

SPENCER COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

YEAR ENDED JUNE 30, 2015

**SPENCER COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2015**

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BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County 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; 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 *Appendices I through IV of the Independent Auditor's Contract*. 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 Spencer County School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-9 and 33 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 inquires 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 *Governmental Auditing Standards*, we have issued our report dated October 26, 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 *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brown & Company CPA's

Bardstown, Kentucky
October 26, 2015

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

The discussion and analysis of Spencer County School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$9,967,434.90 in 2015, including a building fund cash balance of \$5,256,930.75. The ending cash balance for the District was \$9,746,663.70 in 2014, including a construction fund cash balance of \$6,859.69 and a building fund cash balance of \$5,196,834.61.
- No funds of the District have a deficit fund balance. However, the District Activity Fund and the Construction Fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a reduction of fund balance in the amount of \$6,442 and \$6,860 respectively.
- The District purchased three new buses through the KISTA lease program during fiscal year 2015. The District will continue to review the age and miles of its' fleet and purchase replacements accordingly.
- Technology is a part of our standards, curriculum documents, teaching and learning strategies and assessment instruments. The District invested \$438,601 in technology hardware purchases, interactive classroom devices and software during fiscal year 2015. An independent technology review team was invited to the District in the fall of 2014 to analyze our technology infrastructure and operations. The District will implement the recommendations of the team, including investing in upgrading hardware, offering more interactive devices and capabilities, offering professional development opportunities to the staff, and restructuring the technology department.
- The District experienced a slight growth of .97% in ADA during fiscal year 2015. The District anticipates minimal growth in fiscal year 2016, with a possible growth rate of .40%.
- The Board, having approved the District facilities plan, purchased 25.505 acres in March, 2015 for a purchase price of \$344,317.50. The Board's initial BG-1, Project Application Form, received approval from the Kentucky Department of Education on June 30, 2015 to construct a new elementary school to house 600 students on the site. The initial estimated project cost, including the land purchase, is \$17,088,826. The Board has committed \$175,000 of their general fund balance on June 30, 2015 towards the cost of opening the new site.
- The District is one of the twenty-two districts to share in the benefits of a \$41 million federal Race to the Top grant. The four year grant is a collaborative effort of the Green River Regional Cooperative and the Ohio Valley Educational Cooperative. The grant focuses on kindergarten readiness and college and career readiness initiatives. Participating schools are working with an initiative called "Leader in Me" a school model that improves achievement and school climate by building student self-confidence and responsibility.
- The Kentucky General Assembly passed Senate Bill 97, which raises the compulsory attendance age to 18, in its 2013 regular session. Adoption of this policy was voluntary until 55% of districts adopted the policy. Once 55% of the districts adopted the policy, the statute mandates the remaining districts must adopt and implement within four years. The Kentucky Board of Education adopted a resolution encouraging districts to be early adopters of the policy. The Spencer County Board of Education adopted the policy at its July 2, 2013 board meeting. The compulsory attendance age of 18 will be effective for the district with the 2015-2016 school year. A state grant in the amount of \$10,000 was awarded to the district for the planning and implementation of the change in compulsory attendance age.
- The District was awarded a 21st Century grant in the spring of 2014. The grant is designed to provide constructive learning activities during non-school hours, resulting in improved student achievement and social outcomes for our youth. Approximately 23% of the student enrollment participates in one or more of the activities offered.

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

- The District was a member of the Kentucky School Boards Insurance Trust (KSBIT) Workers Compensation Self-Insurance Pool and Property and Liability Self-Insurance Pool. Significant deficits of the Pools required the Board of Trustees of KSBIT, under the law, to take corrective action. The self-insurance Pools ceased coverage effective July 1, 2013. A court ordered assessment was issued to the district in July 2014 for its portion of the deficit and cost of the transfer of liability to a qualified insurer/reinsurer. The property and liability assessment and the workers compensation assessment totaled \$176,425 and \$309,747 respectively. Several payment options were extended to the district. The Board approved the full payment option of the \$176,425 and approved the payment option to pay 25% of the \$309,747 in fiscal year 2015 and pay the balance of \$232,310 in six annual installments of \$38,718.33. It is important to note that the Kentucky League of Cities filed legal action for repayment of \$8,000,000 in surplus notes which would be proportionally assessed the Districts. Recently, the Court ruled that the League of Cities was not entitled to the repayment and that KSBIT was entitled to a refund of \$1,200,000 of improperly made interest payments on the notes. The Court ordered the \$1,200,000, plus interest, to be refunded to KSBIT and proportionally distributed to the Districts. An appeal of the Court’s decision is anticipated.
- The District is celebrating the results of the Kentucky Performance Rating for Educational Progress (K-PREP) released by the Kentucky Department of Education. The results show that Spencer County is a *distinguished district*, and ranked in the 91 percentile of all districts in the Commonwealth.
- The District’s General Fund had receipts of \$21.4 million, excluding bond/lease proceeds and inter-fund transfers, which primarily consisted of the state (SEEK), state on-behalf payments, property, motor vehicle and utility taxes. There was \$21.5 million in General Fund expenditures, excluding inter-fund transfers. The Consolidated District Improvement Plan (CDIP) includes a needs assessment document. The District allocated approximately \$87,120 in Section 7 funds to the schools during the 2015 school year to address the items identified by the school councils as a priority to improve instruction. The District continues to place a strong emphasis on career and college readiness. The recent results of the Brigance Kindergarten Readiness screening reflect 40% of our children are ready to enter kindergarten. The Board approved the addition of a full day preschool classroom in fiscal year 2015, specifically to address the students entering preschool from full day Head Start programs. The district will continue strengthening their focus on addressing the need for early childhood education for all children.
- The District has no industrial tax base. The District’s property tax base is derived from residential growth and assessments. The property assessment value grew 1.4% in fiscal year 2015. The District levied the compensating tax rate of 61.1 cents, plus the exoneration fee of .30 per \$100.
- Bonds are issued as the District constructs or renovates facilities consistent with a long-range plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s total debt decreased \$1,460,733 during the current fiscal year.
- All staff received a 1% mandated increase in salary in addition to a step increase for the 2014-15 school year. The District’s per pupil SEEK allocation was increased from \$3,827 to \$3,911 to assist with the cost of the mandated increase in salary.
- In June 2012, the Governmental Accounting Standards Board (GASB) issued statements that change the way a state and local government system disclose pension information. GASB 68 Financial Reporting for Pensions is effective for fiscal years beginning after June 2014. The District is required to record their proportionate share of the cost-sharing plan’s collective net pension liability on their Statements of Net Position and is also required to recognize their proportionate share of the actuarially calculated pension expense. The changes are designed to improve pension information and increase transparency, consistency, and comparability of pension information across governments.

As the District enters into the fiscal year 2015, budget concerns are focused on early childhood education, college and career readiness programs, staffing needs, competitive salaries, increased employee benefits, instructional material needs, increased operational costs and pursuing the District vision for technology based learning. As of the year ended June 30, 2015, the District sustained a stable financial status attributed to conservative spending practices. It is evident the District has effectively and efficiently managed the resources, and at the same time continues to make progress toward education proficiency.

USING THIS ANNUAL REPORT

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

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Government-wide Financial Statements

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

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

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

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

The government-wide financial statements can be found on pages 10-11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting 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. The proprietary funds are our school nutrition operation and the day care operation. The only fiduciary funds are agency funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21-32 of the report.

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, assets exceeded liabilities by \$13.3 million as of June 30, 2015.

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

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

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

**Net Position for the periods ending June 30, 2015 and 2014
(Table 1)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Current and Other Assets	\$11,999,489	\$ 11,690,830	\$ 329,342	\$ 322,287	\$12,328,831	\$ 12,013,117
Capital Assets	31,642,671	32,089,459	201,977	253,541	31,844,648	32,343,000
Total Assets	\$43,642,160	\$ 43,780,289	\$ 531,319	\$ 575,828	\$44,173,479	\$ 44,356,117
Total Deferred Outflows	\$ 580,043	\$ -	\$ 92,975	\$ -	\$ 673,018	\$ -
Long-Term Debt	\$23,630,900	\$ 25,185,642	\$ -	\$ -	\$23,630,900	\$ 25,185,642
Other Liabilities	6,567,497	2,228,884	733,082	29,081	7,300,579	2,257,965
Total Liabilities	\$30,198,397	\$ 27,414,526	\$ 733,082	\$ 29,081	\$30,931,479	\$ 27,443,607
Total Deferred Inflows	\$ 502,565	\$ -	\$ 78,435	\$ -	\$ 581,000	\$ -
Net Position						
Investment in Capital Assets	\$ 6,454,617	\$ 5,440,672	\$ 201,977	\$ 253,541	\$ 6,656,594	\$ 5,694,213
Restricted - Sick Leave	255,697	-	-	-	255,697	-
Restricted - Site Based Carryforward	27,105	70,140	-	-	27,105	70,140
Restricted - SFCC	3,777,468	4,487,884	-	-	3,777,468	4,487,884
Restricted - Future Construction	1,479,463	-	-	-	1,479,463	-
Restricted - Construction	-	6,860	-	-	-	6,860
Restricted - Other	706,515	962,840	(389,200)	293,207	317,315	1,256,047
Committed - Site Based	-	42,143	-	-	-	42,143
Committed - New Site	175,000	100,000	-	-	175,000	100,000
Unassigned	645,376	5,255,224	-	-	645,376	5,255,224
Total Net Position	\$13,521,241	\$ 16,365,763	\$ (187,223)	\$ 546,748	\$13,334,018	\$ 16,912,511

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2015, net of inter-fund transfers and bond proceeds, were \$29.0 million.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$801,140 more than budget or approximately 3.9%. The majority of this variance is the result of the District recording "on-behalf" payments made by the state.
- General fund budget expenditures to actual varied significantly in Instruction. The variance for instructional expenses is caused by the state on-behalf payments detailed above.

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

**Summary of Changes in Net Position for the periods ending June 30, 2015 and 2014
(Table 2)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for services	\$ 12,175	\$ 23,007	\$ 743,742	\$ 723,513	\$ 755,917	\$ 746,520
Operating grants and contributions	20,534,681	17,624,828	937,581	1,023,142	21,472,262	18,647,970
Capital grants and contributions	-	-	-	-	-	-
General Revenues:						
Property taxes	6,415,379	6,394,934	-	-	6,415,379	6,394,934
Motor vehicle taxes	766,424	763,412	-	-	766,424	763,412
Utility taxes	751,844	770,656	-	-	751,844	770,656
Investment earnings	46,137	40,483	1,081	891	47,218	41,374
Miscellaneous	595,593	433,255	599	1,183	596,192	434,438
Total Revenues	\$29,122,233	\$26,050,575	\$1,683,003	\$1,748,729	\$30,805,236	\$27,799,304
Expenses						
Program Activities:						
Instruction	\$15,406,052	\$12,536,322	\$ -	\$ -	\$15,406,052	\$12,536,322
Student support	1,299,565	1,061,665	-	-	1,299,565	1,061,665
Instructional staff support	1,615,550	1,532,729	-	-	1,615,550	1,532,729
District administrative support	776,385	677,336	-	-	776,385	677,336
School administrative support	1,663,478	1,471,014	-	-	1,663,478	1,471,014
Business support	710,736	645,412	-	-	710,736	645,412
Plant operation and maintenance	1,729,932	1,914,886	-	-	1,729,932	1,914,886
Student transportation	1,900,881	2,039,402	-	-	1,900,881	2,039,402
Community service activities	179,343	179,234	-	-	179,343	179,234
Other	82,467	79,819	-	-	82,467	79,819
Interest cost	892,499	938,232	-	-	892,499	938,232
Depreciation & Amortization	1,288,480	1,328,158	-	-	-	-
Business-Type Activities:						
School Nutrition	-	-	1,462,141	1,525,158	1,462,141	1,525,158
Day Care Operations	-	-	267,238	222,006	267,238	222,006
Total Expenses	\$27,545,368	\$24,404,209	\$1,729,379	\$1,747,164	\$29,274,747	\$26,151,373
Increase (decrease) in net position	\$ 1,576,865	\$ 1,646,366	\$ (46,376)	\$ 1,565	\$ 1,530,489	\$ 1,647,931

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

Governmental Activities

Instruction comprises 54% of governmental program expenses. Support services expense make up 22% of government expenses. Student transportation and plant operations total 14% of governmental expenses. The remaining expenses for facility acquisition, community service activities, and interest account for the final 10% of total governmental expense.

Business-Type Activities

The business-type activities include the school nutrition and day care operations. These programs had total revenues of \$1,683,003 and expenses of \$1,729,379 for fiscal year 2015. Of the revenues, \$743,742 was charges for services, and \$937,581 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$27.3 million and expenditures and other financing uses of \$26.9 million.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

Capital Assets

At the end of fiscal year 2015 the School District had \$31.8 million invested in land, buildings, equipment, and vehicles. Of this total, \$31.6 million were in governmental activities. Table 3 shows fiscal year 2013 and 2014 balances.

**Capital Assets at June 30, 2015 and 2014
Net of Depreciation
(Table 3)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Land	\$ 677,346	\$ 316,383	\$ -	\$ -	\$ 677,346	\$ 316,383
Buildings and improvements	29,253,773	30,091,381	-	-	29,253,773	30,091,381
Machinery & Equipment	1,598,152	1,681,695	201,977	253,541	1,800,129	1,935,236
Construction In Progress	113,400	-	-	-	113,400	-
Total	\$31,642,671	\$ 32,089,459	\$201,977	\$253,541	\$ 31,844,648	\$32,343,000

**SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015**

**Changes in Capital Assets for the periods ended June 30, 2015 and 2014
(Table 4)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Beginning Balance	\$32,089,459	\$ 33,055,396	\$253,541	\$305,129	\$ 32,343,000	\$33,360,525
Additions	767,184	288,975	-	-	767,184	288,975
Retirements	(412)	(1,675)	-	-	(412)	(1,675)
Depreciation	(1,213,560)	(1,253,237)	(51,564)	(51,588)	(1,265,124)	(1,304,825)
Total	<u>\$31,642,671</u>	<u>\$ 32,089,459</u>	<u>\$201,977</u>	<u>\$253,541</u>	<u>\$ 31,844,648</u>	<u>\$32,343,000</u>

Debt

At June 30, 2015, the School District had \$25,188,054 in bonds outstanding; of this amount \$2,578,075 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$1,812,851 is due within one year.

District Challenges for the Future

Spencer County School District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent. The District has been required to provide financial support for unfunded mandates imposed by the state and federal government.

Spencer County School District will continue to use careful planning and monitoring of finances to provide a quality education for students and a secure financial future for the school district.

Future Budgetary Implications

In Kentucky, the public schools' fiscal year is July 1–June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2015–2016 with a contingency greater than the required minimum of 2%. Projected budgetary shortfalls at the state level are a concern for the 2015-2016 school year.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, contact Vicki Goodlett, Spencer County Board of Education, 207 West Main Street, Taylorsville, KY 40071 or by phone at 502-477-3250.

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

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash & Cash Equivalents	\$ 9,697,182.25	\$ 270,252.65	\$ 9,967,434.90
Inventory	-	40,651.61	40,651.61
Prepaid Expenditures	175,674.21	-	175,674.21
Accounts Receivable	437,757.94	18,437.28	456,195.22
Capital Assets	46,183,812.70	915,031.56	47,098,844.26
Accumulated Depreciation	(14,541,141.35)	(713,054.48)	(15,254,195.83)
Bond Refinance Fees	1,075,591.14	-	1,075,591.14
Prepaid Bond Payments In Escrow	613,283.43	-	613,283.43
Total Assets	\$ 43,642,160.32	\$ 531,318.62	\$ 44,173,478.94
Deferred Outflows of Resources			
Deferred pension contributions after measurement date	\$ 580,043.00	\$ 92,975.00	\$ 673,018.00
Total Deferred Outflows	\$ 580,043.00	\$ 92,975.00	\$ 673,018.00
Liabilities			
Accounts Payable	\$ 130,611.01	\$ 7,433.23	\$ 138,044.24
Other Accrued Expenses	24,073.04	9,314.17	33,387.21
Unearned Revenue	101,097.05	14,199.70	115,296.75
Current Portion Of Bond Obligations	1,812,851.00	-	1,812,851.00
Noncurrent Portion Of Bond Obligations	23,375,203.00	-	23,375,203.00
Noncurrent Portion Of Accrued Sick Leave	255,696.86	-	255,696.86
Net Pension Liability	4,498,865.00	702,135.00	5,201,000.00
Total Liabilities	\$ 30,198,396.96	\$ 733,082.10	\$ 30,931,479.06
Deferred Inflows of Resources			
Differences between projected and actual earnings on plan investments	\$ 502,565.00	\$ 78,435.00	\$ 581,000.00
Total Deferred Inflows	\$ 502,565.00	\$ 78,435.00	\$ 581,000.00
Net Position			
Invest In Capital Assets, Net Of Rel. Debt	\$ 6,454,617.35	\$ 201,977.08	\$ 6,656,594.43
Restricted - Site Based Carryforward	27,104.50	-	27,104.50
Restricted - KSFCC Escrow	3,777,468.18	-	3,777,468.18
Restricted - Future Construction	1,479,462.57	-	1,479,462.57
Restricted - Prepaids	175,674.21	-	175,674.21
Restricted - Other	530,841.14	(389,200.56)	141,640.58
Restricted - Sick Leave	255,696.86	-	255,696.86
Restricted - New Site Costs	175,000.00	-	175,000.00
Unrestricted	645,376.55	-	645,376.55
Total Net Position	\$ 13,521,241.36	\$ (187,223.48)	\$ 13,334,017.88

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

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

	Program Revenues			Net (Expense) Revenue And Changes In Net Position		
	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<u>FUNCTIONS / PROGRAMS</u>						
Governmental Activities:						
Instruction	\$ 15,406,052.38	\$ 12,175.00	\$ -	\$ (3,085,370.45)	\$ -	\$ (3,085,370.45)
Support Services:						
Student	1,299,564.91	-	-	(264,530.93)	-	(264,530.93)
Instruction Staff	1,615,549.73	-	-	(332,713.40)	-	(332,713.40)
District Administration	776,384.97	-	-	(166,118.30)	-	(166,118.30)
School Administration	1,663,477.55	-	-	(338,330.45)	-	(338,330.45)
Business	710,736.49	-	-	(156,390.24)	-	(156,390.24)
Plant Operation & Maintenance	1,729,932.01	-	-	(382,773.06)	-	(382,773.06)
Student Transportation	1,900,881.14	-	-	(417,985.88)	-	(417,985.88)
Adult Education Services	69,699.98	-	-	(15,422.15)	-	(15,422.15)
Community Service Activities	179,342.70	-	-	(39,682.23)	-	(39,682.23)
Other	12,767.11	-	-	(2,824.91)	-	(2,824.91)
Interest On Long-Term Debt	892,498.83	-	-	(507,889.85)	-	(507,889.85)
Depreciation & Amortization	1,288,480.55	-	-	(1,288,480.55)	-	(1,288,480.55)
Total Governmental Activities	\$ 27,545,368.35	\$ 12,175.00	\$ -	\$ (6,998,512.40)	\$ -	\$ (6,998,512.40)
Business-Type Activities:						
School Nutrition	\$ 1,462,141.55	\$ 502,995.71	\$ -	\$ -	\$ (48,487.06)	\$ (48,487.06)
Day Care Operations	267,237.73	240,746.60	-	-	431.25	431.25
Total Business-Type Activities	\$ 1,729,379.28	\$ 743,742.31	\$ -	\$ -	\$ (48,055.81)	\$ (48,055.81)
Total Primary Government	\$ 29,274,747.63	\$ 755,917.31	\$ -	\$ (6,998,512.40)	\$ (48,055.81)	\$ (7,046,568.21)
General Revenues:						
Taxes:						
Property Taxes				\$ 6,415,378.64	\$ -	\$ 6,415,378.64
Motor Vehicles Taxes				766,424.58	-	766,424.58
Utility Taxes				751,843.77	-	751,843.77
Investment Earnings				46,137.23	1,080.87	47,218.10
Miscellaneous				595,593.34	598.90	596,192.24
Change In Net Position				\$ 1,576,865.16	\$ (46,376.04)	\$ 1,530,489.12
Net Position - Beginning				16,365,763.20	546,747.56	16,912,510.76
Prior Period Adjustment				(4,421,387.00)	(687,595.00)	(5,108,982.00)
Net Position - Ending				\$ 13,521,241.36	\$ (187,223.48)	\$ 13,334,017.88

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

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets & Resources:					
Cash & Cash Equivalents	\$ 4,275,458.77	\$ (28,138.49)	\$ -	\$ 5,449,861.97	\$ 9,697,182.25
Prepaid Expenditures	175,674.21	-	-	-	175,674.21
Accounts Receivable	224,044.98	213,712.96	-	-	437,757.94
Total Assets & Resources	<u>\$ 4,675,177.96</u>	<u>\$ 185,574.47</u>	<u>\$ -</u>	<u>\$ 5,449,861.97</u>	<u>\$ 10,310,614.40</u>
Liabilities & Fund Balances:					
Liabilities:					
Accounts Payable	\$ 75,266.58	\$ 9,806.89	\$ -	\$ 6,819.20	\$ 91,892.67
Accrued Salaries & Benefits	24,073.04	-	-	-	24,073.04
Unearned Revenue	4,950.00	96,147.05	-	-	101,097.05
Total Liabilities	<u>\$ 104,289.62</u>	<u>\$ 105,953.94</u>	<u>\$ -</u>	<u>\$ 6,819.20</u>	<u>\$ 217,062.76</u>
Fund Balances:					
Committed For Site Based Carryforward	\$ 27,104.50	\$ -	\$ -	\$ -	\$ 27,104.50
Assigned For Vacation	79,797.85	-	-	-	79,797.85
Committed For New Site Costs	175,000.00	-	-	-	175,000.00
Nonspendable For Prepaids	175,674.21	-	-	-	175,674.21
Assigned Other	246,646.04	-	-	-	246,646.04
Restricted For Sick Leave	255,696.86	-	-	-	255,696.86
Restricted Other	-	79,620.53	-	186,112.02	265,732.55
Restricted For Future Construction	-	-	-	1,479,462.57	1,479,462.57
Unassigned	3,610,968.88	-	-	-	3,610,968.88
Restricted For SFCC	-	-	-	3,777,468.18	3,777,468.18
Total Fund Balances	<u>\$ 4,570,888.34</u>	<u>\$ 79,620.53</u>	<u>\$ -</u>	<u>\$ 5,443,042.77</u>	<u>\$ 10,093,551.64</u>
Total Liabilities & Fund Balances	<u>\$ 4,675,177.96</u>	<u>\$ 185,574.47</u>	<u>\$ -</u>	<u>\$ 5,449,861.97</u>	<u>\$ 10,310,614.40</u>

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

**SPENCER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Total fund balance per fund financial statements	\$ 10,093,551.64
Amounts reported for governmental activities in the statement of net position are different because:	
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.	31,642,671.35
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	<u>(28,214,981.63)</u>
Net position for governmental activities	<u><u>\$ 13,521,241.36</u></u>

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

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

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From Local Sources:					
Taxes:					
Property	\$ 4,630,024.64	\$ -	\$ -	\$ 1,785,354.00	\$ 6,415,378.64
Motor Vehicle	766,424.58	-	-	-	766,424.58
Utilities	751,843.77	-	-	-	751,843.77
Tuition And Fees	12,175.00	-	-	-	12,175.00
Transportation	5,938.20	-	-	-	5,938.20
Earnings On Investments	27,782.06	110.34	-	18,244.83	46,137.23
Other Local Revenues	170,524.07	54,418.58	-	264,956.98	489,899.63
Intergovernmental - State	14,966,344.13	1,077,458.47	-	1,389,068.98	17,432,871.58
Intergovernmental - Federal	41,458.58	1,313,963.30	-	-	1,355,421.88
Indirect Cost Transfer	19,904.23	-	-	-	19,904.23
Total Revenues	\$ 21,392,419.26	\$ 2,445,950.69	\$ -	\$ 3,457,624.79	\$ 27,295,994.74
Expenditures:					
Instruction	\$ 12,178,495.04	\$ 1,625,724.80	\$ -	\$ 239,719.40	\$ 14,043,939.24
Support Services:					
Student	1,058,375.99	136,777.06	-	386.98	1,195,540.03
Instruction Staff	1,099,610.72	390,952.45	-	13,125.60	1,503,688.77
District Administration	965,804.28	106.35	-	-	965,910.63
School Administration	1,503,581.95	25,492.92	-	-	1,529,074.87
Business	705,709.26	1,092.00	-	-	706,801.26
Plant Operation & Maintenance	1,711,764.77	-	-	18,167.24	1,729,932.01
Student Transportation	2,086,919.14	62,148.21	-	-	2,149,067.35
Facilities Acquisition & Maintenance	-	-	480,649.42	-	480,649.42
Community Service Activities	1,998.72	177,343.98	-	-	179,342.70
Adult Education	(56.00)	69,755.98	-	-	69,699.98
Indirect Cost Transfer	-	6,068.90	-	-	6,068.90
Debt Service	222,786.08	-	-	-	222,786.08
Total Expenditures	\$ 21,534,989.95	\$ 2,495,462.65	\$ 480,649.42	\$ 2,414,325.15	\$ 27,196,826.39
Excess (Deficit) Of Revenues Over Expenditures	\$ (142,570.69)	\$ (49,511.96)	\$ (480,649.42)	\$ 771,900.42	\$ 99,168.35
Other Financing Sources (Uses)					
Sale Or Comp For Loss Of Assets	\$ 27,807.77	\$ -	\$ -	\$ -	\$ 27,807.77
Bond / Lease Proceeds	269,950.00	-	-	-	269,950.00
Operating Transfers In	244,456.79	82,271.88	474,363.43	2,030,289.87	2,831,381.97
Operating Transfers Out	(67,797.19)	(14,474.69)	(573.70)	(2,748,536.39)	(2,831,381.97)
Total Other Financing Sources (Uses)	\$ 474,417.37	\$ 67,797.19	\$ 473,789.73	\$ (718,246.52)	\$ 297,757.77
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	\$ 331,846.68	\$ 18,285.23	\$ (6,859.69)	\$ 53,653.90	\$ 396,926.12
Fund Balance, July 1, 2014	4,239,041.66	61,335.30	6,859.69	5,389,388.87	9,696,625.52
Fund Balance, June 30, 2015	\$ 4,570,888.34	\$ 79,620.53	\$ -	\$ 5,443,042.77	\$ 10,093,551.64

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

Net change in total fund balances per fund financial statements	\$ 396,926.12
Amounts reported for governmental activities in the statement of activities are different because of the following:	
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 and the gain from the sale of assets exceeds depreciation expense for the year.	(550,743.96)
Debt service payments are reported as expenditures in this fund financial statement because they use current financial resources, but they are separated and shown as payments of long-term debt on the statement of net position and interest expense on the statement of activities. The difference is the amount of principal payment made for the year.	<u>1,730,683.00</u>
Change in net position of governmental activities	<u><u>\$ 1,576,865.16</u></u>

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

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

Assets	School Nutrition Fund	Day Care Fund	Totals
<u>Current Assets</u>			
Cash & Cash Equivalents	\$ 249,758.80	\$ 20,493.85	\$ 270,252.65
Inventory	40,651.61	-	40,651.61
Accounts Receivable	8,900.24	9,537.04	18,437.28
Investments	-	-	-
	<hr/>	<hr/>	<hr/>
Total Current Assets	\$ 299,310.65	\$ 30,030.89	\$ 329,341.54
<u>Noncurrent Assets</u>			
Capital Assets	\$ 913,612.56	\$ 1,419.00	\$ 915,031.56
Accumulated Depreciation	(711,871.98)	(1,182.50)	(713,054.48)
	<hr/>	<hr/>	<hr/>
Total Noncurrent Assets	\$ 201,740.58	\$ 236.50	\$ 201,977.08
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 501,051.23	\$ 30,267.39	\$ 531,318.62
	<hr/>	<hr/>	<hr/>
Liabilities & Net Position			
<u>Current Liabilities</u>			
Accounts Payable	\$ 6,919.05	\$ 514.18	\$ 7,433.23
Other Accrued Expenses	2,091.65	7,222.52	9,314.17
Unearned Revenues	13,306.74	892.96	14,199.70
	<hr/>	<hr/>	<hr/>
Total Current Liabilities	\$ 22,317.44	\$ 8,629.66	\$ 30,947.10
	<hr/>	<hr/>	<hr/>
<u>Net Position</u>			
Invested In Capital Assets, Net Of Related Debt	\$ 201,740.58	\$ 236.50	\$ 201,977.08
Restricted	276,993.21	21,401.23	298,394.44
	<hr/>	<hr/>	<hr/>
Total Net Position	\$ 478,733.79	\$ 21,637.73	\$ 500,371.52
	<hr/>	<hr/>	<hr/>

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

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

	School Nutrition Fund	Day Care Fund	Totals
Operating Revenues:			
Lunchroom Sales	\$ 503,594.61	\$ -	\$ 503,594.61
Other Operating Revenues	-	240,746.60	240,746.60
	<hr/>	<hr/>	<hr/>
Total Operating Revenues	\$ 503,594.61	\$ 240,746.60	\$ 744,341.21
Operating Expenses:			
Salaries & Benefits	\$ 564,365.64	\$ 210,791.28	\$ 775,156.92
Materials & Supplies	787,401.62	12,187.96	799,589.58
Depreciation	51,279.99	283.80	51,563.79
Other Operating Expenses	59,094.30	43,974.69	103,068.99
	<hr/>	<hr/>	<hr/>
Total Operating Expenses	\$ 1,462,141.55	\$ 267,237.73	\$ 1,729,379.28
	<hr/>	<hr/>	<hr/>
Income (Loss) From Operations	\$ (958,546.94)	\$ (26,491.13)	\$ (985,038.07)
Non-Operating Revenues (Expenses):			
Federal Grants	\$ 824,640.24	\$ -	\$ 824,640.24
State Grants	86,018.54	26,922.38	112,940.92
Interest Income	913.72	167.15	1,080.87
Loss On Retirement Of Asset	-	-	-
	<hr/>	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	\$ 911,572.50	\$ 27,089.53	\$ 938,662.03
	<hr/>	<hr/>	<hr/>
Changes In Net Position	\$ (46,974.44)	\$ 598.40	\$ (46,376.04)
Net Position, July 1, 2014	<hr/> 525,708.23	<hr/> 21,039.33	<hr/> 546,747.56
Net Position, June 30, 2015	<hr/> \$ 478,733.79	<hr/> \$ 21,637.73	<hr/> \$ 500,371.52

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

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

Cash Flows From Operating Activities

Cash Received From:		
Lunchroom Sales	\$	503,594.61
Other Operating Revenues		233,657.66
Cash Paid To / For:		
Employees	\$	(775,156.92)
Supplies		(801,966.30)
Other Activities		<u>(103,068.99)</u>
Net Cash Provided (Used)	\$	<u>(942,939.94)</u>

Cash Flows From Noncapital Financing Activities & Investing Activities

Receipt Of Interest Income	\$	1,080.87
Federal & State Grants		<u>937,581.16</u>
Net Cash Provided (Used)	\$	<u>938,662.03</u>

Net Increase In Cash & Cash Equivalents

\$ (4,277.91)

Balances, Beginning Of Year

274,530.56

Balances, End Of Year

\$ 270,252.65

**Reconciliation Of Operating Income (Loss) To Net Cash
Provided (Used) By Operating Activities**

Operating Income	\$	(985,038.07)
Adjustments To Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities		
Depreciation		51,563.79
Change In Assets & Liabilities		
Receivables		(7,088.94)
Inventory		(4,243.07)
Accounts Payable		<u>1,866.35</u>
Net Cash Provided By Operating Activities	\$	<u><u>(942,939.94)</u></u>

**SPENCER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	Agency Funds
Assets	
Cash & Cash Equivalents	\$ 171,707.96
Due From Other Funds	<u>-</u>
Total Assets	\$ 171,707.96
Liabilities	
Accounts Payable	\$ -
Due To Student Groups	<u>171,707.96</u>
Total Liabilities	\$ 171,707.96
Net Position	<u><u>\$ -</u></u>

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Spencer County Board of Education Finance Corporation – On August 15, 1988, the Board of Education resolved to authorize the establishment of the Spencer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

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

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

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 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. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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:

Governmental Fund Types

- The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in the report on pages 39 - 40. This is a major fund of the District.
- Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky law.

Proprietary Fund Types (Enterprise Fund)

- The School Nutrition Fund is used to account for school nutrition service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Nutrition Fund is a major fund.
- The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

Revenues – Unearned Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures

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

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

On Behalf payments are payments made by the state, on the behalf of the District. The most significant "on behalf" payments were for employee health insurance and for Teachers' Retirement match. The "on behalf" payments are required to be presented as part of both revenues and expenditures within these financial statements.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Property Taxes

Property tax revenues are levied each year within 45 days of the DOR certification on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2015, to finance the General fund operations were \$0.614 per \$100 valuation for real property, \$0.614 per \$100 valuation for business personal property, and \$0.560 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, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

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

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:

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accumulated Unpaid Sick Leave Benefits – (concluded)

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

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

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

Budgetary Process

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

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

Accrued Liabilities and Long-Term Obligations

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Accrued Liabilities and Long-Term Obligations – (concluded)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

Following GASB 54, the District may divide its fund balance into one of the following categories:

Non-Spendable Fund Balances are amounts that are not in a spendable form nor are they required to be maintained intact. Restricted Fund Balances are amounts constrained to specific purposes by their providers through constitutional provisions or by enabling legislation. Committed Fund Balances are amounts constrained to specific purposes by the board itself, using its highest level of decision-making authority. Assigned Fund Balances are amounts the board intends to use for a specific purpose, but are neither restricted nor committed. Unassigned Fund Balances are amounts that are available for any purpose.

Net Position

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

Operating 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 and charges for before and after school child care.

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 non-operating 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.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to 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 (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits

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

At year-end, the carrying amount of the District's total cash and cash equivalents was \$10,944,074. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$10,694,074 covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	Bank Balance	Book Balance
The Peoples Bank	\$ 10,944,074	\$ 9,918,209
Governmental Funds		\$ 9,697,182
Proprietary Funds		270,253
Subtotal		\$ 9,967,435
Agency Funds		171,708
Total Cash and Cash Equivalents All Funds		\$ 10,139,143

NOTE D – INVESTMENTS

The District held no investments on June 30, 2015.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Spencer County School District Finance Corporation aggregating \$43,360,000.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2011	\$ 9,740,000	1.00% - 2.65%
2009	5,940,000	0.75% - 3.40%
2007	11,380,000	4.29%
2005	755,000	4.00%
2004	13,860,000	3.00% - 5.00%
2003	830,000	1.50% - 3.50%
1996	855,000	4.00% - 5.00%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Spencer County School District Finance Corporation to construct school facilities.

The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs.

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

		Spencer County School District		Kentucky School Facility Construction Commission		Total	Total
Year		Principal	Interest	Principal	Interest	Principal	Interest
2015	2016	\$ 1,525,429	\$ 750,047	\$ 287,422	\$ 89,274	\$ 1,812,851	\$ 839,321
2016	2017	1,547,247	696,537	297,511	80,865	1,844,758	777,402
2017	2018	1,586,050	647,640	303,892	71,369	1,889,942	719,009
2018	2019	1,609,629	603,889	316,715	61,644	1,926,344	665,533
2019	2020	1,631,033	555,467	157,729	51,212	1,788,762	606,679
2020	2021	1,675,020	508,690	163,419	45,522	1,838,439	554,212
2021	2022	1,739,706	453,351	169,474	39,466	1,909,180	492,817
2022	2023	1,761,217	402,650	175,917	33,026	1,937,134	435,676
2023	2024	1,766,944	349,934	182,728	26,214	1,949,672	376,148
2024	2025	1,802,806	295,866	163,166	19,472	1,965,972	315,338
2025	2026	1,899,398	225,546	125,602	13,379	2,025,000	238,925
2026	2027	1,988,615	138,204	131,385	7,596	2,120,000	145,800
2027	2028	2,076,885	46,730	103,115	2,320	2,180,000	49,050
2028	2029	-	-	-	-	-	-
2029	2030	-	-	-	-	-	-
2030	2031	-	-	-	-	-	-
2031	2032	-	-	-	-	-	-
Totals		<u>\$22,609,979</u>	<u>\$ 5,674,551</u>	<u>\$2,578,075</u>	<u>\$ 541,359</u>	<u>\$25,188,054</u>	<u>\$ 6,215,910</u>

NOTE F – OPERATING LEASES

The following is a schedule by year of the future payments under operating leases as of June 30, 2015:

2016	\$ 48,925
2017	34,841
2018	9,382
2019	430
Total minimum payments	<u>\$ 93,578</u>

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE G – CAPITAL ASSETS

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

	Beginning Balances	Additions	Retirements	Ending Balances
Governmental Activities:				
Land	\$ 316,383	\$ 360,963	\$ -	\$ 677,346
Buildings & Building Improvements	40,086,112	-	-	40,086,112
Technology Equipment	2,007,574	9,466	37,513	1,979,527
Vehicles	2,744,950	270,070	231,321	2,783,699
General Equipment	530,443	13,285	-	543,728
Construction In Progress	-	113,400	-	113,400
Total At Historical Cost	\$ 45,685,462	\$ 767,184	\$ 268,834	\$ 46,183,812
Less Accumulated Depreciation For:				
Buildings & Building Improvements	\$ 9,994,730	\$ 837,608	\$ -	\$ 10,832,338
Technology Equipment	1,762,841	144,913	37,101	1,870,653
Vehicles	1,550,251	191,155	231,321	1,510,085
General Equipment	288,181	39,884	-	328,065
Total Accumulated Depreciation	\$ 13,596,003	\$ 1,213,560	\$ 268,422	\$ 14,541,141
Governmental Activities Capital Net	\$ 32,089,459	\$ (446,376)	\$ 412	\$ 31,642,671
Proprietary Activities:				
Technology Equipment	\$ 23,583	\$ -	\$ -	\$ 23,583
General Equipment	891,449	-	-	891,449
Total At Historical Cost	\$ 915,032	\$ -	\$ -	\$ 915,032
Less Accumulated Depreciation For:				
Technology Equipment	\$ 16,772	\$ 3,080	\$ -	\$ 19,852
General Equipment	644,719	48,484	-	693,203
Total Accumulated Depreciation	\$ 661,491	\$ 51,564	\$ -	\$ 713,055
Proprietary Activities Capital Net	\$ 253,541	\$ (51,564)	\$ -	\$ 201,977

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE H – RETIREMENT PLANS

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

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

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

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

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service 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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE H – RETIREMENT PLANS

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

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

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

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

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

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

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE H – RETIREMENT PLANS

Medical Insurance Plan

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

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

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

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

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

District's proportionate share of the CERS net pension liability	\$ 5,201,000
Commonwealth's proportionate share of the KTRS net Pension liability associated with the District	70,702,066
Total	\$ 75,903,066

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

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was .160306%.

For the year ended June 30, 2015, the District recognized pension expense of \$591,715 related to CERS and \$3,464,545 related to KTRS. The District also recognized revenue of \$3,464,545 for KTRS support provided by the Commonwealth. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE H – RETIREMENT PLANS

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	581,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	673,018	-
Totals	\$ 673,018	\$ 581,000

\$673,018 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:

Year Ended June 30,	
2016	116,200
2017	116,200
2018	116,200
2019	116,200
2020	116,200

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.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE H – RETIREMENT PLANS

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:

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.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE H – RETIREMENT PLANS

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 (I calculated the amounts in this schedule:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District's proportionate share of net pension liability	4,529,903	5,201,000	5,872,097
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 I – CONTINGENCIES

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

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Effective July 1, 2013, the District maintains workers compensation insurance coverage through Kentucky Employers Mutual Insurance. The district's general liability coverage is maintained with Ohio Casualty Insurance.

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

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE L – DEFICIT OPERATING BALANCES

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

District Activity Fund	\$ 6,442
Construction Fund	\$ 6,860

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:

From Fund	To Fund	Amount
Building	General	\$ 244,456.79
Food Service	General	13,835.33
Construction	Building	573.70
General	Special	67,797.19
Building	Debt Service	1,771,212.17
Building	Construction	474,363.00
Capital Outlay	Debt Service	258,504.00
Special	Special	14,474.69
Special	General	6,068.90
Totals		<u>2,851,286</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLE

There were no interfund balances at June 30, 2015.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent event through October 9, 2015. There are no material subsequent events to disclose.

NOTE Q – ON BEHALF PAYMENTS

State agencies make payments on behalf of local school districts for the employer's portion of health benefits, vocational education, Kentucky Teachers' Retirement System, technology and debt services, along with receiving federal reimbursement payments from districts for the employer's portion of health benefits paid for federally funded district employees. The total amount of on behalf payments paid on behalf of the district for the year ended June 30, 2015 is \$4,140,036.95.

**SPENCER COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED JUNE 30, 2015**

NOTE R – KENTUCKY SCHOOL BOARDS INSURANCE TRUST ASSESSMENT

KSBIT filed an assessment and wind up plan, to be approved by the Kentucky Department of Insurance of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. The estimated liability to be assessed to the District is \$486,172. The assessment is not recorded as a liability on the fund financial statements because it has not met the GASB criteria under interpretation 6 for accrual. However, an estimate is recorded on the government-wide financial statements in the amount of \$38,718.34 which represents the current amount due within the fiscal year, because under GASB 10 the criteria that it is probable that a liability has been incurred and the amount can be reasonably estimated have been met. .

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

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

GASB 68 required retrospective application. Since the District only presents one year of financial information, the beginning net pension was adjusted to reflect the retrospective application. The adjustment resulted in a \$5,108,982 reduction in beginning net position on the Statement of Activities and an increase of \$694,715 of deferred outflows of resources – District contributions subsequent to the measurement date.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Taxes:			
Property	\$ 4,622,715.00	\$ 4,630,024.64	\$ 7,309.64
Motor Vehicle	745,000.00	766,424.58	21,424.58
Utilities	770,000.00	751,843.77	(18,156.23)
Tuition	7,200.00	12,175.00	4,975.00
Transportation	5,000.00	5,938.20	938.20
Earnings On Investments	20,000.00	27,782.06	7,782.06
Other Local Revenues	86,500.00	170,524.07	84,024.07
Intergovernmental - State	14,282,960.00	14,966,344.13	683,384.13
Intergovernmental - Direct Federal	32,000.00	41,458.58	9,458.58
Indirect Cost Transfer	20,536.00	19,904.23	(631.77)
Total Revenues	<u>\$ 20,591,911.00</u>	<u>\$ 21,392,419.26</u>	<u>\$ 801,140.03</u>
Expenditures:			
Instruction	\$ 11,283,866.65	\$ 12,178,495.04	\$ (894,628.39)
Support Services:			
Student	1,026,246.00	1,058,375.99	(32,129.99)
Instruction Staff	1,070,231.00	1,099,610.72	(29,379.72)
District Administration	1,009,260.00	965,804.28	43,455.72
School Administration	1,472,854.00	1,503,581.95	(30,727.95)
Business	745,036.00	705,709.26	39,326.74
Plant Operation & Maintenance	2,069,137.00	1,711,764.77	357,372.23
Student Transportation	2,334,158.00	2,086,919.14	247,238.86
Adult Education	-	(56.00)	56.00
Community Service Activities	2,000.00	1,998.72	1.28
Other Uses Of Funds	222,786.00	222,786.08	(0.08)
Total Expenditures	<u>\$ 21,235,574.65</u>	<u>\$ 21,534,989.95</u>	<u>\$ (299,415.30)</u>
Excess (Deficit) Of Revenues Over Expenditures	\$ (643,663.65)	\$ (142,570.69)	\$ 501,724.73
Other Financing Sources (Uses)			
Proceeds From Bonds / Leases	\$ 272,000.00	\$ 255,225.00	\$ (16,775.00)
Proceeds From Sale Of Fixed Assets	10,122.00	7,022.29	(3,099.71)
Contingency	(3,385,196.35)	-	3,385,196.35
Operating Transfers In	253,862.00	244,456.79	(9,405.21)
Operating Transfers Out	(66,100.00)	(67,797.19)	(1,697.19)
Total Other Financing Sources (Uses)	<u>\$ (2,915,312.35)</u>	<u>\$ 474,417.37</u>	<u>\$ 3,389,729.72</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	\$ (3,558,976.00)	\$ 331,846.68	\$ 3,891,454.45
Fund Balance, July 1, 2014	<u>3,558,976.00</u>	<u>4,239,041.66</u>	<u>680,065.66</u>
Fund Balance, June 30, 2015	<u>\$ -</u>	<u>\$ 4,570,888.34</u>	<u>\$ 4,570,888.34</u>

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

	<u>CFDA Number</u>	<u>Pass Through Grantor Number</u>	<u>Disbursements</u>
<u>U.S. Department Of Education</u>			
Passed through the Kentucky Department of Education			
Title I	84.010	3100002-13	\$ 80,156.62
Title I	84.010	3100002-14	240,865.16
Title I - School Improvement	84.010	3100002-14	114,937.00
Total Title I Cluster			<u>\$ 435,958.78</u>
 Title II - Teacher Quality	 84.367	 3230002-13	 \$ 15,383.13
Title II - Teacher Quality	84.367	3230002-14	46,322.52
Total Title II - Teacher Quality Cluster			<u>\$ 61,705.65</u>
 IDEA Basic	 84.027	 3810002-12	 \$ 118.00
IDEA Basic	84.027	3810002-13	143,671.50
IDEA Basic	84.027	3810002-14	344,089.21
IDEA Basic - Preschool	84.173	3810002-12	4,682.10
IDEA Basic - Preschool	84.173	3810002-13	31,421.48
IDEA Basic - Preschool	84.173	3810002-14	19,091.09
Total IDEA Cluster			<u>\$ 543,073.38</u>
 Perkins Career & Technical	 84.048	 3710001-13	 \$ 893.00
Perkins Career & Technical	84.048	3710002-14	21,395.24
Adult Education	84.002	3710002-14	8,151.36
Adult Education - Community Work Based Program	84.002	3710002-14	31,757.19
Adult Education	84.002	3710002-14	21,437.02
Adult Education - Professional Development	84.002	3710002-14	500.00
Total Adult Education Cluster			<u>\$ 84,133.81</u>
 Race To The Top - Kid Friendly Grant	 84.416	 *	 \$ 32,896.07
Race To The Top - Kid Friendly Grant	84.416	*	39,575.81
Race To The Top	84.413	3960002-11	934.14
Investing In Innovation	84.411A	**	1,797.29
21st Century Program - Conference	84.287	3400002-12	964.49
21st Century Program - Summer	84.287	3400002-12	2,291.98
21st Century Program - CLC	84.287	3400002-13	112,989.09
Total Other Programs			<u>\$ 191,448.87</u>
 Total U.S. Department Of Education Expenditures			<u>\$ 1,316,320.49</u>
 <u>U.S. Department Of Health & Human Services</u>			
Chronic Disease Prevention & Control	93.945	024205OL-15	\$ 4,000.00
 <u>U.S. Department Of Agriculture</u>			
National School Lunch	10.555	7750002-13	\$ 744,555.21
Commodities Received	10.565	***	80,085.03
 Total U.S. Department Of Agriculture Expenditures			<u>\$ 824,640.24</u>
 Grand Total - All Federal Program Expenditures			<u><u>\$ 2,144,960.73</u></u>

- * Subrecipient from Green River Regional Education Co-op
- ** Subrecipient from the University of Kentucky
- *** Subrecipient from the Department of Agriculture

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. During the fiscal year ended June 30, 2015, the District received and consumed \$80,085.03 in donated food commodities.

**SPENCER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2015**

	Capital Outlay Fund	Building Fund	District Activity	Debt Service	Totals
Assets & Resources:					
Cash & Cash Equivalents	\$ -	\$ 5,256,930.75	\$ 192,931.22	\$ -	\$ 5,449,861.97
Accounts Receivable	-	-	-	-	-
Investments	-	-	-	-	-
Total Assets & Resources	<u>\$ -</u>	<u>\$ 5,256,930.75</u>	<u>\$ 192,931.22</u>	<u>\$ -</u>	<u>\$ 5,449,861.97</u>
Liabilities & Fund Balances:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ 6,819.20	\$ -	\$ 6,819.20
Deferred Revenue	-	-	-	-	-
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,819.20</u>	<u>\$ -</u>	<u>\$ 6,819.20</u>
Fund Balances:					
Reserved:					
Restricted For KSFCC Escrow	\$ -	\$ 3,777,468.18	\$ -	\$ -	\$ 3,777,468.18
Restricted For Future Construction	-	1,479,462.57	-	-	1,479,462.57
Restricted Other	-	-	186,112.02	-	186,112.02
Total Fund Balances	<u>\$ -</u>	<u>\$ 5,256,930.75</u>	<u>\$ 186,112.02</u>	<u>\$ -</u>	<u>\$ 5,443,042.77</u>
Total Liabilities & Fund Balances	<u>\$ -</u>	<u>\$ 5,256,930.75</u>	<u>\$ 192,931.22</u>	<u>\$ -</u>	<u>\$ 5,449,861.97</u>

SPENCER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2015

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>District Activity</u>	<u>Debt Service</u>	<u>Totals</u>
Revenues:					
From Local Sources:					
Taxes:					
Property	\$ -	\$ 1,785,354.00	\$ -	\$ -	\$ 1,785,354.00
Motor Vehicle	-	-	-	-	-
Utilities	-	-	-	-	-
Tuition And Fees	-	-	-	-	-
Earnings On Investments	-	18,244.83	-	-	18,244.83
Other Local Revenues	-	-	264,956.98	-	264,956.98
Intergovernmental - Intermediate	-	-	-	-	-
Intergovernmental - State	258,504.00	745,956.00	-	384,608.98	1,389,068.98
Intergovernmental - Federal	-	-	-	-	-
Total Revenues	<u>\$ 258,504.00</u>	<u>\$ 2,549,554.83</u>	<u>\$ 264,956.98</u>	<u>\$ 384,608.98</u>	<u>\$ 3,457,624.79</u>
Expenditures:					
Instruction	\$ -	\$ -	\$ 239,719.40	\$ -	\$ 239,719.40
Support Services:					
Student	-	-	386.98	-	386.98
Instruction Staff	-	-	13,125.60	-	13,125.60
District Administration	-	-	-	-	-
School Administration	-	-	-	-	-
Business	-	-	-	-	-
Plant Operation & Maintenance	-	-	18,167.24	-	18,167.24
Student Transportation	-	-	-	-	-
Central Office	-	-	-	-	-
Facilities Acquisition & Maintenance	-	-	-	-	-
Community Service Activities	-	-	-	-	-
Debt Service	-	-	-	2,414,325.15	2,414,325.15
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 271,399.22</u>	<u>\$ 2,414,325.15</u>	<u>\$ 2,685,724.37</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>\$ 258,504.00</u>	<u>\$ 2,549,554.83</u>	<u>\$ (6,442.24)</u>	<u>\$ (2,029,716.17)</u>	<u>\$ 771,900.42</u>
Other Financing Sources (Uses)					
Sale Of Equipment	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Transfers In	-	573.70	-	2,029,716.17	2,030,289.87
Operating Transfers Out	(258,504.00)	(2,490,032.39)	-	-	(2,748,536.39)
Total Other Financing Sources (Uses)	<u>\$ (258,504.00)</u>	<u>\$ (2,489,458.69)</u>	<u>\$ -</u>	<u>\$ 2,029,716.17</u>	<u>\$ (718,246.52)</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ -</u>	<u>\$ 60,096.14</u>	<u>\$ (6,442.24)</u>	<u>\$ -</u>	<u>\$ 53,653.90</u>
Fund Balance, July 1, 2014	<u>\$ -</u>	<u>\$ 5,196,834.61</u>	<u>\$ 192,554.26</u>	<u>\$ -</u>	<u>\$ 5,389,388.87</u>
Fund Balance, June 30, 2015	<u><u>\$ -</u></u>	<u><u>\$ 5,256,930.75</u></u>	<u><u>\$ 186,112.02</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,443,042.77</u></u>

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Cash Balance July 1, 2014</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance June 30, 2015</u>
Spencer County Elementary	\$ 4,083.89	\$ 38,847.37	\$ 39,472.83	\$ 3,458.43
Spencer County Middle	31,391.53	143,813.19	148,754.76	26,449.96
Taylorsville Elementary	9,847.41	37,214.88	37,122.79	9,939.50
Spencer County High	<u>126,222.17</u>	<u>530,560.14</u>	<u>524,922.24</u>	<u>131,860.07</u>
Totals	<u>\$ 171,545.00</u>	<u>\$ 750,435.58</u>	<u>\$ 750,272.62</u>	<u>\$ 171,707.96</u>

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2013	Receipts	Disbursements	Transfers	Cash Balance June 30, 2014
Charitable Fundraising	\$ -	\$ 2,729.50	\$ (2,474.50)	\$ (255.00)	\$ -
Fees	-	-	-	-	-
ESS Summer Schl	-	80.00	-	-	80.00
YCLUB/KUNA	663.21	2,210.00	(2,833.58)	-	39.63
World's Travelers	362.04	-	-	-	362.04
Art Club	81.31	145.00	-	-	226.31
Piano / Keyboard	-	-	-	-	-
Band	386.01	36.00	(716.58)	296.75	2.18
FBLA	638.44	4,484.30	(5,020.05)	36.00	138.69
Chorus	-	-	-	-	-
Idea Club	-	75.00	-	-	75.00
Chorus Club	2,785.23	9,256.56	(11,636.90)	917.42	1,322.31
FCS #2	-	-	-	-	-
FCS #1	-	-	-	-	-
Family Consumer Science	-	-	-	-	-
FCCLA	1,348.77	2,878.31	(3,273.16)	-	953.92
Beta Club	293.02	1,278.00	(1,069.91)	-	501.11
Technology Education	-	-	-	-	-
TSA	2,076.36	2,848.95	(4,071.28)	(16.05)	837.98
Language	-	-	-	-	-
Mathematics	-	-	-	-	-
Mu Alpha Theta	5.00	-	-	-	5.00
Math Text Books	-	-	-	-	-
Media	-	-	-	-	-
Health Career	-	-	-	-	-
HOSA	354.67	5,408.86	(5,660.24)	(65.00)	38.29
HOSA National	-	3,654.49	(3,429.86)	65.00	289.63
Science	-	-	-	-	-
Science Text Books	-	-	-	-	-
Social Studies	-	-	-	-	-
Spanish	-	-	-	-	-
Spanish Text Books	-	-	-	-	-
Field Trips	664.31	-	-	-	664.31
FFA Truck FR Dairy	5,507.00	4,370.00	(1,372.00)	(8,505.00)	-
Career Ag	48.48	-	(48.48)	-	-
Dairy Team	12,614.76	129,940.01	(129,992.51)	30.00	12,592.26
FFA	18,621.95	67,667.11	(74,726.88)	7,044.58	18,606.76
Greenhouse	-	-	-	-	-
Yearbook	-	14,795.12	(3,332.45)	-	11,462.67
Chess	97.91	145.00	(83.85)	-	159.06
Sr Project Doggie Days	-	-	(255.00)	255.00	-
National Honor Society	630.94	1,391.54	(1,656.65)	-	365.83
Music Club	35.92	-	-	-	35.92
Spanish Honor Society	94.64	-	-	-	94.64
Community Service Club	210.00	247.00	-	-	457.00
Future Educators Assoc	-	180.00	(180.00)	70.15	70.15
Student Council	974.68	1,762.50	(1,159.55)	(47.04)	1,530.59

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Cash Balance July 1, 2013	Receipts	Disbursements	Transfers	Cash Balance June 30, 2014
Cadette Core	\$ 11.84	\$ -	\$ -	\$ -	\$ 11.84
Academic Team	245.85	-	-	-	245.85
MF Brown Memorial Fund	40.57	60.00	(100.00)	-	0.57
Klefot Art Scholars	1,045.00	972.73	(1,000.00)	-	1,017.73
Coca Cola Public	662.60	-	-	-	662.60
Coca Cola Student	893.16	929.96	(1,399.40)	-	423.72
Coca Cola Faculty	-	-	-	-	-
Pictures	-	-	-	-	-
General	1,892.39	2,141.89	(2,080.16)	488.82	2,442.94
Guidance	56.00	-	(56.00)	-	-
Memorial Fund	-	-	-	-	-
Prom	63.39	12,083.12	(9,590.92)	-	2,555.59
Class of 2018	-	4,208.49	(1,214.71)	(15.00)	2,978.78
Class of 2016	694.90	1,179.63	(99.95)	-	1,774.58
Class of 2015	8,651.69	2,740.72	(11,115.38)	(277.03)	0.00
Class of 2017	-	555.00	(534.00)	-	21.00
Senior Trip	-	13,188.89	(14,589.09)	1,424.09	23.89
Senior Picnic	-	12.00	-	368.90	380.90
Fellow of Christ	487.41	570.50	(756.28)	-	301.63
Athletics	1,019.66	42,332.12	(55,555.99)	18,461.92	6,257.71
District Tournament	-	11,653.75	(8,388.74)	(3,265.01)	-
Concessions	9,108.50	27,042.28	(16,553.40)	(19,097.38)	500.00
Charitable Gaming	-	-	(5.00)	5.00	-
Baseball	8,288.49	31,667.39	(32,191.19)	998.07	8,762.76
Basketball Boys	13,491.37	22,588.44	(30,298.33)	3,044.05	8,825.53
Basketball Girls	4,204.26	25,470.30	(16,053.73)	(3,195.54)	10,425.29
Dance Team	2,103.62	6,065.80	(1,911.84)	1,104.50	7,362.08
Cheerleader	3,845.97	10,899.43	(13,876.22)	-	869.18
Cross Country	469.57	750.00	(584.00)	-	635.57
Golf Boys	-	570.00	(474.99)	(95.00)	0.01
Golf Girls	54.83	-	-	-	54.83
Soccer Boys	1,182.58	425.00	(1,302.51)	411.55	716.62
Soccer Girls	2,439.79	3,616.00	(4,639.76)	181.15	1,597.18
Softball	6,299.11	1,818.43	(3,098.81)	913.82	5,932.55
Swim	50.92	1,381.80	(3,489.29)	5,383.22	3,326.65
Tennis Boys	228.20	-	-	(100.25)	127.95
Tennis Girls	243.84	1,430.00	(1,706.90)	161.00	127.94
Volleyball	4,858.24	15,277.73	(8,807.77)	(3,326.27)	8,001.93
Track	100.00	650.00	(620.00)	-	130.00
Football	4,868.73	26,942.59	(24,888.51)	(3,440.58)	3,482.23
Wrestling	56.91	4,925.90	(4,277.50)	39.16	744.47
Archery	68.13	827.00	(668.44)	-	226.69
District Softball	-	-	-	-	-
Group Total	\$ 126,222.17	\$ 530,560.14	\$ (524,922.24)	\$ (0.00)	\$ 131,860.07

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
AS OF JUNE 30, 2015**

Kentucky Teachers' Retirement System

	2014
District's proportion of the net pension liability	0.000%
District's proportionate share of the net pension liability	\$ -
State's proportion of the net pension liability associated with the District	0.3440%
State's proportionate share of the net pension liability associated with the District	<u>70,702,066</u>
Total	<u><u>\$ 70,702,066</u></u>
 District's covered-employee payroll	 \$ 11,221,831
District's proportionate share of the net pension liability	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.5907%

* Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
AS OF JUNE 30, 2015**

County Employees Retirement System Non-Hazardous

	2014
District's proportion of the net pension liability	0.160306%
District's proportionate share of the net pension liability	\$ 694,713
 District's covered-employee payroll	 \$ 3,677,687
District's proportionate share of the net pension liability	\$ 5,201,000
Plan fiduciary net position as a percentage of the total pension liability	66.80103%

* Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

Kentucky Teachers' Retirement System

	2014
Contractually required contribution	\$ 1,666,114
Contributions in relation to the contractually required contribution	<u>1,666,114</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered payroll	 \$ 11,221,831
Contributions as a percentage of covered-employee payroll	14.8471%

* Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

**SPENCER COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

County Employees Retirement System Non-Hazardous

	2014
Contractually required contribution	\$ 694,715
Contributions in relation to the contractually required contribution	<u>694,715</u>
Contribution deficiency (excess)	<u>\$ -</u>
 District's covered payroll	 \$ 3,677,687
Contributions as a percentage of covered-employee payroll	18.8900%

* Schedule is intended to show information for ten years.
Additional years will be displayed as they become available.

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

Section I - Summary of Auditor's Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A -133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.555
84.287

National School Lunch Program
21st Century Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II -- Financial Statement of Findings

No matters were reported.

Section III -- Federal Award Findings and Questioned Costs

No matters were reported.

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

No Prior Audit Findings

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

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

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendices I through IV of the Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (District) as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition,

the results of our tests disclosed no instances of material noncompliance with specific state statutes or regulations identified in *Appendix II of the Independent Auditors' Contract – State Audit Requirements*.

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.

Brown & Company CPA's

Bardstown, Kentucky
October 26, 2015

BROWN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS FINANCIAL ADVISORS & BUSINESS CONSULTANTS

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William G. Brown, CPA - W. Gilbert Brown III, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 the 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 control deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or 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.

Brown & Company CPA's

Bardstown, Kentucky
October 26, 2015

BROWN & COMPANY

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442 East Stephen Foster Avenue - Bardstown, Kentucky 40004 - Telephone (502) 349-3000 - Fax (502) 349-2059

William G. Brown, CPA - W. Gilbert Brown III, CPA

MANAGEMENT LETTER

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Kentucky State Committee for School District Audits
Frankfort, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (District) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Current Year Management Letter Points – 2014-2015 Audit

None

Prior Year Management Letter Point – 2013-2014 Audit

None

Management Response:

Management will initiate a purchase order for all expenditures, to include board approved contracts, lease agreements, insurance premiums and utilities. All authorized approvals will be on the face of the purchase order.

Audit Follow Up

Our follow up revealed that the District implemented methods to better document the authorization process as suggested in last year's management letter.

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

This communication is intended solely for the information and use of management, the Board of Education, the Kentucky Department of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Company CPA's

Bardstown, Kentucky
October 26, 2015

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William G. Brown, CPA - W. Gilbert Brown III, CPA

LETTER TO THOSE CHARGED WITH GOVERNANCE

Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spencer County School District for the year ended June 30, 2015, and have issued our report thereon dated October 26, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133:

As stated in our engagement letter dated September 28, 2015, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Spencer County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Spencer County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Spencer County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Spencer County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Spencer County School District's compliance with those requirements.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Spencer County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014-2015. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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

Brown & Company CPA's

Bardstown, Kentucky
October 26, 2015