,278)	\$ (31,000)	\$ (768,277)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	19,429		19,429
Changes in assets and liabilities:			
Inventories	3,517		3,517
Accrued liabilities	529	753	1,282
Net cash used by operating activities	\$ (713,803)	\$ (30,247)	\$ (744,049)

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$53,964 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$85,712 for school food services provided by state government.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$25,470 for child care services provided by state government.

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2015

	<u>School Activity Fund</u>	<u>Private Purpose Trust Fund</u>	<u>Fiduciary Fund Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 106,360	\$ 22,406	\$ 128,766
Accounts receivable	<u>2,966</u>	<u>-</u>	<u>2,966</u>
Total Assets	<u><u>109,326</u></u>	<u><u>22,406</u></u>	<u><u>131,732</u></u>
<b>LIABILITIES</b>			
Accounts payable	-	-	-
Due to student groups	<u>109,326</u>	<u>-</u>	<u>109,326</u>
Total Liabilities	<u><u>109,326</u></u>	<u><u>-</u></u>	<u><u>109,326</u></u>
<b>NET POSITION HELD IN TRUST</b>	<u><u>-</u></u>	<u><u>22,406</u></u>	<u><u>22,406</u></u>
<b>TOTAL LIABILITIES AND NET POSITION HELD IN TRUST</b>	<u><u>\$ 109,326</u></u>	<u><u>\$ 22,406</u></u>	<u><u>\$ 131,732</u></u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
For the year ended June 30, 2015

		<u>Private Purpose Trust Fund</u>
<b>Additions</b>		
Earnings on investments	\$	-
<b>Deductions</b>		
Benefits paid		-
		<hr/>
<b>Increase in Net Position</b>		-
<b>Net Position-Beginning</b>		22,406
<b>Net Position-Ending</b>	\$	<u><u>22,406</u></u>

See the accompanying notes to the financial statements.

SOMERSET INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2015

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

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

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

Blended Component Unit

Somerset Independent Board of Education Finance Corporation

The Board authorized establishment of the Somerset Independent Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Somerset Independent Board of Education.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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) General Fund

The General Fund is the main operating fund of the District. 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 always a major fund of the District.

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

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).

#### SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District

### (D) Debt Service Fund

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

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

### (B) Child Care Fund

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District applies all GASB pronouncements to proprietary funds.

### III. Fiduciary Fund Types

#### Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds,” except for those accounted through the central office.

The Private Purpose Trust Funds are maintained within MUNIS and account for revenues generated by trusts set up to benefit students in Somerset Independent.

#### 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 Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, 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.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the 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 unearned revenue.

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

### Property Taxes

Property 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 in the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2015, to finance the General Fund operations were \$.685 per \$100 valuation of real property, \$.685 per \$100 valuation for business personal property and \$.568 per \$100 valuation for motor vehicles.

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

### 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 government funds. These assets are reported in the government activities column of the government-wide financial Statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide Statement of Net Position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

Inter-fund Balances

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, all amendments require Board approval. 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.

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

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, including the proprietary fund, inventories are stated at cost, on the first-in, first-out basis, using the accrual method of accounting.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

### 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 judgment, 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 Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position are reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### Operating and Non-Operating Revenues and Expenses

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

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

### Contributions of Capital

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

### Interfund Activity

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

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### Estimates

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

### New Accounting Pronouncements

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.

### **NOTE B – CASH AND CASH EQUIVALENTS**

The District's cash and cash equivalents were interest bearing demand accounts at two local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

*SEE SCHEDULE ON NEXT PAGE*

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<u>Bank Balance</u>
<u>Forcht Bank</u>	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	<u>139,740</u>
Bank balance	<u>\$ 389,740</u>

	<u>Bank Balance</u>
<u>First &amp; Farmers Bank</u>	<u>Demand</u>
FDIC	\$ 250,000
Securities pledged to district	<u>8,651,654</u>
Bank balance	<u>\$ 8,901,654</u>

	<u>Book Balance</u>
	<u>Cash and cash equivalents</u>
Governmental Activities	\$ 8,530,186
Business-type Activities	285,466
Fiduciary Funds :	
School Activity	106,360
Private Purpose Trust	<u>22,406</u>
Total carrying amount	<u>\$ 8,944,417</u>

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE C – CAPITAL ASSETS**

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

	<u>July 1, 2014</u>		<u>Additions</u>		<u>Retirements</u>		<u>June 30, 2015</u>		
Land	\$ 647,537	\$	-	\$	-	\$	647,537		
Land improvements	1,669,932		-		-		1,669,932		
Buildings	17,151,359		138,650		-		17,290,009		
Technology equipment	1,580,180		254,884		193,596		1,641,468		
Vehicles	1,175,089		120,803		-		1,295,892		
General equipment	324,865		67,192		193,999		198,058		
Construction in progress	<u>6,231,419</u>		<u>2,279,752</u>		<u>138,650</u>		<u>8,372,521</u>		
	\$ <u>28,780,381</u>	\$	\$ <u>2,861,281</u>	\$	\$ <u>526,245</u>	\$	\$ <u>31,115,417</u>		
Land improvements	\$ 1,232,711	\$	53,277	\$	-	\$	1,285,988		
Buildings	8,842,126		398,511		-		9,240,636.91		
Technology equipment	1,219,458		179,496		182,787		1,216,167		
Vehicles	975,293		57,172		-		1,032,465		
General equipment	<u>297,962</u>		<u>10,209</u>		<u>191,285</u>		<u>116,885.86</u>		
	\$ <u>12,567,551</u>	\$	\$ <u>698,664</u>	\$	\$ <u>374,072</u>	\$	\$ <u>12,892,143</u>		
Capital Assets-net	\$ <u>16,212,830</u>	\$	\$ <u>2,162,617</u>	\$	\$ <u>152,173</u>	\$	\$ <u>18,223,274</u>		
			<u>July 1, 2014</u>		<u>Additions</u>		<u>Retirements</u>		<u>June 30, 2015</u>
Buildings	\$ 169,156	\$	-	\$	-	\$	169,156		
Technology Equipment	15,846		-		-		15,846		
General equipment	<u>330,614</u>		<u>10,431</u>		<u>16,644</u>		<u>324,401</u>		
	<u>515,616</u>	\$	<u>10,431</u>	\$	<u>16,644</u>	\$	<u>509,403</u>		
Buildings	95,989		-		-		95,989		
Technology Equipment	5,185		-		-		5,185		
General equipment	<u>187,193</u>		<u>19,429</u>		<u>16,644</u>		<u>189,978</u>		
	\$ <u>288,367</u>	\$	\$ <u>19,429</u>	\$	\$ <u>16,644</u>	\$	\$ <u>291,152</u>		
Capital Assets-net	\$ <u>227,249</u>	\$	\$ <u>(8,998)</u>	\$	\$ <u>-</u>	\$	\$ <u>218,252</u>		

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

**NOTE D – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Somerset Independent School District Finance Corporation aggregating \$11,699,163, and \$491,000 is the portion due within one year.

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

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2015 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2015 Outstanding Balance</u>
2007	\$ 577,000	1/1/2027	4.0%	\$ 422,000	\$ -	25,000.00	\$ 397,000
2010	710,000	5/1/2030	1.0 - 3.10%	630,000		20,000.00	610,000
2010	1,085,000	6/30/2019	1.0 - 3.10%	625,000		120,000.00	505,000
2003	155,000	7/1/2015	3.10%	25,000		25,000.00	-
2006	1,355,000	5/1/2017	3.50 - 3.70%	760,000		235,000.00	525,000
2012	1,535,000	6/1/2024	1.125 - 2.50%	1,480,000		55,000.00	1,425,000
2012	4,532,163	12/1/2035	3.70%	4,532,163		-	4,532,163
2013	\$ 3,730,000	10/1/1933	.60%-3.9%	3,730,000		25,000.00	3,705,000
Totals				\$ 12,204,163	\$ -	\$ 505,000	\$ 11,699,163

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to 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:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Fiscal Year Ended	<u>Principal</u>		<u>Interest</u>			<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Federal</u>	<u>Principal</u>	<u>Interest</u>
<u>30-Jun</u>							
2016	\$ 432,078	\$ 58,922	\$ 181,382	\$ 30,478	\$ 178,771	\$ 491,000	\$ 390,631
2017	471,293	60,707	168,648	28,635	178,491	532,000	375,774
2018	485,446	63,554	154,169	26,707	178,211	549,000	359,088
2019	495,478	64,522	144,418	24,639	177,931	560,000	346,989
2020	324,385	66,615	133,715	22,486	177,651	391,000	333,851
2021-2025	1,413,001	320,999	567,886	76,028	882,482	1,734,000	1,526,395
2026-2030	1,428,284	176,716	373,964	20,056	858,344	1,605,000	1,252,365
2031-2035	1,305,000	-	104,198	-	838,450	1,305,000	942,648
2036	2,557,876	1,974,287	-	-	167,690	4,532,163	167,690
	<u>\$ 8,912,841</u>	<u>\$ 2,786,322</u>	<u>\$ 1,828,380</u>	<u>\$ 229,029</u>	<u>\$ 3,638,022</u>	<u>\$ 11,699,163</u>	<u>\$ 5,695,431</u>

The District issued a 2012 Qualified Zone Academy Bond (QZAB) for which they are making annual payments into an escrow account. These payments are being invested and accumulating interest for which will be used to retire the bond on December 1, 2036. As of June 30, 2015 the escrow account had accumulated \$302,945.

**NOTE E – CAPITAL LEASE PAYABLE**

The following is an analysis of the leased property under capital lease by class:

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2014</u>			<u>2015</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2012	\$ 116,274	3/1/2022	2.0 - 2.625%	\$ 90,535	\$ -	\$ 10,993	\$ 79,542
2005	56,955	3/1/2015	3.0 - 3.625%	5,450		5,450	-
2006	77,473	3/1/2017	3.50 - 3.875%	23,926		8,647	15,279
2008	204,162	3/1/2018	3.0 - 3.75%	82,397		21,336	61,061
2014	\$ 123,490	3/1/2024	2-3%	123,490		13,366	110,124
Totals				<u>\$ 325,798</u>	<u>\$ -</u>	<u>\$ 59,792</u>	<u>\$ 266,006</u>

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2015:

*SEE SCHEDULE ON NEXT PAGE*

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Fiscal Year Ended				Total
<u>30-Jun</u>	<u>Principal</u>		<u>Interest</u>	<u>Payments</u>
2016	\$ 54,490		\$ 7,052	\$ 61,542
2017	50,025		5,477	55,502
2018	43,407		4,006	47,413
2019	24,082		2,791	26,873
2020	24,576		2,309	26,885
2021-2024	<u>69,426</u>		<u>3,150</u>	<u>72,576</u>
	<u>\$ 266,006</u>		<u>\$ 24,784</u>	<u>\$ 290,790</u>

Total minimum lease payments	\$ 290,790
Less: Amount representing interest	(24,784)
Present Value of Net Minimum Lease Payments	\$ 266,006

**NOTE F – OTHER LONG TERM OBLIGATIONS**

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2015 for accumulated sick leave is as follows:

	2014			2015
	<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
Sick Leave	\$ 144,923	\$ -	\$ 88,807	\$ 56,116
Totals	<u>\$ 144,923</u>	<u>\$ -</u>	<u>\$ 88,807</u>	<u>\$ 56,116</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”)**

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*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 At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

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

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

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

### **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](http://www.ktrs.ky.gov/05_publications/index.htm).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### Medical Insurance Plan

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

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

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

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

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

District's proportionate share of CERS net pension liability	\$	2,196,000
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		<u>45,261,438</u>
	\$	<u>47,457,438</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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The District’s proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District’s proportion was .067695% (percent).

For the year ended June 30, 2015, the District recognized pension expense of \$249,370 related to CERS and \$3,960,155 related to KTRS. The District also recognized revenue of \$3,960,155 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	245,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	<u>275,029</u>	<u>-</u>
	<u>\$ 275,029</u>	<u>\$ 245,000</u>

\$275,029 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:

	<b>Year Ended June 30,</b>
	<u>                    </u>
2016	\$ 55,006
2017	55,006
2018	55,006
2019	55,006
2020	<u>55,006</u>
	<u>\$ 275,029</u>

## NOTES TO THE 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:

	CERS	KTRS
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 THE 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:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	2,479,669	2,196,000	1,912,888
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	-	-	-

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

### NOTE H – COMMITMENTS

The District has commitments of \$4,393,373 as of June 30, 2015 for future construction projects.

### NOTE I - CONTINGENCIES

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

### NOTE J - LITIGATION

The District currently there are no known pending or threatened legal issues which are not expected to be covered by the District’s insurance carrier.

### NOTE K – INSURANCE AND RELATED ACTIVITIES

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

### NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

workers' compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts 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 coverage in any of the past three fiscal years.

**NOTE M - COBRA**

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

**NOTE N – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General Fund	Special Revenue Fund	KETS Matching	\$ 35,417
Operating	General Fund	Construction Fund	Construction	111,054
Operating	FSPK Fund	Construction Fund	Construction	201,241
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt Payments	147,570
Debt Service	FSPK Fund	Debt Service Fund	Debt Payments	\$ 591,510

**NOTE O – DEFICIT FUND AND OPERATING BALANCES**

The following funds had an operating deficit at the end of the fiscal year causing a reduction in the fund balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Proprietary/Business-Type Activities	\$ (6,113)
Construction Fund	\$ (1,781,174)

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE P – ON-BEHALF PAYMENTS**

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

<u>Plan/Description</u>		<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$	1,066,599
Health Insurance		1,794,731
Life Insurance		2,805
Administrative Fee		19,311
HRA/Dental/Vision		37,888
Federal Reimbursement		(169,259)
Technology		56,776
SFCC Debt Service Payments		<u>155,160</u>
Total	\$	<u><u>2,963,511</u></u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

**NOTE Q – CHANGE IN ACCOUNTING PRINCIPLE AND RELATED CHANGES TO CERTAIN BEGINNING BALANCES**

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$2,191,629 reduction in beginning net position on the Statement of Activities and an increase of \$293,370 of deferred outflows of resources – District contributions subsequent to the measurement date.

**NOTE R – PRIOR PERIOD ADJUSTMENT**

Accumulated depreciation was understated by \$90,419 causing Net Position to be overstated. This adjustment resulted in prior period adjustments as follows:

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	Total <u>Activities</u>
Net Position July 1, 2014	\$ 13,129,300	\$ 536,734	\$ 13,666,034
Prior Period Adjustment 1 (See Note Q)	(2,108,262)	(83,367)	(2,191,629)
Prior Period Adjustment 2	<u>(90,419)</u>	-	<u>(90,419)</u>
Restated Net Position July 1, 2014	<u><u>\$ 10,930,619</u></u>	<u><u>\$ 453,367</u></u>	<u><u>\$ 11,383,986</u></u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE S – RESTRICTED FUND BALANCES**

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service	\$ 302,945	Debt Service
Construction Fund	380,449	Construction
FSPK	364,409	SFCC Requirement
Proprietary Fund	234,269	School Food Service
Proprietary Fund	\$ (5,267)	Day Care Operations

**NOTE T – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through November 13, 2015, the date of the audit report.

SOMERSET INDEPENDENT SCHOOL DISTRICT  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

	Reporting Fiscal Year (Measurement Date) 2015 (2014)
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>	
Districts' proportion of the net pension liability	0.0677%
District's proportionate share of the net pension liability	\$ 2,196,000
State's proportionate share of the net pension liability associated with the District	-
Total	\$ 2,196,000
District's covered-employee payroll	\$ 1,551,821
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	141.51%
Plan fiduciary net position as a percentage of the total pension liability	66.80%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>	
Districts' proportion of the net pension liability	0.2203%
District's proportionate share of the net pension liability	\$ -
State's proportionate share of the net pension liability associated with the District	45,261,438
Total	\$ 45,261,438
District's covered-employee payroll	\$ -
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

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

See the accompanying notes to the required supplementary information.

SOMERSET INDEPENDENT SCHOOL DISTRICT  
**SCHEDULE OF CONTRIBUTIONS**

	2015	2014
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>		
Contractually required contribution	\$ 275,029	\$ 293,139
Contributions in relation to the contractually required contribution	275,029	293,139
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,556,476	\$ 1,551,821
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	17.67%	18.89%
 <b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ -	\$ -
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

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

See the accompanying notes to the required supplementary information.

SOMERSET INDEPENDENT SCHOOL DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the year ended June 30, 2015

*Changes of benefit terms* - None

*Changes of assumptions* - None

Somerset Independent School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2015

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ -	\$ 364,409	\$ 364,409
Total Assets	-	364,409	364,409
<b>Fund Balance</b>			
Restricted	-	364,409	364,409
Total Fund Balance	\$ -	\$ 364,409	\$ 364,409

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
Year ended June 30, 2015

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Revenues</b>			
From Local Sources			
Taxes			
Property	\$ -	\$ 727,960	\$ 727,960
Earnings from investments			-
Intergovernmental - State	147,570	377,334	524,904
Total Revenues	147,570	1,105,294	1,252,864
<b>Expenditures</b>			
Community Services			-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	147,570	1,105,294	1,252,864
<b>Other Financing Sources (Uses)</b>			
Transfers (Out)	(147,570)	(792,751)	(940,321)
Total Other Financing Sources (Uses)	(147,570)	(792,751)	(940,321)
<b>Net Change In Fund Balances</b>	-	312,543	312,543
<b>Fund Balance Beginning</b>	-	51,866	51,866
<b>Fund Balance Ending</b>	\$ -	\$ 364,409	\$ 364,409

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Combining Balance Sheet of Fiduciary Funds- School Activity and Private Purpose Trust**  
 June 30, 2015

	<u>SCHOOL ACTIVITY FUNDS</u>			<u>PRIVATE PURPOSE TRUST FUND</u>	<u>FIDUCIARY FUND TOTALS</u>
	<u>SOMERSET INDEPENDENT HIGH SCHOOL</u>	<u>MEECE MIDDLE SCHOOL</u>	<u>HOPKINS ELEMENTARY</u>		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 57,222	\$ 39,542	\$ 9,596	\$ 22,406	\$ 128,766
Accounts receivable	<u>1,771</u>	<u>70</u>	<u>1,126</u>	<u>-</u>	<u>2,966</u>
Total Assets	<u><u>58,992</u></u>	<u><u>39,612</u></u>	<u><u>10,722</u></u>	<u><u>22,406</u></u>	<u><u>131,732</u></u>
<b>LIABILITIES</b>					
Accounts Payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>					
Scholarships				22,406	22,406
School Activities	<u>58,992</u>	<u>39,612</u>	<u>10,722</u>	<u>-</u>	<u>109,326</u>
Total Fund Balances	<u><u>58,992</u></u>	<u><u>39,612</u></u>	<u><u>10,722</u></u>	<u><u>22,406</u></u>	<u><u>131,732</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 58,992</u></u>	<u><u>\$ 39,612</u></u>	<u><u>\$ 10,722</u></u>	<u><u>\$ 22,406</u></u>	<u><u>\$ 131,732</u></u>

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance-School Activity and Private Purpose Trust**  
Year ended June 30, 2015

	<b>SCHOOL ACTIVITY FUNDS</b>				
	<b>SOMERSET INDEPENDENT HIGH SCHOOL</b>	<b>MEECE MIDDLE SCHOOL</b>	<b>HOPKINS ELEMENTARY</b>	<b>PRIVATE PURPOSE TRUST FUND</b>	<b>FIDUCIARY FUND TOTALS</b>
<b>REVENUES</b>					
Student revenues	\$ 301,786	\$ 85,540	\$ 10,146	\$ -	\$ 397,472
Total revenues	301,786	85,540	10,146	-	397,472
<b>EXPENSES</b>					
Student activities	283,888	86,438	7,451	-	377,777
Total expenses	283,888	86,438	7,451	-	377,777
Excess (Deficit) of Revenues Over Expenses	17,897	(898)	2,696	-	19,695
<b>FUND BALANCE JULY 1, 2014</b>	41,095	40,509	8,027	22,406	112,037
<b>FUND BALANCE JUNE 30, 2015</b>	\$ 58,992	\$ 39,612	\$ 10,722	\$ 22,406	\$ 131,732

See the accompanying notes to the financial statements.

Somerset Independent School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Somerset Independent High School**  
Year ended June 30, 2015

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
ACADEMIC TEAM	\$ 592	\$ -	\$ -	\$ -	\$ 592
ART CLUB	987	-	872	696	811
CHORUS	491	1,662	1,224	-	930
CLASS OF 2019	-	248	-	-	248
CLASS OF 2018	-	1,150	949	-	201
CLASS OF 2015	3,751	1,586	5,050	-	287
CLASS OF 2016	174	18,973	11,193	-	7,954
CLASS OF 2014	8	-	-	(8)	-
CLASS OF 2017	171	1,701	1,797	-	74
DECA	4,260	43,442	40,826	75	6,952
FCA	1,018	-	-	-	1,018
DRAMA	-	19,285	17,643	-	1,643
FCCLA	493	-	-	-	493
DANCE TEAM	-	13,195	10,963	-	2,233
E-TEAM	39	-	-	-	39
NHS	405	2,383	2,065	-	723
PEP CLUB	231	-	-	-	231
NANA'S GOLDEN KAZOO	-	1,000	1,000	-	-
KATHY HALL MEMORIAL	125	-	25	-	100
PSAT	-	322	322	-	-
HONORS NIGHT	1,442	3,107	2,990	-	1,559
BILL ADAMS AWARD	1,103	-	50	-	1,053
AP EXAMS	3,174	12,654	10,781	(1,000)	4,047
SCIENCE CLUB	605	-	-	461	1,066
STUDENT COUNCIL	1,367	1,380	1,620	-	1,126
TEENS WHO CARE	42	-	-	-	42
YEARBOOK	3,943	3,264	291	-	6,917
Y-CLUB	567	10,520	9,996	-	1,092
BETA CLUB	445	1,914	1,926	-	433
ATHLETICS	1,352	51,000	58,368	9,243	3,228
HALL OF FAME	2,394	690	2,048	-	1,037
ATHLETIC PROGRAM	(9,544)	7,845	(7,149)	(5,350)	100
RAY CORRELL BOWL	-	24,893	20,980	(3,913)	-
ATHLETIC CHANGE	-	43,210	43,210	-	-
STLP	502	-	-	-	502
UNITE	11	1	-	-	12
FBLA	119	1,730	1,332	-	517
CULTURE CLUB	246	-	-	-	246
BOOK CLUB	151	-	-	-	151
LIBRARY-PRINTED	264	-	-	(264)	-
LIBRARY-SOFT/HARDWARE	327	-	-	(327)	-
LIBRARY FEE	747	13	218	-	542
ADVANCED SCIENCE	584	84	84	-	584
INTEREST	1,873	640	1,864	-	649
21ST CENTURY GRANT	784	-	784	-	-
STLP CLUB	50	-	-	-	50
PRINCIPALS OFFICE	2,077	583	2,054	1,040	1,647
FIELD TRIPS	3	631	634	-	-
ARCHERY TEAM	437	-	-	20	457
STUDENT ACT/INST	28	238	2,079	1,918	104
JUMPER TEAM	910	-	-	(910)	-
STUDENT VENDING	261	667	830	-	98
GUIDANCE	816	45	35	-	826
TEACHER VENDING	233	573	389	-	418
PARKING	414	2,875	3,289	-	-
ART DEPT	112	765	181	(696)	-
BUSINESS DEPT	160	-	160	-	-
ENGLISH DEPT	199	-	-	(199)	-
HEALTH/PE DEPT	250	-	-	(250)	-
SCIENCE DEPT	461	-	-	(461)	-
SENIOR TRIP	-	1,230	1,155	(75)	-
FOOTBALL TEAM	-	240	240	-	-
SOCCER TEAM	-	60	60	-	-
BOYS BASKETBALL TEAM	-	1,936	1,936	-	-
GIRLS BASKETBALL TEAM	-	641	626	-	15
BASEBALL TEAM	-	90	90	-	-
SOFTBALL TEAM	-	859	859	-	-
TRACK TEAM	48	8,688	8,714	-	22
BOYS GOLF TEAM	5,513	1,285	3,967	-	2,831
GIRLS GOLF TEAM	1,186	-	188	-	999
TENNIS TEAM	(0)	2,485	1,878	-	607
VOLLEYBALL TEAM	2,153	8,199	9,681	-	670
SWIM TEAM	1	-	-	-	1
CROSS COUNTRY TEAM	538	1,805	1,524	-	819
<b>Totals</b>	<b>\$ 41,095</b>	<b>\$ 301,786</b>	<b>\$ 283,888</b>	<b>\$ -</b>	<b>\$ 58,992</b>

See the accompanying notes to the financial statements.

SOMERSET INDEPENDENT SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
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 Somerset Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2015, the District had food commodities totaling \$53,964.

SOMERSET INDEPENDENT SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
<b>School Breakfast Program</b>	10.553			
Fiscal Year 14		7760005 14	\$	N/A
Fiscal Year 15		7760005 15		\$ 33,365
<b>National School Lunch Program</b>	10.555			113,280
Fiscal Year 14		7750002 14	N/A	96,870
Fiscal Year 15		7750002 15	N/A	333,969
<b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 14		7690024 14	N/A	496
Fiscal Year 14		7740023 14	N/A	4,754
Child Nutrition Cluster Subtotal				<u>582,734</u>
<b>Child and Adult Care Food Program</b>	10.558			
Fiscal Year 14		7790021 14	N/A	516
Fiscal Year 15		7790021 15	N/A	2,767
				<u>3,283</u>
Passed Through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 15		510.4950	N/A	53,964
Total US Department of Agriculture				<u>639,981</u>
US Department of Education				
Passed Through State Department of Education				
* <b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 14		3100002 14	536,130	172,902
Fiscal Year 14M		3100002 14	5,416	2,880
Fiscal Year 15		3100002 15	524,481	380,083
Fiscal Year 15M		3100002 15	5,146	3,284
* <b>Title I Grants, Part D</b>	84.010A			
Fiscal Year 13		3100102 13	13,738	146
Fiscal Year 14		3100102 14	16,757	7,439
				<u>566,734</u>
* <b>Special Education Grants to States</b>	84.027A			
Fiscal Year 14		3810002 14	313,456	1,772
Fiscal Year 15		3810002 15	332,020	337,140
* <b>Special Education - Preschool Grants</b>	84.173A			
Fiscal Year 14		3800002 14	24,278	15,997
Fiscal Year 15		3800002 15	24,278	16,074
Special Education Cluster Subtotal				<u>370,983</u>
<b>Migrant Education</b>				
Fiscal Year 15	84.011	311002 15	63,163	30,200
<b>Vocation Education - Basic Grants to States</b>	84.048			
Fiscal Year 14A		3710002 14	663	663
Fiscal Year 15		3710002 15	12,755	12,755
				<u>13,418</u>
<b>Rural Education</b>	84.358B			
Fiscal Year 13		3140002 13	29,045	8,455
Fiscal Year 14		3140002 14	28,517	32,523
Fiscal Year 15		3140002 15	34,367	26,155
				<u>67,133</u>
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 14		3230002 14	79,270	20,704
Fiscal Year 15		3230002 15	63,266	39,533
				<u>60,237</u>
<b>Twenty-First Century Community Learning Centers</b>	84.287			
Fiscal Year 13		3400002 13	75,000	15,196
Fiscal Year 13U		3400002 13	5,000	5,000
Fiscal Year 13Z		3400002 13	17,000	16,899
Fiscal Year 14		3400002 14	75,000	41,042
				<u>78,136</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	24,172	1,878
Passed through Berea College				
<b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334A			
Fiscal Year 15		379A	25,000	24,194
Fiscal Year 15M		379AM	N/A	267
Fiscal Year 15R		379AR	75,000	37,725
				<u>62,186</u>
Total US Department of Education				<u>1,250,906</u>
<b>Total Expenditure of Federal Awards</b>				<u>\$ 1,890,887</u>
* Major program				

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

**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***

To the Somerset Independent Board of Education and  
State Committee for School District Audits  
Somerset, Kentucky

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

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Somerset Independent School District, in a separate letter dated November 13, 2015.

In addition, the results of our tests disclosed no material deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the Kentucky Public School District's Audit Contract and Requirements or Appendices.

### **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.

*White & Associates, P.C.*

Richmond, Kentucky  
November 13, 2015

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

To the Somerset Independent Board of Education and  
State Committee for School District Audits  
Somerset, Kentucky

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

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

## Report on Internal Control Over Compliance

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

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

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

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.

*White & Associates, P.C.*

Richmond, Kentucky  
November 13, 2015

**SOMERSET INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2015

**SUMMARY OF AUDITORS' RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Title 1 [CFDA 84.010A] Special Education Cluster [CFDA 84.027A, 84.173A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings at the major federal award programs level.

**SOMERSET INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
For the year ended June 30, 2015

There were no prior year findings.