

SPENCER COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION, AND
REPORTS OF INDEPENDENT AUDITORS

YEAR ENDED JUNE 30, 2016

SPENCER COUNTY SCHOOL DISTRICT

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirement*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4 – 10 and 48 – 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and school activity funds 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, school activity funds, 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, school activity funds, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirement*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, we have also issued our report dated November 2, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Smith & Company CPAs, PLLC".

Bardstown, Kentucky
November 2, 2016

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

As management of the Spencer County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District was \$26.7 million, including a construction fund cash balance of \$17.7 million, and a building fund cash balance of \$4.6 million.
- 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 2.3%. Local tax was levied at a 3.1 percent rate increase of 63 cents per \$100 for real estate and tangible property. There was no change in the motor vehicle rate of 56 cents per \$100 of assessed property.
- The District adopted a budget in May 2016 for the upcoming year with \$2.67 million in contingency (11.6% of total budgeted expenditures).
- The District refunded approximately \$9.5 million by reissuing \$10.055 million in 2016 Series Refunding bonds. The refunding of the bonds is expected to decrease total future debt service payments by approximately \$919,000.
- The District issued \$18.235 million in project bonds to complete the new Taylorsville Elementary School.
- Employees received a 2% pay increase as mandated by the Kentucky General Assembly in addition to normal step and rank increases.
- The District maintains its focus on student achievement and is celebrating the results of the Kentucky Performance Rating for Educational Progress (K-PREP) released by the Kentucky Department of Education. Spencer County is rated a *distinguished district*.

The financial position of the District remains strong and stable. The District’s governmental funds financial statements reported combined ending fund balance of \$27.1 million. Of this total, \$3.6 million is unassigned in the general fund. However, due to economic uncertainty, along with the needs of specific instructional priorities, it is necessary to maintain an adequate fund balance to support these initiatives.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business. The government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

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

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service and day care operations. All other activities of the district are included in the governmental funds. The basic governmental fund financial statements can be found on pages 13 through 20 of this 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$12.5 million as of June 30, 2016.

Typically, the largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. However, as of June 30, 2016, the investment in capital assets is shown as a deficit due to the \$18.235 million in bonds issued for the new elementary school while the bond proceeds are reported as restricted net position. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Net Position

The 2016 Government-wide net position compared to 2015 is as follows:

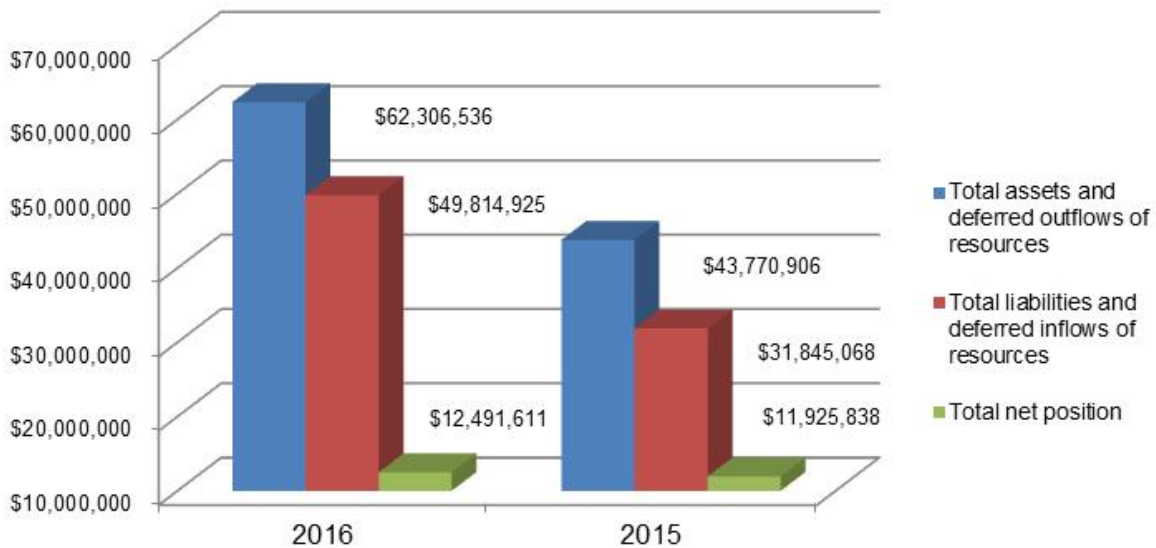
**Net Position
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
		(Restated) 2015				(Restated) 2015
	2016		2016	2015	2016	2015
Current and other assets	\$ 27,504,521	\$ 10,810,498	\$ 315,148	\$ 329,342	\$ 27,819,669	\$ 11,139,840
Capital assets	32,436,412	31,642,671	150,581	201,977	32,586,993	31,844,648
Total assets	59,940,933	42,453,169	465,729	531,319	60,406,662	42,984,488
Deferred outflows of resources	1,707,737	580,043	192,137	92,975	1,899,874	673,018
Long-term debt	46,267,572	23,963,489	977,330	-	47,244,902	23,963,489
Other liabilities	2,074,810	6,567,497	30,413	733,082	2,105,223	7,300,579
Total liabilities	48,342,382	30,530,986	1,007,743	733,082	49,350,125	31,264,068
Deferred inflows of resources	402,052	502,565	62,748	78,435	464,800	581,000
Net position:						
Net investment in capital assets	(8,676,995)	5,046,437	150,581	201,977	(8,526,414)	5,248,414
Restricted	22,465,574	6,246,248	-	-	22,465,574	6,246,248
Unrestricted	(884,343)	820,376	(563,206)	(389,200)	(1,447,549)	431,176
Total net position	\$ 12,904,236	\$ 12,113,061	\$ (412,625)	\$ (187,223)	\$ 12,491,611	\$ 11,925,838

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

The following are significant current year transactions impacting the Statement of Net Position:

- Capital assets increased approximately \$629,000 due to current year depreciation of \$1.20 million offset by FY2016 additions of approximately \$1.97 million primarily as a result of construction costs related to the new Taylorsville Elementary School, new computers, buses, and network equipment.
- Total long-term obligations for bonds increased approximately \$16.9 million as a result of \$10.055 million in Series 2016 Refunding bonds and \$18.235 million in projects bonds for the new elementary school issued in fiscal year 2016 and scheduled bond principal reductions of approximately \$1.6 million. Also, the District paid \$38,718 toward a claim related to outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT). The District's proportionate share of CERS reported net pension liability increased approximately \$1.78 million during fiscal year 2016. As of June 30, 2016, the District's proportionate share of the CERS net pension liability was \$6.98 million (as actuarially determined by CERS).



SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2016 and 2015.

Changes in Net Position
(Table 2)

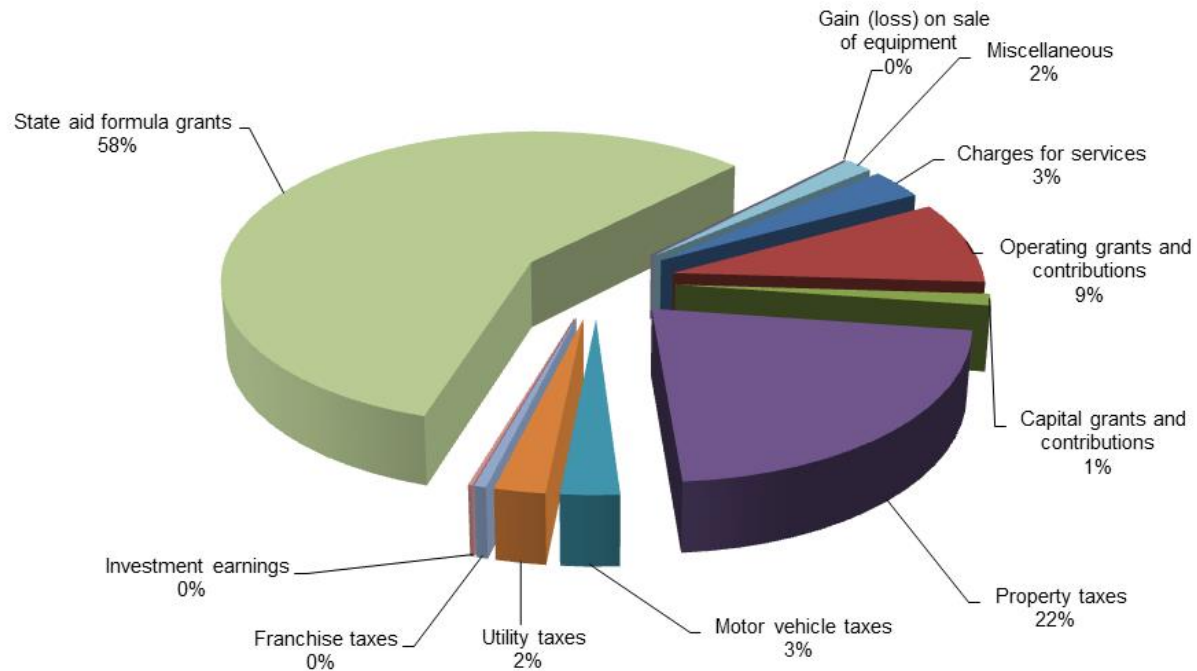
	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
REVENUES						
Program Revenues						
Charges for services	\$ 166,866	\$ 12,175	\$ 802,073	\$ 743,742	\$ 968,939	\$ 755,917
Operating grants and contributions	1,712,603	3,102,109	975,808	937,581	2,688,411	4,039,690
Capital grants and contributions	376,696	-	-	-	376,696	-
General Revenues						
Property taxes	6,578,378	6,285,384	-	-	6,578,378	6,285,384
Motor vehicle taxes	818,239	766,424	-	-	818,239	766,424
Utility taxes	707,458	751,844	-	-	707,458	751,844
Franchise taxes	166,332	129,995	-	-	166,332	129,995
Investment earnings	59,242	46,137	1,263	1,081	60,505	47,218
State aid formula grants	17,443,848	17,432,872	-	-	17,443,848	17,432,872
Gain (loss) on sale of equipment	(1,857)	-	-	-	(1,857)	-
Miscellaneous	491,113	595,593	-	599	491,113	596,192
Total revenues	28,518,918	29,122,533	1,779,144	1,683,003	30,298,062	30,805,536
EXPENSES						
Program Activities						
Instruction	15,279,941	15,406,052	-	-	15,279,941	15,406,052
Student support	1,242,462	1,299,565	-	-	1,242,462	1,299,565
Instruction staff support	1,670,594	1,615,550	-	-	1,670,594	1,615,550
District administration support	770,506	776,385	-	-	770,506	776,385
School administrative support	1,677,603	1,663,478	-	-	1,677,603	1,663,478
Business support	819,576	710,736	-	-	819,576	710,736
Plant operation and maintenance	2,804,248	1,729,932	-	-	2,804,248	1,729,932
Adult education	68,081	69,700	-	-	68,081	69,700
Student transportation	2,282,549	1,900,881	-	-	2,282,549	1,900,881
Community service activities	178,824	179,343	-	-	178,824	179,343
Other	-	12,767	-	-	-	12,767
Interest on long-term debt	908,544	892,499	-	-	908,544	892,499
Depreciation - unallocated	-	1,288,480	-	-	-	1,288,480
Business-type Activities						
Food service	-	-	1,556,399	1,462,141	1,556,399	1,462,141
Child care	-	-	417,959	267,238	417,959	267,238
Total expenses	27,702,928	27,545,368	1,974,358	1,729,379	29,677,286	29,274,747
Transfers	30,185	-	(30,185)	-	-	-
CHANGE IN NET POSITION	\$ 846,175	\$ 1,577,165	\$ (225,399)	\$ (46,376)	\$ 620,776	\$ 1,530,789

The following are significant current year transactions impacting the Changes in Net Position:

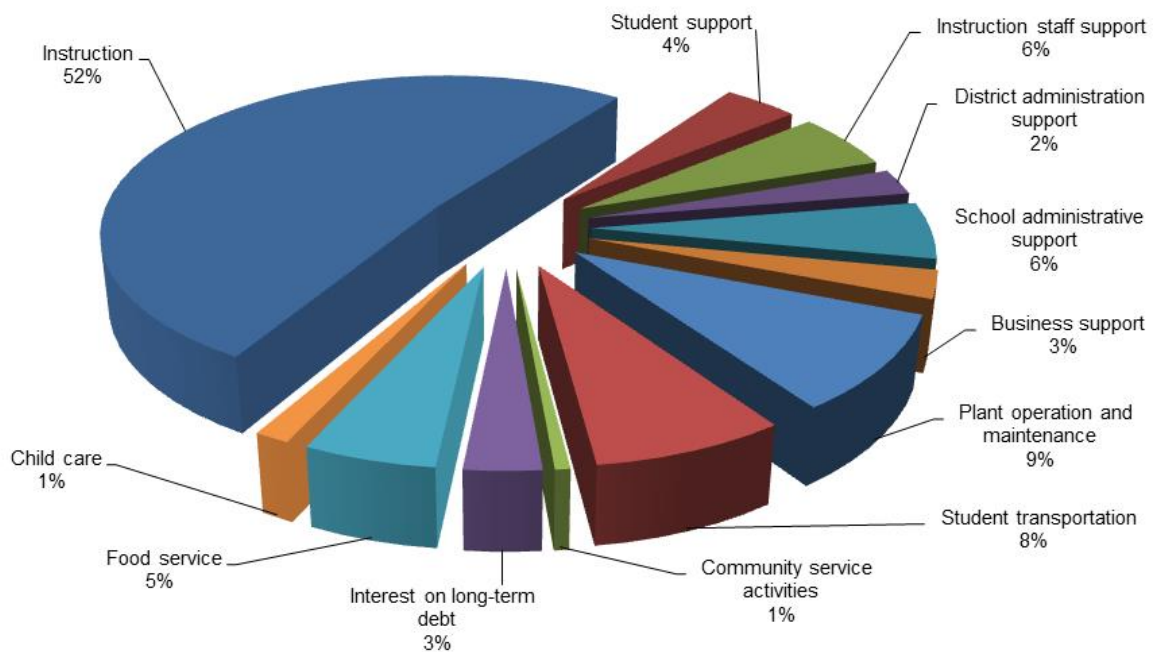
- Total revenues decreased approximately \$507,000 primarily due to decreases in operating grants and contributions (\$1.4 million decrease) offset by increases in property tax revenues.
- Total expenses increased approximately \$334,000 as a result of increases in Plant Operations and Maintenance expenses of approximately \$1.1 million and increases in Student Transportation of approximately \$382,000. The majority of these increase are related to depreciation in prior years that was not allocated to specific functions.

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

The following provides a breakdown of total primary government revenues for the year ending June 30, 2016:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2016:



SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

Capital Assets

At the end of fiscal year 2016, the School District had approximately \$93.2 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2016 and 2015 balances.

Capital Assets, Net of Depreciation
(Table 3)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land	\$ 677,346	\$ 677,346	\$ -	\$ -	\$ 677,346	\$ 677,346
Buildings and improvements	28,430,337	29,253,774	-	-	28,430,337	29,253,774
Technology Equipment	49,865	108,874	699	3,732	50,564	112,606
Vehicles	1,344,358	1,273,614	-	-	1,344,358	1,273,614
General equipment	226,839	215,663	149,882	198,245	376,721	413,908
Total	30,728,745	31,529,271	150,581	201,977	30,879,326	31,731,248
Construction in process	1,707,667	113,400	-	-	1,707,667	113,400
Total	\$ 32,436,412	\$ 31,642,671	\$ 150,581	\$ 201,977	\$ 32,586,993	\$ 31,844,648

The following were major additions and capital assets placed in service during fiscal year 2016:

Buses	\$ <u>272,850</u>
Tractor	\$ <u>19,500</u>
Computer and Network Peripherals	\$ <u>25,042</u>

The District also spent \$1,594,267 for construction and related costs for the new Taylorsville Elementary school. The amounts were added to construction in process as of June 30, 2016.

Debt

At June 30, 2016, the School District had \$40,495,000 in bonds outstanding. Of this amount, \$3,579,988 is to be paid by the Kentucky School Facility Construction Commission. A total of \$1,305,000 is due within one year.

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.

For the General Fund, revenues were budgeted at approximately \$21.5 million with actual amounts of approximately \$22.1 million. Budgeted expenditures of approximately \$22.9 million compare with actual expenditures of approximately \$22.1 million. The most significant fluctuation is for plant operation and maintenance expenditures for capital items that fell below budget by approximately \$212,000 and student transportation where expenditures fell below budget by approximately \$327,000. Excess of budgeted revenue is mainly due to on-behalf payments (approximately \$449,000 excess).

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21-46 of this report.

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2016

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal, operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget for 2015-2016 with a contingency that exceeded the 2% minimum. The District has adopted a budget for 2016-2017 with a contingency that exceeds the 2% requirement.

ADDITIONAL CONTACT INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District’s finances and to show the District’s accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Vicki Goodlett Finance Officer, 207 West Main Street, Taylorsville, KY 40071 or by phone at 502-477-3250.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 26,561,279	\$ 173,320	\$ 26,734,599
Inventory	-	42,288	42,288
Accounts receivable:			
Taxes - current	207,656	-	207,656
Taxes - delinquent	3,500	-	3,500
Other	-	9,761	9,761
Intergovernmental - State	74,113	-	74,113
Intergovernmental - Federal	306,945	89,779	396,724
Prepaid expenses	351,028	-	351,028
Total current assets	27,504,521	315,148	27,819,669
<u>Capital Assets, Net</u>			
Capital assets, net	32,436,412	150,581	32,586,993
Total Assets	59,940,933	465,729	60,406,662
Deferred Outflows of Resources			
Deferred amount on refunding	526,001	-	526,001
Deferred outflows related to pensions - CERS	1,181,736	192,137	1,373,873
Total Deferred Outflows of Resources	1,707,737	192,137	1,899,874
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	143,873	7,276	151,149
Accrued salaries and benefits payable	13,687	7,073	20,760
Unearned revenue	120,096	16,064	136,160
Interest payable	193,666	-	193,666
Current portion of bond obligations	1,305,000	-	1,305,000
Current portion of capital lease obligations	215,296	-	215,296
Current portion of claims payable - KSBIT	38,718	-	38,718
Current portion of accrued sick leave	44,474	-	44,474
Total Current Liabilities	2,074,810	30,413	2,105,223
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	39,190,000	-	39,190,000
Less: bond discount	(363,869)	-	(363,869)
Noncurrent portion of capital lease obligations	1,099,315	-	1,099,315
Noncurrent portion of claims payable - KSBIT	154,872	-	154,872
Noncurrent portion of accrued sick leave	183,678	-	183,678
Net pension liability - CERS	6,003,576	977,330	6,980,906
Total Noncurrent Liabilities	46,267,572	977,330	47,244,902
Total Liabilities	48,342,382	1,007,743	49,350,125
Deferred Inflows of Resources			
Deferred inflows related to pensions - CERS	402,052	62,748	464,800
Net Position			
Net investment in capital assets	(8,676,995)	150,581	(8,526,414)
Restricted	22,465,574	-	22,465,574
Unrestricted	(884,343)	(563,206)	(1,447,549)
Total Net Position	\$ 12,904,236	\$ (412,625)	\$ 12,491,611

See accompanying report of independent auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

FUNCTIONS / PROGRAMS	Expenses	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
Governmental Activities:							
Instruction	\$ 15,279,941	\$ 158,247	\$ 1,712,603	\$ -	\$ (13,409,091)	\$ -	\$ (13,409,091)
Support Services:							
Student	1,242,462	-	-	-	(1,242,462)	-	(1,242,462)
Instruction staff	1,670,594	-	-	-	(1,670,594)	-	(1,670,594)
District administration	770,506	-	-	-	(770,506)	-	(770,506)
School administrative	1,677,603	-	-	-	(1,677,603)	-	(1,677,603)
Business	819,576	-	-	-	(819,576)	-	(819,576)
Plant operation and maintenance	2,804,248	-	-	-	(2,804,248)	-	(2,804,248)
Adult education	68,081	-	-	-	(68,081)	-	(68,081)
Student transportation	2,282,549	8,619	-	-	(2,273,930)	-	(2,273,930)
Community service activities	178,824	-	-	-	(178,824)	-	(178,824)
Interest and issue costs on long-term debt	908,544	-	-	376,696	(531,848)	-	(531,848)
Total Governmental Activities	27,702,928	166,866	1,712,603	376,696	(25,446,763)	-	(25,446,763)
Business-Type Activities:							
Food service	1,556,399	508,452	943,302	-	-	(104,645)	(104,645)
Child care	417,959	293,621	32,506	-	-	(91,832)	(91,832)
Total Business-Type Activities	1,974,358	802,073	975,808	-	-	(196,477)	(196,477)
Total Primary Government	\$ 29,677,286	\$ 968,939	\$ 2,688,411	\$ 376,696	(25,446,763)	(196,477)	(25,643,240)
General revenues:							
Taxes:							
Property taxes					6,578,378	-	6,578,378
Motor vehicles taxes					818,239	-	818,239
Utility taxes					707,458	-	707,458
Franchise taxes					166,332	-	166,332
Investment earnings					59,242	1,263	60,505
State aid formula grants					17,443,848	-	17,443,848
Gain (loss) on sale of equipment					(1,857)	-	(1,857)
Miscellaneous					491,113	-	491,113
Total general revenues					26,262,753	1,263	26,264,016
Transfers					30,185	(30,185)	-
Change In Net Position					846,175	(225,399)	620,776
Net Position - Beginning (restated - See Note P)					12,058,061	(187,226)	11,870,835
Net Position - Ending					\$ 12,904,236	\$ (412,625)	\$ 12,491,611

See accompanying report of independent
auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2016

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 4,235,774	\$ -	\$ 17,655,416	\$ 4,770,558	\$ 26,661,748
Accounts receivable	285,268	306,945	-	-	592,213
Prepaid expenses	351,028				351,028
Investments	-	-	-	-	-
Total assets	<u>\$ 4,872,070</u>	<u>\$ 306,945</u>	<u>\$ 17,655,416</u>	<u>\$ 4,770,558</u>	<u>\$ 27,604,989</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 93,231	\$ 43,685	\$ 3,615	\$ 3,341	\$ 143,872
Cash overdraft	-	100,469	-	-	100,469
Accrued liabilities	57,822	339	-	-	58,161
Current portion of claims payable - KSBIT	38,718	-	-	-	38,718
Unearned revenue	4,200	115,896	-	-	120,096
Total liabilities	<u>193,971</u>	<u>260,389</u>	<u>3,615</u>	<u>3,341</u>	<u>461,316</u>
Fund Balances:					
Nonspendable:					
Prepaid expenses	351,028	-	-	-	351,028
Spendable:					
Restricted	-	46,556	17,651,801	4,767,217	22,465,574
Committed	451,666	-	-	-	451,666
Assigned	253,198	-	-	-	253,198
Unassigned	3,622,207	-	-	-	3,622,207
Total Fund Balances	<u>4,678,099</u>	<u>46,556</u>	<u>17,651,801</u>	<u>4,767,217</u>	<u>27,143,673</u>
Total liabilities and fund balances	<u>\$ 4,872,070</u>	<u>\$ 306,945</u>	<u>\$ 17,655,416</u>	<u>\$ 4,770,558</u>	<u>\$ 27,604,989</u>

See accompanying report of independent auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

JUNE 30, 2016

Total fund balance per fund financial statements		\$ 27,143,673
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.		32,436,412
Deferred outflows of resources and deferred inflows of resources related to the District's proportionate share of these amounts reported by the CERS pension plan are reported in the governmental activities in the Statement of Net Position.		
Deferred outflows of resources - CERS	\$ 1,181,736	
Deferred inflows of resources - CERS	<u>(402,052)</u>	779,684
Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position.		
Bonds payable	(40,495,000)	
Bond discount - unamortized	363,869	
Deferred amount on refunding (deferred outflow of resources)	526,001	
Interest payable	(193,666)	
Capital lease obligations	(1,314,611)	
Net pension liability - CERS	(6,003,576)	
Claims payable - KSBIT (noncurrent)	(154,872)	
Accrued compensated absences - long-term	<u>(183,678)</u>	<u>(47,455,533)</u>
Net position for governmental activities		<u>\$ 12,904,236</u>

See accompanying report of independent
auditors and 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, 2016

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 4,752,644	\$ -	\$ -	\$ 1,825,734	\$ 6,578,378
Motor vehicle	818,239	-	-	-	818,239
Utilities	707,458	-	-	-	707,458
Franchise	166,332	-	-	-	166,332
Tuition and fees	35,925	-	-	121,764	157,689
Earnings on investments	34,965	328	3,206	20,742	59,241
Other local revenues	232,045	78,878	-	225,345	536,268
Intergovernmental - state	15,357,988	1,153,643	-	1,353,460	17,865,091
Intergovernmental - federal	24,392	1,379,009	-	-	1,403,401
Total revenues	<u>22,129,988</u>	<u>2,611,858</u>	<u>3,206</u>	<u>3,547,045</u>	<u>28,292,097</u>
Expenditures:					
Instruction	12,654,034	1,871,715	-	297,941	14,823,690
Support services:					
Student	1,112,626	138,378	-	684	1,251,688
Instruction staff	1,198,204	411,045	-	19,611	1,628,860
District administration	742,593	417	-	-	743,010
School administrative	1,561,228	25,798	-	-	1,587,026
Business	730,095	-	-	-	730,095
Plant operation and maintenance	1,985,615	-	-	14,898	2,000,513
Student transportation	2,112,197	29,524	-	427	2,142,148
Facilities acquisition and maintenance	-	-	2,065,868	-	2,065,868
Community service activities	3,644	175,180	-	-	178,824
Adult education	-	68,081	-	-	68,081
Debt service:					
Principal	217,851	-	-	1,620,000	1,837,851
Interest	39,173	-	-	789,848	829,021
Bond issue costs	-	-	-	87,821	87,821
Total Expenditures	<u>22,357,260</u>	<u>2,720,138</u>	<u>2,065,868</u>	<u>2,831,230</u>	<u>29,974,496</u>
Excess (deficit) of revenues over expenditures	<u>(227,272)</u>	<u>(108,280)</u>	<u>(2,062,662)</u>	<u>715,815</u>	<u>(1,682,399)</u>
Other financing sources (uses)					
Proceeds from sale of bonds	-	-	18,235,000	10,055,000	28,290,000
Payment to refunded bond escrow agent	-	-	-	(10,021,797)	(10,021,797)
Bond premium	-	-	-	54,618	54,618
Proceeds from capital leases	189,408	-	-	-	189,408
Proceeds from sale of fixed assets	146	-	-	-	146
Insurance proceeds	228,677	-	-	-	228,677
Operating transfers in	35,640	140,081	1,479,463	2,033,152	3,688,336
Operating transfers out	(80,670)	(64,866)	-	(3,512,614)	(3,658,150)
Total other financing sources (uses)	<u>373,201</u>	<u>75,215</u>	<u>19,714,463</u>	<u>(1,391,641)</u>	<u>18,771,238</u>
Net change in fund balances	<u>145,929</u>	<u>(33,065)</u>	<u>17,651,801</u>	<u>(675,826)</u>	<u>17,088,839</u>
Fund balance, July 1, 2015 (Restated)	<u>4,532,170</u>	<u>79,621</u>	<u>-</u>	<u>5,443,043</u>	<u>10,054,834</u>
Fund balance, June 30, 2016	<u>\$ 4,678,099</u>	<u>\$ 46,556</u>	<u>\$ 17,651,801</u>	<u>\$ 4,767,217</u>	<u>\$ 27,143,673</u>

See accompanying report of independent auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Net change in total fund balances per fund financial statements		\$ 17,088,839
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 exceed depreciation for the year.		
Capital expenditures	\$ 1,974,064	
Depreciation	<u>(1,178,319)</u>	795,745
Bond and capital lease proceeds are reported as revenues in this fund statement because they create current financial resources, but they are separated and shown as long-term debt on the statement of net position.		
Bond proceeds	(27,984,456)	
Capital lease proceeds	<u>(189,408)</u>	(28,173,864)
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.		
Principal payments on bonds	11,100,000	
Principal payments for capital leases	<u>217,851</u>	11,317,851
In the statement of activities, only the gain (loss) on sale of fixed assets is reported, whereas in the governmental funds, the proceeds for the sale increased financial resources.		(2,003)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Compensated absences - long-term	\$ 72,020	
Changes in interest payable, discounts, and deferred amounts on refunding	550,094	
Pension expense related to changes in the net pension liability and the net changes in deferred inflows of resources and deferred outflows of resources for CERS	<u>(802,507)</u>	<u>(180,393)</u>
Change in net position of governmental activities		<u>\$ 846,175</u>

See accompanying report of independent
auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2016

	Food Service Fund	Child Care Fund	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 153,540	\$ 19,780	\$ 173,320
Accounts receivable	363	9,398	9,761
Intergovernmental - indirect federal	89,779	-	89,779
Inventory	42,288	-	42,288
Total current assets	285,970	29,178	315,148
<u>Capital Assets, Net</u>			
Capital assets, net	150,581	-	150,581
Total assets	<u>\$ 436,551</u>	<u>\$ 29,178</u>	<u>\$ 465,729</u>
Deferred Outflows of Resources			
Deferred outflows related to pensions - CERS	<u>\$ 129,247</u>	<u>\$ 62,890</u>	<u>\$ 192,137</u>
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 6,080	\$ 1,196	\$ 7,276
Accrued expenses	-	7,073	7,073
Unearned revenue	14,428	1,636	16,064
Total current liabilities	20,508	9,905	30,413
<u>Non-Current Liabilities</u>			
Net pension liability - CERS	656,205	321,125	977,330
Total liabilities	<u>\$ 676,713</u>	<u>\$ 331,030</u>	<u>\$ 1,007,743</u>
Deferred Inflows of Resources			
Deferred inflows related to pensions - CERS	<u>\$ 46,480</u>	<u>\$ 16,268</u>	<u>\$ 62,748</u>
Net Position			
Net investment in capital assets	150,581	-	150,581
Unrestricted	(307,976)	(255,230)	(563,206)
Total net position	<u>\$ (157,395)</u>	<u>\$ (255,230)</u>	<u>\$ (412,625)</u>

See accompanying report of independent auditors and 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, 2016

	Food Service Fund	Child Care Fund	Total
Operating revenues:			
Lunchroom sales	\$ 507,870	\$ -	\$ 507,870
Tuition and fees	-	293,621	293,621
Other operating revenues	582	-	582
Total operating revenues	508,452	293,621	802,073
Operating expenses:			
Salaries and wages	632,162	352,631	984,793
Materials and supplies	851,487	10,324	861,811
Depreciation	51,160	237	51,397
Other operating expenses	21,590	54,767	76,357
Total operating expenses	1,556,399	417,959	1,974,358
Income (loss) from operations	(1,047,947)	(124,338)	(1,172,285)
Non-operating revenues (expenses):			
Federal grants	757,920	-	757,920
State grants	86,027	32,506	118,533
Donated commodities	99,355	-	99,355
Fund transfers	(30,185)	-	(30,185)
Interest income	1,039	224	1,263
Total non-operating revenues (expenses)	914,156	32,730	946,886
Change in net position	(133,791)	(91,608)	(225,399)
Net position, July 1, 2015, as previously reported	478,734	21,638	500,372
Prior Period Adjustment (Note P)	(502,338)	(185,260)	(687,598)
Net position, July 1, 2015, restated	(23,604)	(163,622)	(187,226)
Net position, June 30, 2016	<u>\$ (157,395)</u>	<u>\$ (255,230)</u>	<u>\$ (412,625)</u>

See accompanying report of independent
auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	Food Service Fund	Child Care Fund	Total
Cash Flows From Operating Activities			
Cash received from:			
Lunchroom sales	\$ 515,892	\$ -	\$ 515,892
Tuition and fees	-	294,503	294,503
Other activities	582	-	582
Cash paid to / for:			
Employees	(493,704)	(231,280)	(724,984)
Suppliers	(752,971)	(9,645)	(762,616)
Other activities	(21,590)	(54,767)	(76,357)
Net cash provided by (used in) operating activities	(751,791)	(1,189)	(752,980)
Cash Flows From Non-Capital Financing Activities			
Federal grants	668,141	-	668,141
State grants	16,577	251	16,828
Transfers from (to) other funds	(30,185)	-	(30,185)
Net cash provided by (used in) non-capital financing activities	654,533	251	654,784
Cash Flows From Investing Activities			
Receipt of interest income	1,039	224	1,263
Net Cash Provided by Investing Activities	1,039	224	1,263
Net increase (decrease) in cash and cash equivalents	(96,219)	(714)	(96,933)
Balances, beginning of year	249,759	20,494	270,253
Balances, end of year	\$ 153,540	\$ 19,780	\$ 173,320
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income	\$ (1,047,947)	\$ (124,338)	\$ (1,172,285)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	51,160	237	51,397
Donated commodities	99,355	-	99,355
State on-behalf payments	69,450	32,255	101,705
GASB 68 Pension expense	71,100	89,246	160,346
Change in assets and liabilities:			
Decrease in receivables	8,537	139	8,676
(Increase) in inventory	(1,636)	-	(1,636)
(Decrease) Increase in accounts payable	(839)	679	(160)
(Decrease) in accrued expenses	(2,092)	(150)	(2,242)
Increase in deferred revenues	1,121	743	1,864
Net cash provided by (used in) operating activities	\$ (751,791)	\$ (1,189)	\$ (752,980)
Schedule of non-cash transactions:			
Donated commodities	\$ 99,355	\$ -	\$ 99,355
State on-behalf payments	\$ 69,450	\$ 32,255	\$ 101,705
CERS Pensions	\$ 46,752	\$ 22,518	\$ 69,270

See accompanying report of independent auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2016

	Agency Funds
Assets	
Cash and cash equivalents	\$ 183,587
Accounts receivable	-
Total Assets	\$ 183,587
Liabilities	
Accounts payable	\$ -
Due to student groups	183,587
Total Liabilities	183,587
Net Position Held In Trust	\$ -

See accompanying report of independent
auditors and notes to financial statements.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the 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 statements of the following organization are included in the accompanying financial statements:

Spencer County School District Finance Corporation – In 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. The Corporation is blended into the District's financial statements.

Basis of Presentation

The District's basic financial statement consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. 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 accompanied by a total column.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets as well as long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

The District applies all Governmental Accounting Standards Boards ("GASB") pronouncements to proprietary funds as well as the Accounting Principles Board and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. 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.

All governmental funds are accounted for on the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statements of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District are property tax and utility tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 61 – 62. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.
- E. The District Activity Fund is a special revenue fund type and is used to account for funds at the school level.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Child Care Fund is used to account for after school revenues and programs where a fee is charged for participating.

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

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

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

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

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$0.630 per \$100 valuation for real property, \$0.630 per \$100 valuation for business personal property and \$0.560 per \$100 valuation for motor vehicles.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

<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
Food Service Equipment	10-12 years
Furniture and Fixtures	7 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.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 in accordance with state 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 and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2016 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 non-current 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.

Compensated Absences

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences are not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

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.

Fund Balances

Governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- *Nonspendable fund balance* - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.
- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its decision making authority to be reported as committed, amounts cannot be used for any other purpose unless the District takes action to remove or change the constraint.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- *Assigned fund balance* - amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes.
- *Unassigned fund balance* - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

Net position represents the difference between a). assets and deferred outflows of resources and b). liabilities and deferred inflows of resources. 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. All other net position is reported as unrestricted.

Operating Revenues

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

Contributions of Capital

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

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 as nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

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

At year-end, the carrying amount of the District's cash and cash equivalents was \$26,661,748. \$250,000 of bank account balances per separate banks is covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in certificates and securities with a maturity of 90 days or less.

Breakdown per financial statements:

Governmental Funds	\$	26,561,279
Proprietary Funds		<u>173,320</u>
	\$	<u><u>26,734,599</u></u>

In addition to the cash and cash equivalents listed above, the district has agency funds that are not included in the governmental funds or the proprietary fund balances. The agency funds (school activity funds) at year end were \$183,587.

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

The District may legally invest in certificates of deposit and other interest bearing accounts insured by the Federal Deposit Insurance Corporation (FDIC), uncollateralized certificates of deposit rated in one of the three highest categories by a nationally recognized rating agency; obligations of the United States and of its agencies and instrumentalities, including any corporation of the United States government, bonds or certificates of indebtedness of the State of Kentucky and any of its agencies and instrumentalities; or securities issued by a state or local government or any instrumentalities or agency thereof in the United States and rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency and certain mutual funds as more fully described in KRS 66.4 80. All of the investments of the District are held in U.S. government agency obligations, which carry the explicit guarantee of the U.S. government or certificates of deposit that are insured by the FDIC.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE C – CASH AND CASH EQUIVALENTS – CONTINUED

Concentration of Credit Risk – The District, in accordance with KRS 66.480, limits the amount that may be invested at any time in uncollateralized certificates of deposit, bankers acceptances, commercial paper and securities issued by a state or local government or any instrumentality or agency thereof, to 20% of the total amount of funds invested by the District. At June 30, 2016, the District did not hold any investments in excess of this limit.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by the District are insured or collateralized with securities held by the financial institution in the District's name.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by purchasing a combination of shorter and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

NOTE D – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2016:

Fund Financial Statements:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 61,789
General	Special Revenue	Grant Match	18,881
Capital Outlay Fund	Debt Service Fund	Debt Service	258,447
Building Fund	Construction Fund	Construction Projects	1,479,463
Building Fund	Debt Service Fund	Debt Service	1,774,705
Special Revenue	Special Revenue	Operations	59,411
Special Revenue	General	Indirect Costs	5,455

Government-wide Financial Statements:

From Fund	To Fund	Purpose	Amount
Food Service Fund	General Fund	Indirect Costs	\$ 30,185

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

Governmental Activities	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Non-depreciable assets:				
Land	\$ 677,346	\$ -	\$ -	\$ 677,346
Construction in process	113,400	1,594,267	-	1,707,667
Depreciable assets:				
Buildings and improvements	40,086,112	12,706	-	40,098,818
Technology equipment	1,979,527	25,042	-	2,004,569
Vehicles	2,783,699	286,850	46,939	3,023,610
General equipment	543,728	55,199	14,969	583,958
Totals at historical cost	46,183,812	1,974,064	61,908	48,095,968
Accumulated depreciation:				
Buildings and improvements	10,832,338	836,143	-	11,668,481
Technology equipment	1,870,653	84,051	-	1,954,704
Vehicles	1,510,085	216,106	46,939	1,679,252
General equipment	328,065	42,019	12,965	357,119
Total accumulated depreciation	14,541,141	1,178,319	59,904	15,659,556
Governmental activities capital assets, net	\$ 31,642,671	\$ 795,745	\$ 2,004	\$ 32,436,412

Depreciation was charged to government functions as follows:

Instruction	\$ 339,161
Student support	1,690
Instructional staff support	4,100
District administration	2,148
School administration	4,218
Business support	3,490
Plant	608,050
Transportation	215,462
Total	\$ 1,178,319

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Depreciable assets:				
Technology equipment	\$ 23,583	\$ -	\$ -	\$ 23,583
General equipment	891,449	-	-	891,449
Totals at historical cost	915,032	-	-	915,032
Accumulated depreciation:				
Technology equipment	19,851	3,033	-	22,884
General equipment	693,203	48,364	-	741,567
Total accumulated depreciation	713,054	51,397	-	764,451
Business-type activities capital assets, net	\$ 201,978	\$ (51,397)	\$ -	\$ 150,581

Construction in process totaling \$1,707,667 is related to the construction of the new Taylorsville Elementary School. As of June 30, 2016, the remaining commitment to complete the project totals approximately \$15.7 million.

NOTE F – LONG-TERM OBLIGATIONS

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

Issue Date	Original Proceeds	Interest Rates
2005	\$ 855,000	4.00%
2009 Ref	5,940,000	2.00% - 3.375%
2011	9,740,000	1.00% - 2.50%
2016 Ref	10,055,000	2.00% - 3.8%
2016	18,235,000	2.00% - 2.625%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the 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 entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

In February 2016, the Board issued \$10,055,000 of 2016 School Building Revenue Refunding Bonds with interest rates ranging from 2.0% - 2.625% to advance refund the 2007 Series Bonds principal amount of \$9,480,000 with interest rates ranging from 4.125% - 4.50%. The District used the net proceeds along with other resources to purchase state and local government securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2007 series bonds. As a result, that portion of the 2007 series bonds is considered defeased, and the District has removed the liability from its accounts. The outstanding principal of the defeased bonds is \$9,480,000 at June 30, 2016.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$541,797. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2027 using the straight-line method which approximates the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 11 years by \$919,151.

The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2016 for debt service (principal and interest) are as follows:

	Spencer County School District		Kentucky School Facility Construction Commission		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 936,187	\$ 927,859	\$ 368,813	\$ 84,874	\$ 1,305,000	\$ 1,012,733
2018	1,540,296	980,611	369,704	80,868	1,910,000	1,061,479
2019	1,583,206	943,504	381,794	71,875	1,965,000	1,015,379
2020	1,623,028	901,448	221,972	62,278	1,845,000	963,726
2021	1,673,228	860,420	226,772	57,478	1,900,000	917,898
2022 - 2026	9,102,155	3,567,419	1,127,845	197,147	10,230,000	3,764,566
2027 - 2031	10,086,812	2,348,763	538,188	82,778	10,625,000	2,431,541
2032 - 2036	10,370,100	935,848	344,900	31,654	10,715,000	967,502
	<u>\$ 36,915,012</u>	<u>\$ 11,465,872</u>	<u>\$ 3,579,988</u>	<u>\$ 668,952</u>	<u>\$ 40,495,000</u>	<u>\$ 12,134,824</u>

Capital Lease Obligations

The District has entered into multiple capital lease participation agreements issued by the Kentucky Interlocal School Transportation Association (KISTA) for the purchase of four school buses. Future minimum lease payments under the terms of the lease are as follows:

Year Ending June 30	
2017	\$ 246,562
2018	236,975
2019	210,408
2020	178,490
2021	174,871
2022-2026	395,072
	<u>1,442,378</u>
Less: amount representing interest	<u>(127,767)</u>
Present value of minimum lease payments	<u>\$ 1,314,611</u>
Current maturities	\$ 215,296
Non-current maturities	1,099,315
	<u>\$ 1,314,611</u>

The net book value of the buses under capital lease at June 30, 2016 is \$1,237,818.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Capital assets under capital leases are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Changes in Long-term Obligations

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due in one year
<u>Governmental Activities:</u>					
Bonds payable:					
Revenue bonds payable	\$ 23,305,000	\$ 28,290,000	\$ 11,100,000	\$ 40,495,000	\$ 1,305,000
Less: discount	(65,302)	(305,544)	(6,977)	(363,869)	-
Total bonds payable	<u>23,239,698</u>	<u>27,984,456</u>	<u>11,093,023</u>	<u>40,131,131</u>	<u>1,305,000</u>
Other liabilities:					
KISTA capital lease obligation	1,343,054	189,408	217,851	1,314,611	215,296
Claims payable - KSBIT	232,308	-	38,718	193,590	38,718
Net Pension Liability - CERS	5,201,000	1,779,906	-	6,980,906	-
Accrued compensated absences	264,362	958,578	994,788	228,152	44,474
Total other liabilities	<u>7,040,724</u>	<u>2,927,892</u>	<u>1,251,357</u>	<u>8,717,259</u>	<u>298,488</u>
	<u>\$ 30,280,422</u>	<u>\$ 58,896,804</u>	<u>\$ 23,437,403</u>	<u>\$ 97,696,780</u>	<u>\$ 2,908,488</u>

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the 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 account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and building funds. The general fund is primarily responsible for paying accrued sick leave.

NOTE G – FUND BALANCES

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2016, the District had \$22,219,358 in restricted fund balance for future construction, \$199,660 restricted for District Activity funds, and \$46,556 restricted for grants.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had \$250,000 in committed funds at June 30, 2016 committed for new school opening costs, \$183,678 committed for sick leave, and \$17,988 for site-based carryforward.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE G – FUND BALANCES – CONTINUED

Assigned fund balances represent amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The District had \$15,776 assigned for open purchase orders encumbered at June 30, 2016, \$154,874 assigned for future claim assessments, and \$82,548 for superintendent's accrued vacation per contractual agreement.

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

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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
	Reduced retirement	Or age 57+ and the sum of service years plus age equal 87 At least 10 years service and 60 years old

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are

\$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

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

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

(including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

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

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 7.625% of their salaries to the Retirement System. University employees are required to contribute 9.105% of their salaries to the Retirement System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 16.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 16.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

Funding policy — The post-employment medical benefit provided by KTRS is financed on a prefunded basis beginning July 1, 2010 with the implementation of the “Shared Responsibility” legislation. In order to fund medical benefits, active member contributions are matched by the state at .75% of members’ gross salaries. Members contributed 1.75% of gross payroll to the KTRS medical plan and beginning July 1, 2010, the contribution increased incrementally to 3.75% on July 1, 2015 under the Shared Responsibility Plan. Also, premiums collected from retirees and investment income contributes to funding the medical plan.

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

At June 30, 2016, 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 net pension liability – CERS	\$ 6,980,906
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>84,411,624</u>
Total	<u>\$ 91,392,530</u>

The net pension liability for each plan was measured as of June 30, 2015, 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, 2015, the District’s proportion was 0.16236 percent.

For the year ended June 30, 2016, the District recognized pension expense of \$962,848 related to CERS and \$1,745,748 related to KTRS. The District also recognized revenue of \$1,745,748 for KTRS support provided by the Commonwealth. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

	Deferred Outflows of Resources	Deferred inflows of Resources
<u>CERS:</u>		
Differences between expected and actual experience	\$ 58,014	\$ -
Changes of assumptions	703,948	-
Net difference between projected and actual earnings on pension plan investments	62,578	464,800
Changes in proportion and differences between District contributions and proportionate share of contributions	53,078	-
District contributions subsequent to the measurement date	496,255	-
	<u>\$ 1,373,873</u>	<u>\$ 464,800</u>

\$496,255 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:	
2017	\$ 59,324
2018	59,324
2019	59,324
2020	59,324
2021	175,522

Actuarial assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	3.25%	3.50%
Salary Increases	4.00%	4.0-8.2%
Investment rate of return	7.5%	7.50%

For CERS, Mortality rates were based on the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	- 0.25%
	<u>100%</u>	

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:

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
	<u>100%</u>	

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. 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 7.50%. 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 4.88%. 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 3.82% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of the net pension liability	\$ 8,911,989	\$ 6,980,906	\$ 5,327,098
KTRS	3.88%	4.88%	5.88%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE H – RETIREMENT PLANS – CONTINUED

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

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District therefore does not show these assets and liabilities on this financial statement.

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.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress of the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

In fiscal year 2015 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members.

In August 2014, the District was notified of the final assessment of \$309,745. The claim is to be paid over a seven-year period with two payments due the first year. The balance of the claim payable at June 30, 2016 totals \$193,590 in the statement of net position. Payments due under the claim at June 30, 2016 are as follows:

Year Ending June 30	
2017	38,718
2018	38,718
2019	38,718
2020	38,718
2021	38,718
	<hr/>
	\$ 193,590
	<hr/>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE J – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress. The Spencer County School District is covered by insurance which provides for a defense and response to the litigation.

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions and general liability coverage, the District purchases insurance with a commercial insurance company. District purchases insurance through Kentucky Employers Mutual Insurance for workers compensation.

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

NOTE M – DEFICIT OPERATING BALANCES

The Food Service Fund and Child Care Fund had a deficit net position at June 30, 2016 in the amounts of \$157,395 and \$255,230, respectively. The deficit net position is a result of the recording of the net pension liability for CERS as part of the adoption of GASB Statement 68.

The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of net position:

Food Service Fund	\$	133,791
Child Care Fund		91,608
Special Revenue Fund		33,065
Building Fund		689,374

NOTE N – COBRA

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE O – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance as well as debt service on-behalf payments from the Kentucky School Facility Construction Commission for debt service. The amount received for the fiscal year ended June 30, 2016 was \$4,803,789. These payments were recorded as follows:

General Fund	\$	4,325,388
Debt Service Fund		376,696
Food Service Fund		69,450
Child Care Fund		32,255
	\$	<u>4,803,789</u>

On-behalf payments consisted of the following: \$1,745,748 related to KTRS, \$2,604,785 related to payroll items and benefits (primarily health insurance) net of federal reimbursements, \$76,560 related to technology, and \$376,696 related to debt service.

NOTE P – PRIOR PERIOD ADJUSTMENTS

During the current year, it was determined that certain prior year assets, deferred outflows, and liabilities were not properly accounted for and, therefore, the prior period has been adjusted in the current year financial statements. Details of the adjustments are as follows:

	<u>Governmental Activities</u>
Net position June 30, 2015, as previously reported	\$ 13,521,241
Bond issue costs not expensed in accordance with GASB 65	(1,075,591)
Accrued interest omitted at 6/30/2015	(243,020)
KISBIT Claim payable (long-term) omitted at 6/30/2015	(154,871)
Understatement of bonds payable at 6/30/2015	(55,000)
Bond discounts omitted at 6/30/2015	<u>65,302</u>
Net position June 30, 2015, restated	<u><u>\$ 12,058,061</u></u>
	<u>General Fund</u>
General fund balance June 30, 2015, as previously report	\$ 4,570,888
KISBIT Claim payable omitted - short-term	<u>(38,718)</u>
General fund balance June 30, 2015, restated	<u><u>\$ 4,532,170</u></u>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE P – PRIOR PERIOD ADJUSTMENTS – CONTINUED

	Food Service Fund	Child Care Fund	Total
Net position June 30, 2015, as previously reported	\$ 478,734	\$ 21,638	\$ 500,372
Prior period adjustment:			
Net pension liability - CERS	(512,559)	(189,577)	(702,136)
Deferred outflows of resources - CERS	68,321	24,654	92,975
Deferred inflows of resources - CERS	(58,100)	(20,337)	(78,437)
Net position June 30, 2015, restated	<u>\$ (23,604)</u>	<u>\$ (163,622)</u>	<u>\$ (187,226)</u>

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 2, 2016, the date which the financial statements were available to be issued.

Subsequent to June 30, 2016, the District approved an increase in the property tax rate to 63.7 cents per \$100 in assessed value of real estate and personal property.

NOTE R – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASBS No. 75 requires additional accounting and reporting for governments that provides other post-employment benefits (OPEB) other than pensions to its employees. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for periods beginning after June 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE R – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS – CONTINUED

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

1. Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
2. The gross dollar amount of taxes abated during the period
3. Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In December 2015, the GASB issued Statement 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In December 2015, the GASB issued Statement 79, *Certain External Investment Pools and Pool Participants*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. This statement is effective for periods beginning after December 15, 2015. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This statement is effective for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budget		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Revenues:				
Taxes:				
Property	\$ 4,772,174	4,772,174	\$ 4,752,644	\$ (19,530)
Motor vehicle	768,000	768,000	818,239	50,239
Utilities	755,000	755,000	707,458	(47,542)
Franchise	137,214	137,214	166,332	29,118
Tuition and fees	20,900	20,900	35,925	15,025
Earnings on investments	18,000	18,000	34,965	16,965
Other local revenues	124,975	124,975	232,045	107,070
Intergovernmental - state	14,909,391	14,909,391	15,357,988	448,597
Intergovernmental - federal	38,000	38,000	24,392	(13,608)
Total Revenues	<u>21,543,654</u>	<u>21,543,654</u>	<u>22,129,988</u>	<u>586,334</u>
Expenditures:				
Instruction	12,474,168	12,634,114	12,654,034	(19,920)
Support services:				-
Student	1,101,668	1,101,668	1,112,626	(10,958)
Instruction staff	1,196,068	1,196,068	1,198,204	(2,136)
District administration	817,013	822,267	742,593	79,674
School administrative	1,550,128	1,550,128	1,561,228	(11,100)
Business	736,723	750,430	730,095	20,335
Plant operation and maintenance	2,198,077	2,198,077	1,985,615	212,462
Student transportation	2,434,420	2,439,686	2,112,197	327,489
Community service activities	3,640	3,640	3,644	(4)
Debt service:				-
Principal	217,851	217,851	217,851	-
Interest	32,345	32,345	39,173	(6,828)
Total Expenditures	<u>22,762,101</u>	<u>22,946,274</u>	<u>22,357,260</u>	<u>595,842</u>
Excess (deficit) of revenues over expenditures	<u>(1,218,447)</u>	<u>(1,402,620)</u>	<u>(227,272)</u>	<u>1,182,176</u>
Other financing sources (uses)				
Proceeds from capital leases	-	181,420	189,408	7,988
Proceeds from the sale of fixed assets	-	-	146	146
Insurance proceeds	-	202,589	228,677	26,088
Contingency	(2,935,048)	(2,750,523)	-	2,750,523
Operating transfers in	-	37,071	35,640	(1,431)
Operating transfers out	(80,953)	(81,302)	(80,670)	632
Total other financing sources (uses)	<u>(3,016,001)</u>	<u>(2,410,745)</u>	<u>373,201</u>	<u>2,783,946</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>\$ (4,234,448)</u>	<u>\$ (3,813,365)</u>	<u>\$ 145,929</u>	<u>\$ 3,966,122</u>
Fund balance, July 1, 2015	<u>4,234,448</u>	<u>3,813,365</u>	<u>4,532,170</u>	
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,678,099</u>	

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET TO ACTUAL SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budget			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Revenues:				
Tuition and fees	\$ -	\$ -	\$ -	\$ -
Earnings on investments	100	200	328	128
Other local revenues	73,820	73,820	78,878	5,058
Intergovernmental - state	1,166,646	1,167,242	1,153,643	(13,599)
Intergovernmental - federal	1,330,885	1,344,846	1,379,009	34,163
Total Revenues	<u>2,571,451</u>	<u>2,586,108</u>	<u>2,611,858</u>	<u>25,750</u>
Expenditures:				
Instruction	1,752,918	1,798,224	1,871,715	(73,491)
Support services:				
Student	151,779	151,779	138,378	13,401
Instruction staff	434,286	423,944	411,045	12,899
District administration	-	-	417	(417)
School administration	26,875	26,875	25,798	1,077
Business Support	22,043	-	-	-
Student transportation	35,966	34,889	29,524	5,365
Community Service Activities	155,385	158,110	175,180	(17,070)
Adult education	67,689	68,126	68,081	45
Total Expenditures	<u>2,646,941</u>	<u>2,661,947</u>	<u>2,720,138</u>	<u>(58,191)</u>
Excess (Deficit) Of Revenues Over Expenditures	<u>(75,490)</u>	<u>(75,839)</u>	<u>(108,280)</u>	<u>(32,441)</u>
Other Financing Sources (Uses)				
Operating transfers in	137,639	140,713	140,081	(632)
Operating transfers out	(62,149)	(64,874)	(64,866)	8
Total Other Financing Sources (Uses)	<u>75,490</u>	<u>75,839</u>	<u>75,215</u>	<u>(624)</u>
Excess (Deficit) Of Revenues & Other Financing Sources Over Expenditures & Other Financing Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (33,065)</u>	<u>\$ (33,065)</u>
Fund Balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>79,621</u>	
Fund Balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,556</u>	

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

FOR THE YEAR ENDED JUNE 30, 2016

KTRS

	2016	[*] 2015
District's proportion of the net pension liability	0.000000%	0.000000%
District's proportionate share of the net pension liability	\$ -	\$ -
Commonwealth's proportionate share of the net pension liability	<u>84,411,624</u>	<u>70,702,066</u>
Total	<u><u>\$ 84,411,624</u></u>	<u><u>\$ 70,702,066</u></u>
District's covered-employee payroll	\$ 11,492,723	\$ 11,221,831
District's proportionate share of the net pension liability as a percentage of its covered payroll	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	45.59%

CERS

	2016	[*] 2015
District's proportion of the net pension liability	0.162360%	0.160306%
District's proportionate share of the net pension liability	\$ 6,980,906	\$ 5,201,000
District's covered-employee payroll	\$ 3,939,520	\$ 3,677,687
District's proportionate share of the net pension liability as a percentage of its covered payroll	177.20%	141.42%
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%

* The above schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will report available information.

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30, 2015.

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULES OF DISTRICT CONTRIBUTIONS****LAST 10 FISCAL YEARS****KTRS**

	2016	* 2015
Contractually required contribution	\$ 1,908,935	\$ 1,666,114
Contributions in relation to the contractually required contribution	<u>1,908,935</u>	<u>1,666,114</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 11,492,723	\$ 11,221,831
Contributions as a percentage of covered employee payroll	16.6%	14.8%

CERS

	2016	* 2015
Contractually required contribution	\$ 496,255	\$ 484,764
Contributions in relation to the contractually required contribution	<u>496,255</u>	<u>484,764</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,939,520	\$ 3,677,687
Contributions as a percentage of covered employee payroll	12.6%	13.2%

Note: The amounts presented for each fiscal year were determined as of the prior fiscal year-end June 30, 2015.

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS

JUNE 30, 2016

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the CERS valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumptions: The following changes were made by the Kentucky Legislature and reflected in the CERS valuation performed as of June 30 listed below:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

See accompanying report of independent auditors.

SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2016

	Debt Service Fund	Capital Outlay Fund	Building Fund	District Activity	Total
Assets:					
Cash and cash equivalents	\$ -	\$ -	\$ 4,567,557	\$ 203,001	\$ 4,770,558
Accounts receivable	-	-	-	-	-
Total Assets & Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,567,557</u>	<u>\$ 203,001</u>	<u>\$ 4,770,558</u>
Liabilities & Fund Balances:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 3,341	\$ 3,341
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,341</u>	<u>\$ 3,341</u>
Fund Balances:					
Restricted	\$ -	\$ -	\$ 4,567,557	\$ 199,660	\$ 4,767,217
Total Fund Balances	<u>-</u>	<u>-</u>	<u>4,567,557</u>	<u>199,660</u>	<u>4,767,217</u>
Total Liabilities & Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,567,557</u>	<u>\$ 203,001</u>	<u>\$ 4,770,558</u>

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	Debt Service Fund	Capital Outlay Fund	Building Fund	District Activity	Total
Revenues:					
From Local Sources:					
Taxes:					
Property	\$ -	\$ -	\$ 1,825,734	\$ -	\$ 1,825,734
Tuition and fees	-	-	-	121,764	121,764
Earnings On Investments	-	-	20,742	-	20,742
Other Local Revenues	-	-	-	225,345	225,345
Intergovernmental - State	376,696	258,447	718,317	-	1,353,460
Total Revenues	<u>376,696</u>	<u>258,447</u>	<u>2,564,793</u>	<u>347,109</u>	<u>3,547,045</u>
Expenditures					
Instruction	-	-	-	297,941	297,941
Student support	-	-	-	684	684
Instruction staff	-	-	-	19,611	19,611
District administration	-	-	-	-	-
Plant operation and maintenance	-	-	-	14,898	14,898
Student transportation	-	-	-	427	427
Debt Service - Principal	1,620,000	-	-	-	1,620,000
Debt Service - Interest	789,848	-	-	-	789,848
Debt Service - Issue costs	87,821	-	-	-	87,821
Total Expenditures	<u>2,497,669</u>	<u>-</u>	<u>-</u>	<u>333,561</u>	<u>2,831,230</u>
Excess (deficit) of revenues over expenditures	(2,120,973)	258,447	2,564,793	13,548	715,815
Other financing sources (uses)					
Proceeds from sale of bonds	10,055,000	-	-	-	10,055,000
Payment to refunded bond escrow agent	(10,021,797)	-	-	-	(10,021,797)
Bond premium	54,618	-	-	-	54,618
Operating transfers in	2,033,152	-	-	-	2,033,152
Operating transfers out	-	(258,447)	(3,254,167)	-	(3,512,614)
Total other financing sources (uses)	<u>2,120,973</u>	<u>(258,447)</u>	<u>(3,254,167)</u>	<u>-</u>	<u>(1,391,641)</u>
Change in fund balances	-	-	(689,374)	13,548	(675,826)
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>5,256,931</u>	<u>186,112</u>	<u>5,443,043</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,567,557</u>	<u>\$ 199,660</u>	<u>\$ 4,767,217</u>

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT**COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS**

JUNE 30, 2016

	<u>Spencer County Elementary</u>	<u>Talyorsville Elementary</u>	<u>Spencer County Middle</u>	<u>Spencer County High</u>	<u>Total Agency Funds</u>
Assets					
Cash and cash equivalents	\$ 5,094	\$ 7,440	\$ 42,884	\$ 128,169	\$ 183,587
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u><u>\$ 5,094</u></u>	<u><u>\$ 7,440</u></u>	<u><u>42,884</u></u>	<u><u>128,169</u></u>	<u><u>183,587</u></u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	<u>5,094</u>	<u>7,440</u>	<u>42,884</u>	<u>128,169</u>	<u>183,587</u>
Total liabilities	<u><u>\$ 5,094</u></u>	<u><u>\$ 7,440</u></u>	<u><u>\$ 42,884</u></u>	<u><u>\$ 128,169</u></u>	<u><u>\$ 183,587</u></u>

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – ALL SCHOOLS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Due to Student Groups June 30, 2016
Spencer County Elementary	\$ 3,458	\$ 105,242	\$ 103,606	\$ 5,094	\$ 5,094
Taylorsville Elementary	9,940	68,334	70,834	7,440	7,440
Spencer County Middle	26,450	276,029	259,595	42,884	42,884
Spencer County High	131,860	655,996	659,687	128,169	128,169
Totals	<u>\$ 171,708</u>	<u>\$ 1,105,601</u>	<u>\$ 1,093,722</u>	<u>\$ 183,587</u>	<u>\$ 183,587</u>

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – SPENCER COUNTY HIGH SCHOOL

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2016
Donations	-	2,013	2,013	\$ -	\$ -	\$ -
YCLUB/KUNA	40	2,993	2,851	182	-	182
World's Travelers	362	-	-	362	-	362
Art Club	226	116	62	280	-	280
Band Club	2	125	125	2	-	2
FBLA	139	2,358	2,346	151	-	151
Idea Club	75	-	-	75	-	75
Chorus Club	1,322	35,207	31,941	4,588	-	4,588
FCCLA	954	2,031	1,930	1,055	-	1,055
Beta Club	501	3,050	2,741	810	-	810
TSA Club	838	816	1,601	53	-	53
Mu Alpha Theta	5	-	-	5	-	5
HOSA	38	4,143	3,755	426	-	426
Hosa National	290	8,532	8,492	330	-	330
State FFA Dodge Truck	-	4,080	4,080	-	-	-
Dairy Team	12,592	69,451	69,743	12,300	-	12,300
FFA	18,607	82,187	76,832	23,962	-	23,962
Yearbook	11,463	6,901	11,588	6,776	-	6,776
Chess	159	195	125	229	-	229
Nationa Honor Society	366	902	703	565	-	565
Music Club	36	-	-	36	-	36
Spanish Honor Society	95	-	-	95	-	95
Community Service Club	457	155	357	255	-	255
Educators Rising	70	1,071	425	716	-	716
Student Council	1,531	600	790	1,341	-	1,341
Military Readiness	12	147	-	159	-	159
Academic Team	246	18	206	58	-	58
M.F. Brown Memorial	-	132	100	32	-	32
KLEFOT Art Scholar	1,018	982	2,000	-	-	-
Coca-Cola Public	663	30	-	693	-	693
Coca Cola-Student	424	92	316	200	-	200
General	2,443	3,413	2,095	3,761	-	3,761
Prom	2,555	15,320	12,389	5,486	-	5,486
Class of 2018	2,979	6,007	770	8,216	-	8,216
Class of 2016	1,774	334	2,108	-	-	-
Class of 2017 PGRAD	21	4,398	1,265	3,154	-	3,154
Class of 2017	-	576	-	576	-	576
Senior Trip	24	25,926	25,950	-	-	-
Senior Picnic	381	878	818	441	-	441
Senior Grad Lunch	-	1,411	1,351	60	-	60
2016 Project Grad	-	5,161	5,161	-	-	-
Fellow of Christ	302	841	942	201	-	201
Athletics	6,263	30,097	36,360	-	-	-
District Tournament	-	10,659	10,659	-	-	-
Concessions	500	27,963	24,222	4,241	-	4,241
Charitable Gaming	(5)	5	-	-	-	-
Baseball	8,763	36,303	34,556	10,510	-	10,510
Basketball-Boy	8,825	37,070	38,566	7,329	-	7,329
Basketball-Girls	10,425	23,140	29,797	3,768	-	3,768
Dance team	7,362	13,607	18,520	2,449	-	2,449
Cheerleader	869	11,566	11,495	940	-	940
Cross Country	635	2,120	1,094	1,661	-	1,661
Golf-Boys	-	4,760	4,316	444	-	444
Golf-Girls	55	150	195	10	-	10

See accompanying report of independent auditors.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – SPENCER COUNTY HIGH SCHOOL

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Cash Balance July 1, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable and due from other funds	Due to Student Groups June 30, 2016
(Continued)						
Soccer-Boys	717	4,490	4,958	249	-	249
Soccer-Girls	1,597	6,881	6,520	1,958	-	1,958
Softball	5,933	11,927	15,233	2,627	-	2,627
Swim	3,326	2,618	1,904	4,040	-	4,040
Tennis-Boys	128	215	259	84	-	84
Girls tennis	128	489	601	16	-	16
Volleyball	8,002	8,316	11,025	5,293	-	5,293
Track	130	700	505	325	-	325
Football	3,482	52,720	53,095	3,107	-	3,107
Wrestling	744	2,729	2,210	1,263	-	1,263
Archery	227	906	909	224	-	224
Faculty	-	1,850	1,850	-	-	-
Guidance	-	1,043	1,043	-	-	-
Advanced Placement	-	16,468	16,468	-	-	-
Parking fees	-	1,055	1,055	-	-	-
Instructional Field	664	741	1,405	-	-	-
ESS Summer School	80	2,730	2,810	-	-	-
District Student F	-	244	244	-	-	-
District Instr Fees	-	14,974	14,974	-	-	-
Art	-	2,375	2,375	-	-	-
Band	-	2,310	2,310	-	-	-
Career Ag	-	840	840	-	-	-
Chorus	-	948	948	-	-	-
FCS 1	-	2,370	2,370	-	-	-
Health Career	-	3,161	3,161	-	-	-
Language	-	347	347	-	-	-
Mathematics	-	790	790	-	-	-
Science	-	250	250	-	-	-
Social Studies	-	431	431	-	-	-
Spanish	-	1,120	1,120	-	-	-
Tech Education	-	2,844	2,844	-	-	-
FCS #2	-	35	35	-	-	-
Media	-	1,887	1,887	-	-	-
Greenhouse	-	18,071	18,071	-	-	-
Drama	-	165	165	-	-	-
Floral Design	-	725	725	-	-	-
Boy's BB Sponsorship	-	4,000	4,000	-	-	-
Girls BB Sponsorship	-	6,427	6,427	-	-	-
Concessions(25%)	-	8,057	8,057	-	-	-
Softball Sponsorships	-	750	750	-	-	-
Football Sponsorships	-	6,750	6,750	-	-	-
Volleyball Sponsorships	-	1,427	1,427	-	-	-
Baseball Sponsorships	-	4,300	4,300	-	-	-
Pictures	-	1,320	1,320	-	-	-
Sub Total	131,860	692,828	696,519	128,169	-	128,169
Transfers	-	36,832	36,832	-	-	-
TOTAL	<u>\$ 131,860</u>	<u>\$ 655,996</u>	<u>\$ 659,687</u>	<u>\$ 128,169</u>	<u>\$ -</u>	<u>\$ 128,169</u>

See accompanying report of independent auditors.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department Of Education			
Passed through the Kentucky Department of Education			
Title I Cluster			
Title I - Part A Cluster	84.010	310A	\$ 75,799
		310B	254,054
		320BE	117,720
			<hr/>
TOTAL TITLE I CLUSTER			447,573
Special Education Cluster (IDEA)			
Special Education - Grants to State	84.027	337A	177,220
		337B	350,476
			<hr/>
			527,696
Special Education - Preschool Grants	84.173	343A	21,696
		343B	25,985
			<hr/>
			47,681
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<hr/> 575,377
Vocational Education - Basic Grants to States	84.048	348B	19,217
		348AA	673
			<hr/>
			19,890
Improving Teacher Quality - State Grants	84.367	401A	33,395
		401B	32,793
			<hr/>
			66,188
Twenty-First Century Community Learning Centers	84.287	5504	21,597
		5504J	1,000
		5504U	5,000
		550A	113,614
		550AU	3,242
			<hr/>
			144,453
Investing in Innovation (i3) Fund	84.411	491A	<hr/> 53
Passed Through Kentucky Council on Postsecondary Education			
Adult Education - State Grant Program	84.002	365B	8,107
		371B	33,419
		373B	21,644
			<hr/>
			63,170
Passed Through Green River Regional Educational Cooperative			
Race to the Top - District	84.416	436A	27,307
		436B	36,816
			<hr/>
			64,123
Total U.S. Department Of Education			<hr/> 1,380,827

See accompanying report of independent auditors and
notes to the schedule of expenditures of federal wards

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

FOR THE YEAR ENDED JUNE 30, 2016

(CONTINUED)

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department Of Health & Human Services</u>			
Assistance Programs for Chronic Disease Prevention and Control	93.945	442B	<u>3,000</u>
<u>U.S. Department Of Agriculture</u>			
Child Nutrition Cluster:			
Cash Assistance			
Passed through the Kentucky Department of Agriculture			
School Breakfast Program	10.553	090451999	188,749
National School Lunch Program	10.555	090451999	569,172
Noncash Assistance (Commodities)			
National School Lunch Program	10.555	090451999	<u>99,355</u>
Total U.S. Department Of Agriculture			<u>857,276</u>
Total Federal Program Expenditures			<u><u>\$ 2,241,103</u></u>

See accompanying report of independent auditors and
notes to the schedule of expenditures of federal wards

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2016

NOTE 1 – 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 the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – FOOD DISTRIBUTION

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

NOTE 3 – SUBRECIPIENTS

There were no subrecipients during the year ending June 30, 2016.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? ☐ 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 deficiencies(s) 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 the Uniform Guidance? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

Child Nutrition Cluster

10.553
10.556

School Breakfast Program
National School Lunch Program

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2016

Section I – Summary of Auditor’s Results – Continued

Dollar threshold used to distinguish
Between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

 X yes

 no

Section II – Financial Statement Findings

No findings to report.

Section III – Federal Award Findings and Questioned Costs

No findings or questioned costs to report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2016

No findings reported.

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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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and 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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Spencer County School District's basic financial statements and have issued our report thereon dated November 2, 2016.

Internal Control Over Financial Reporting

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

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

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

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 of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We also noted certain other matters that we reported to management of Spencer County School District in a separate letter dated November 2, 2016.

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 Standard* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and IV of the Independent Auditor's Contract in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bardstown, Kentucky
November 2, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited the Spencer County School District's compliance with the types of compliance requirements described in the *OMB 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, 2016. The Spencer County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Spencer County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, III, and IV of the Independent Auditor's Contract. Those standards and the Uniform Guidance 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 Spencer County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Spencer County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

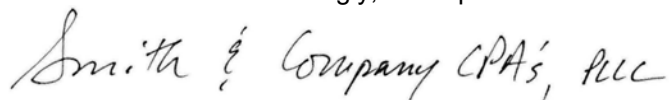
Report on Internal Control Over Compliance

The management of Spencer County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Spencer County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Spencer County School District's internal control over compliance.

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

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Bardstown, Kentucky
November 2, 2016

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Spencer County School District
Taylorsville, Kentucky

In planning and performing our audit of the financial statements of Spencer County School District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated November 2, 2016 contains our report on the District's internal control structure. This letter does not affect our report dated November 2, 2016 on the financial statements of the Spencer County School District.

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

This report is intended solely for the information and use of management, members of the board of education, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,



Bardstown, Kentucky
November 2, 2016

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2016

CURRENT YEAR COMMENTS

School Activity Funds – Required Procedures

Criteria: The Kentucky Department of Education “Red Book” requires use of specific forms (or reasonable facsimiles) and various procedures for certain activities. The chart below summarizes conditions we noted during our audit.

Conditions:	SC MS	SC HS
Multiple receipt forms not signed by students	√	√
Form F-SA-1 for ticket sales incorrectly completed (tickets were not attached, extended, and reconciled to deposit)	√	

Legend:

SCMS – Spencer County Middle School

SCHS – Spencer County High School

Cause: School personnel and principals did not ensure Red Book compliance for the instances noted above.

Effect: Noncompliance with the Red Book policies and procedures could lead to the misappropriation of assets.

Recommendation: We recommend the principal and bookkeeper at each school review the “Red Book” and comply with the policy and procedure requirements.

Management’s Response: We have stressed compliance with the Red Book to both principals and bookkeepers and require annual Red Book training.