

Fort Thomas Independent School District

**Financial Statements
With Supplementary Information
Year Ended June 30, 2016
With Independent Auditors' Report**

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

June 30, 2016

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FORT THOMAS INDEPENDENT SCHOOL DISTRICT

June 30, 2016

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Independent Auditors' Report

To the Members of the Board of Education
Fort Thomas Independent School District
Fort Thomas, Kentucky

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits. 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 Fort Thomas Independent 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.

**Independent Auditors' Report
(Continued)**

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on pages 3-7, 42-45, and 51-54 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fort Thomas Independent School District's basic financial statements. The information on pages 40-41 and 46-50 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information on pages 40-41 and 46-50 is 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 information on pages 40-41 and 46-50 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016 on our consideration of the Fort Thomas Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fort Thomas Independent School District's internal control over financial reporting and compliance



Crestview Hills, Kentucky
November 14, 2016

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2016

As management of Fort Thomas Independent Board of Education (Board), the governing body for the Fort Thomas Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

FINANCIAL HIGHLIGHTS

- The beginning cash balance, including investments, for the District was \$7,975,225.
- The District administered \$1,103,139 in Federal, State and local grants during the year.
- The General Fund had \$26,974,180 in revenue, which primarily consisted of the state program (SEEK), property taxes, local occupational license taxes, utilities taxes, and motor vehicle taxes. There was \$27,377,061 in General Fund expenditures. Budgeted contingency funds were \$1,700,000 in the General Fund 2016.
- The ending unassigned fund balance in the General Fund for fiscal year 2016 is \$3,323,693. This is a decrease of \$133,867 from 2015. From year to year the state legislature is requiring the District to absorb more and more mandated expenses, while at the same time they continue to cut grant funding.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education compliance regulations. The District issued \$23,810,000 in new bonds during fiscal year 2016.
- The District has made significant investments in technology for the classroom. Capital leases for laptop computers and school building digital conversion for students in grades 6-12 were entered into in keeping with Kentucky Department of Education compliance regulations. The total amount of the capital leases is \$1,674,130. Additional investments in technology for students in grades K-5 will take place in the 2016-2017 school year.
- Our primary financial concern continues to be state funding which has not kept up with the increases in operating expenses due to inflation, increased salaries - some of which are a direct result of mandates by the state, and an increasing portion of the retirement shortfall that we have been asked to fund. After many years of not making the necessary contributions to fully fund the Kentucky Teachers' Retirement System (KTRS), the legislature passed along a portion of the funding shortfall to employees and a larger portion to school districts. As a result, our district has paid hundreds of thousands of dollars into the retirement system over the past five years and will pay millions of dollars in the future in an effort to help stabilize the fund. For the first time this year we are also being required to record the portion of the unfunded state liability in our financial statements attributable to our employees, as determined by KTRS. While it remains to be seen if districts, including our own, will end up shouldering more of this deficit over the years to come, if the state does not start responsibly funding the system it can be safely assumed that we will. This will continue to shift more of the responsibility for funding our education system onto the backs of school districts and subsequently local tax payers. The continual erosion of state funding makes it increasingly difficult to maintain the high standard of education and programming that our students deserve without increasing taxes locally. In this climate of shrinking state support the Fort Thomas Independent School District will maintain fiscally responsible policies in order to continue providing quality academic, extra-curricular and community service programs to all of its students.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2016 (Continued)

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 are comprised of three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

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

The district-wide financial statements can be found on pages 8 and 9 of this report.

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

The basic governmental fund financial statements can be found on pages 10 through 17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 39 of this report.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$22,861,239 as of June 30, 2016.

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

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

Net Position for the periods ending June 30, 2016 and 2015

The following is a summary of net position for the fiscal years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Current assets	\$ 26,166,615	\$ 8,639,791
Noncurrent assets	70,557,133	62,912,872
Total assets	<u>96,723,748</u>	<u>71,552,663</u>
Total deferred outflows	<u>1,624,207</u>	<u>1,024,909</u>
Current liabilities	6,635,746	4,461,883
Noncurrent liabilities	68,369,691	46,579,993
Total liabilities	<u>75,005,437</u>	<u>51,041,876</u>
Total deferred inflows	<u>497,831</u>	<u>478,702</u>
Net position		
Investment in capital assets (net of debt)	4,733,185	18,150,783
Restricted	20,602,765	2,551,427
Unrestricted	(2,491,263)	354,784
Total net position	<u>\$ 22,844,687</u>	<u>\$ 21,056,994</u>

Comments on General Fund Budget Comparisons

- The District's total General Fund revenues for the fiscal year ended June 30, 2016, including interfund transfers of \$30,000, were \$26,974,180.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Comments on General Fund Budget Comparisons (Continued)

- General Fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$5,534,680 more than budget or approximately 25.8% of the General Fund budget. The majority of this variance is the result of the District recording "on behalf" payments made by the state.
- The total cost of all General Fund programs and services was \$27,377,061 including debt service and interfund transfers of \$781,037.
- General Fund actual expenditures exceeded budgeted expenditures by \$2,328,219. The majority of this variance is the result of the District recording "on behalf" payments made by the state.

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Charges for services	\$ 2,180,472	\$ 2,115,281
Operating grants and contributions	1,349,528	2,267,168
Capital grants and contributions	<u>2,781,526</u>	<u>2,101,528</u>
Total grant revenues	<u>6,311,526</u>	<u>6,483,977</u>
General revenues:		
Property taxes	13,957,348	13,609,148
Grants and entitlements	17,235,756	12,970,719
Earnings on investments	79,359	18,756
Miscellaneous	<u>1,328,766</u>	<u>72,303</u>
Total general revenues	<u>32,601,229</u>	<u>26,670,926</u>
Total revenues	<u>38,912,755</u>	<u>33,154,903</u>
Expenses:		
Instruction	23,834,059	17,798,424
Student support services	1,554,111	1,351,465
Staff support services	1,819,710	1,565,512
District administration	1,304,132	1,275,916
School administration	2,427,614	2,246,687
Business support	1,009,239	891,929
Plant operations	2,412,785	2,850,084
Student transportation	133,864	128,424
Community services	39,971	19,450
Amortization expense, net	-	2,953
Pension expense	-	779,669
Bond issuance costs	-	160,316
Food service	790,036	1,427,401
Interest	<u>1,799,541</u>	<u>1,369,909</u>
Total expenses	<u>37,125,062</u>	<u>31,868,139</u>
Excess (deficit) of revenues over expenses	<u>\$ 1,787,693</u>	<u>\$ 1,286,764</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2016
(Continued)**

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with \$1,700,000 in contingency (6.8%). The cash balance for the beginning of the fiscal year was \$7,975,225.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Mr. Gene Kirchner, Superintendent, at (859) 815-2020 or to his representative Mr. Andy Remlinger, District Finance Officer/Treasurer (859) 815-2002 or by mail at Fort Thomas Independent School District, 28 N. Fort Thomas Avenue, Fort Thomas, Kentucky 41075.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – District Wide
Year Ended June 30, 2016**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	\$ 24,664,874	\$ 571,033	\$ 25,235,907
Prepaid expenses	215,269	-	215,269
Accounts receivable	689,634	-	689,634
Inventories for consumption	-	25,805	25,805
	<u>25,569,777</u>	<u>596,838</u>	<u>26,166,615</u>
Noncurrent			
Nondepreciated capital assets:			
Land	465,820	-	465,820
Construction in progress	4,589,143	-	4,589,143
Depreciated capital assets:			
Land improvements	218,119	-	218,119
Buildings and improvements	74,596,340	-	74,596,340
Furniture and equipment	7,422,208	635,401	8,057,609
Less: accumulated depreciation	<u>(16,999,900)</u>	<u>(369,998)</u>	<u>(17,369,898)</u>
	<u>70,291,730</u>	<u>265,403</u>	<u>70,557,133</u>
Total noncurrent	<u>70,291,730</u>	<u>265,403</u>	<u>70,557,133</u>
Total assets	<u>95,861,507</u>	<u>862,241</u>	<u>96,723,748</u>
Deferred outflows	<u>1,593,584</u>	<u>30,623</u>	<u>1,624,207</u>
Liabilities			
Current			
Current portion of bonds payable	3,462,286	-	3,462,286
Current portion of capital leases	430,426	-	430,426
Accounts payable	959,189	-	959,189
Accrued interest	397,221	-	397,221
Accrued sick leave	56,655	-	56,655
Accrued payroll and related expenses	1,074,441	-	1,074,441
Assessed KISBIT liability	63,955	-	63,955
Unearned revenues	191,573	-	191,573
	<u>6,635,746</u>	<u>-</u>	<u>6,635,746</u>
Noncurrent			
Accrued sick leave	509,897	-	509,897
Capital leases	700,549	-	700,549
CERS net pension liability	5,350,098	141,634	5,491,732
Bond obligations	<u>61,667,513</u>	<u>-</u>	<u>61,667,513</u>
	<u>68,228,057</u>	<u>141,634</u>	<u>68,369,691</u>
Total noncurrent	<u>68,228,057</u>	<u>141,634</u>	<u>68,369,691</u>
Total liabilities	<u>74,863,803</u>	<u>141,634</u>	<u>75,005,437</u>
Deferred inflows	<u>437,335</u>	<u>60,496</u>	<u>497,831</u>
Net Position			
Invested in capital assets, net of related debt	4,467,782	265,403	4,733,185
Restricted	20,020,881	581,884	20,602,765
Unrestricted	<u>(2,334,710)</u>	<u>(156,553)</u>	<u>(2,491,263)</u>
Total net position	<u>\$ 22,153,953</u>	<u>\$ 690,734</u>	<u>\$ 22,844,687</u>

The accompanying notes are an integral part of these financial statements.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Activities – District Wide
Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	
Governmental Activities:							
Instructional	\$ 23,834,059	\$ 859,486	\$ 1,076,157	\$ -	\$ (21,898,416)	\$ -	\$ (21,898,416)
Student support services	1,554,111	-	54,949	-	(1,499,162)	-	(1,499,162)
Staff support services	1,819,710	-	103,712	-	(1,715,998)	-	(1,715,998)
District administration	1,304,132	-	8,003	-	(1,296,129)	-	(1,296,129)
School administration	2,427,614	-	-	-	(2,427,614)	-	(2,427,614)
Business support services	1,009,239	-	-	-	(1,009,239)	-	(1,009,239)
Plant operation and maintenance	2,412,785	-	-	-	(2,412,785)	-	(2,412,785)
Student transportation	133,864	-	-	-	(133,864)	-	(133,864)
Community service operations	39,971	-	39,971	-	-	-	-
Facility acquisition and construction	-	-	-	2,781,526	2,781,526	-	2,781,526
Interest on long-term debt	1,799,541	-	-	-	(1,799,541)	-	(1,799,541)
Total governmental activities	<u>36,335,026</u>	<u>859,486</u>	<u>1,282,792</u>	<u>2,781,526</u>	<u>(31,411,222)</u>	<u>-</u>	<u>(31,411,222)</u>
Business-type Activities							
Food service and other activities	790,036	1,320,986	66,736	-	-	597,686	597,686
Total business-type activities	<u>790,036</u>	<u>1,320,986</u>	<u>66,736</u>	<u>-</u>	<u>-</u>	<u>597,686</u>	<u>597,686</u>
Total school district	<u>\$ 37,125,062</u>	<u>\$ 2,180,472</u>	<u>\$ 1,349,528</u>	<u>\$ 2,781,526</u>	<u>(31,411,222)</u>	<u>597,686</u>	<u>(30,813,536)</u>
			General revenues:				
			Taxes		13,957,348	-	13,957,348
			State and federal sources		17,235,756	-	17,235,756
			Investment earnings		77,392	1,967	79,359
			Miscellaneous		1,338,364	-	1,338,364
			Special items:				
			Loss on disposal of assets		(9,598)	-	(9,598)
			Transfers		30,000	(30,000)	-
			Total general and special revenues		<u>32,629,262</u>	<u>(28,033)</u>	<u>32,601,229</u>
			Change in net position		1,218,040	569,653	1,787,693
			Net position - beginning		<u>20,935,913</u>	<u>121,081</u>	<u>21,056,994</u>
			Net position - ending		<u>\$ 22,153,953</u>	<u>\$ 690,734</u>	<u>\$ 22,844,687</u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Current						
Cash and cash equivalents	\$ 4,579,274	\$ 6,872	\$ 19,197	\$ 19,619,068	\$ 440,463	\$ 24,664,874
Prepaid expenses	215,269	-	-	-	-	215,269
Accounts receivable	<u>471,702</u>	<u>189,010</u>	<u>28,922</u>	<u>-</u>	<u>-</u>	<u>689,634</u>
Total assets	<u><u>\$ 5,266,245</u></u>	<u><u>\$ 195,882</u></u>	<u><u>\$ 48,119</u></u>	<u><u>\$ 19,619,068</u></u>	<u><u>\$ 440,463</u></u>	<u><u>\$ 25,569,777</u></u>
Liabilities and Fund Balance						
Current						
Accounts payable	\$ 369,842	\$ 4,309	\$ -	\$ 583,772	\$ 1,266	\$ 959,189
Accrued payroll and related expenses	1,074,441	-	-	-	-	1,074,441
Unearned revenues	<u>-</u>	<u>191,573</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,573</u>
Total current	<u>1,444,283</u>	<u>195,882</u>	<u>-</u>	<u>583,772</u>	<u>1,266</u>	<u>2,225,203</u>
Fund Balance						
Nonspendable prepaids	215,269	-	-	-	-	215,269
Restricted						
Other	-	-	48,119	-	439,197	487,316
Capital Projects	-	-	-	19,035,296	-	19,035,296
Committed						
Accrued sick leave	283,000	-	-	-	-	283,000
Unassigned	<u>3,323,693</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,323,693</u>
Total fund balance	<u>3,821,962</u>	<u>-</u>	<u>48,119</u>	<u>19,035,296</u>	<u>439,197</u>	<u>23,344,574</u>
Total liabilities and fund balance	<u><u>\$ 5,266,245</u></u>	<u><u>\$ 195,882</u></u>	<u><u>\$ 48,119</u></u>	<u><u>\$ 19,619,068</u></u>	<u><u>\$ 440,463</u></u>	<u><u>\$ 25,569,777</u></u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
As of June 30, 2016**

Total governmental fund balance		\$ 23,344,574
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Construction in progress	4,589,143	
Cost of capital assets	82,702,487	
Accumulated depreciation	<u>(16,999,900)</u>	70,291,730
Deferred loss on refunding	436,826	
Deferred outflows for CERS contributions made after the measurement date	524,839	
Deferred outflows related to pensions	<u>631,919</u>	1,593,584
Deferred inflows related to pensions		(437,335)
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable		(65,129,799)
Accrued interest on bonds		(397,221)
Assessed KISBIT liability		(63,955)
Net pension liability		(5,350,098)
Capital lease obligations		(1,130,975)
Accrued sick leave		<u>(566,552)</u>
Total net position - governmental		<u><u>\$ 22,153,953</u></u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds
Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Taxes	\$ 12,546,829	\$ -	\$ 1,410,519	\$ -	\$ -	\$ 13,957,348
Earnings on investments	22,571	-	1,172	53,296	353	77,392
State sources	13,462,761	501,415	779,179	-	1,978,506	16,721,861
Federal sources	-	601,724	-	-	23,841	625,565
Other sources	912,019	179,653	-	600,000	880,221	2,571,893
Total revenues	<u>26,944,180</u>	<u>1,282,792</u>	<u>2,190,870</u>	<u>653,296</u>	<u>2,882,921</u>	<u>33,954,059</u>
Expenditures:						
Instructional	15,853,089	1,040,569	-	-	549,372	17,443,030
Student support services	1,499,162	54,949	-	-	-	1,554,111
Staff support services	1,715,998	103,712	-	-	-	1,819,710
District administration	1,288,846	8,003	-	-	-	1,296,849
School administration	1,829,330	-	-	-	-	1,829,330
Business support services	1,008,775	-	-	-	-	1,008,775
Plant operation and maintenance	2,860,314	-	-	-	-	2,860,314
Student transportation	20,028	100,919	-	-	-	120,947
Community service operations	-	39,971	-	-	-	39,971
Facility acquisition and construction	54,670	-	249,466	8,445,668	-	8,749,804
Debt service:						
Principal	444,468	-	-	-	2,470,000	2,914,468
Interest	21,344	-	-	-	1,620,383	1,641,727
Total expenditures	<u>26,596,024</u>	<u>1,348,123</u>	<u>249,466</u>	<u>8,445,668</u>	<u>4,639,755</u>	<u>41,279,036</u>
Excess(deficit) of revenues over expenditures	<u>348,156</u>	<u>(65,331)</u>	<u>1,941,404</u>	<u>(7,792,372)</u>	<u>(1,756,834)</u>	<u>(7,324,977)</u>
Other financing sources(uses):						
Proceeds from sale of bonds	-	-	23,810,000	-	-	23,810,000
Operating transfers in	30,000	65,331	-	24,276,241	2,363,758	26,735,330
Operating transfers out	(781,037)	-	(25,753,655)	-	(170,638)	(26,705,330)
Total other financing sources(uses)	<u>(751,037)</u>	<u>65,331</u>	<u>(1,943,655)</u>	<u>24,276,241</u>	<u>2,193,120</u>	<u>23,840,000</u>
Net change in fund balance	(402,881)	-	(2,251)	16,483,869	436,286	16,515,023
Fund balance, July 1, 2015	<u>4,224,843</u>	<u>-</u>	<u>50,370</u>	<u>2,551,427</u>	<u>2,911</u>	<u>6,829,551</u>
Fund balance, June 30, 2016	<u>\$ 3,821,962</u>	<u>\$ -</u>	<u>\$ 48,119</u>	<u>\$ 19,035,296</u>	<u>\$ 439,197</u>	<u>\$ 23,344,574</u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
Year Ended June 30, 2016**

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

Net changes-governmental funds		\$ 16,515,023
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.</p>		
Depreciation expense	(2,332,914)	
Retirement of capital assets	(9,598)	
Capital outlays	<u>10,021,754</u>	
		7,679,242
<p>Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Bond principal paid	2,483,551	
Bond issuance	(23,810,000)	
Amortization of bond refinancing	(58,926)	
Capital lease principal paid	430,917	
New capital leases	<u>(845,580)</u>	
		(21,800,038)
Deferred outflows related to pensions		707,097
Deferred inflows related to pensions		(30,549)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
		<u>(1,852,735)</u>
Changes in net position of governmental activities		<u><u>\$ 1,218,040</u></u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Net Position – Proprietary Funds
As of June 30, 2016**

	<u>Food Service</u>	<u>Summer Enrichment</u>	<u>Adult Education</u>	<u>Total</u>
Assets				
Current				
Cash and cash equivalents	\$ 556,079	\$ 13,918	\$ 1,036	\$ 571,033
Inventories for consumption	25,805	-	-	25,805
Total current	<u>581,884</u>	<u>13,918</u>	<u>1,036</u>	<u>596,838</u>
Noncurrent				
Furniture and fixtures	635,401	-	-	635,401
Less accumulated depreciation	<u>(369,998)</u>	<u>-</u>	<u>-</u>	<u>(369,998)</u>
Total noncurrent	<u>265,403</u>	<u>-</u>	<u>-</u>	<u>265,403</u>
Total assets	<u>847,287</u>	<u>13,918</u>	<u>1,036</u>	<u>862,241</u>
Deferred outflows	<u>30,623</u>	<u>-</u>	<u>-</u>	<u>30,623</u>
Liabilities and Net Position				
Noncurrent				
CERS net pension liability	<u>141,634</u>	<u>-</u>	<u>-</u>	<u>141,634</u>
Total noncurrent	<u>141,634</u>	<u>-</u>	<u>-</u>	<u>141,634</u>
Total liabilities	<u>141,634</u>	<u>-</u>	<u>-</u>	<u>141,634</u>
Deferred inflows	<u>60,478</u>	<u>18</u>	<u>-</u>	<u>60,496</u>
Net Position				
Invested in assets, net of debt	265,403	-	-	265,403
Restricted	581,884	-	-	581,884
Unrestricted	<u>(171,489)</u>	<u>13,900</u>	<u>1,036</u>	<u>(156,553)</u>
Total net position	<u>675,798</u>	<u>13,900</u>	<u>1,036</u>	<u>690,734</u>
Total liabilities and net position	<u>\$ 675,798</u>	<u>\$ 13,900</u>	<u>\$ 1,036</u>	<u>\$ 690,734</u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position –
Proprietary Funds
Year Ended June 30, 2016**

	<u>Food Service</u>	<u>Summer Enrichment</u>	<u>Adult Education</u>	<u>Total</u>
Operating revenues:				
Lunchroom sales	\$ 1,292,035	\$ -	\$ -	\$ 1,292,035
Other operating revenues	1,902	26,869	180	28,951
Total operating revenues	<u>1,293,937</u>	<u>26,869</u>	<u>180</u>	<u>1,320,986</u>
Operating expenses:				
Salaries and benefits	158,993	14,931	313	174,237
Contract services	3,928	1,249	-	5,177
Materials and supplies	571,365	4,097	-	575,462
Depreciation	34,980	-	-	34,980
Other operating expenses	180	-	-	180
Total operating expenses	<u>769,446</u>	<u>20,277</u>	<u>313</u>	<u>790,036</u>
Operating income/(loss)	<u>524,491</u>	<u>6,592</u>	<u>(133)</u>	<u>530,950</u>
Nonoperating revenues (expenses):				
State grants	66,736	-	-	66,736
Transfers	-	(30,000)	-	(30,000)
Interest income	1,967	-	-	1,967
Total non-operating revenue	<u>68,703</u>	<u>(30,000)</u>	<u>-</u>	<u>38,703</u>
Change in net position	593,194	(23,408)	(133)	569,653
Total net position, July 1, 2015	<u>82,604</u>	<u>37,308</u>	<u>1,169</u>	<u>121,081</u>
Total net position, June 30, 2016	<u>\$ 675,798</u>	<u>\$ 13,900</u>	<u>\$ 1,036</u>	<u>\$ 690,734</u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2016**

	Food Service Fund	Summer Enrichment Fund	Adult Education Fund	Total
Cash flows from operating activities				
Cash received from lunchroom sales	\$ 1,292,035	\$ -	\$ -	\$ 1,292,035
Cash received from other activities	1,902	26,869	180	28,951
Cash payments to employees for services	(623,997)	(15,105)	(313)	(639,415)
Cash payments to suppliers for goods and services	(562,143)	(6,206)	-	(568,349)
Cash transfer	-	(30,000)	-	(30,000)
Net cash provided by (used in) operating activities	<u>107,797</u>	<u>(24,442)</u>	<u>(133)</u>	<u>83,222</u>
Cash flows from noncapital financing activities				
Non-operating revenues received	<u>66,736</u>	-	-	<u>66,736</u>
Net cash provided by noncapital financing activities	<u>66,736</u>	-	-	<u>66,736</u>
Cash flows from investing activities				
Interest on investments	<u>1,967</u>	-	-	<u>1,967</u>
Net cash provided by investing activities	<u>1,967</u>	-	-	<u>1,967</u>
Net increase (decrease) in cash and cash equivalents	176,500	(24,442)	(133)	151,925
Cash and cash equivalents - beginning	<u>379,579</u>	<u>38,360</u>	<u>1,169</u>	<u>419,108</u>
Cash and cash equivalents - ending	<u><u>\$ 556,079</u></u>	<u><u>\$ 13,918</u></u>	<u><u>\$ 1,036</u></u>	<u><u>\$ 571,033</u></u>
Reconciliation of operating income/(loss) to net cash provided by (used in) operating activities				
Operating income/(loss)	\$ 524,491	\$ 6,592	\$ (133)	\$ 530,950
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities				
Depreciation	34,980	-	-	34,980
Interfund transfer	-	(30,000)	-	(30,000)
Changes in assets and liabilities:				-
Decrease in deferred outflows	48,849	24	-	48,873
Decrease in CERS net pension liability	(502,437)	(194)	-	(502,631)
Decrease in deferred inflows	(11,416)	(4)	-	(11,420)
Decrease in inventory	14,233	-	-	14,233
Decrease in accounts payable	(903)	(860)	-	(1,763)
Net cash provided by (used in) operating activities	<u><u>\$ 107,797</u></u>	<u><u>\$ (24,442)</u></u>	<u><u>\$ (133)</u></u>	<u><u>\$ 83,222</u></u>
Schedule of non-cash transactions				
On behalf payments	\$ 66,736	\$ -	\$ -	\$ 66,736

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Position – Fiduciary Funds
Year Ended June 30, 2016

	<u>School Activity</u>	<u>Total</u>
Assets		
Current		
Cash and cash equivalents	<u>\$ 447,703</u>	<u>\$ 447,703</u>
Total current assets	<u>447,703</u>	<u>447,703</u>
Total assets	<u>447,703</u>	<u>447,703</u>
Liabilities and Net Position		
Liabilities		
Due to student groups	<u>447,703</u>	<u>447,703</u>
Total liabilities	<u><u>\$ 447,703</u></u>	<u><u>\$ 447,703</u></u>

The accompanying notes are an integral part of these financial statements

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fort Thomas Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as 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:

Fort Thomas Independent School District Finance Corporation - The Board authorized the establishment of the Fort Thomas Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Fort Thomas Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

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

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts 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 specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. This is a major fund of the District.
- (C) Special Revenue Activity Fund is used to support co-curricular activities, and are not raised and expended by student groups. District activity funds accounted for in the District bank account are not subject to the Redbook and may be expended with more flexibility than school activity funds but must meet the "educational purpose" standard for all District expenditures.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

I. Governmental Fund Types (continued)

- (D) 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 Funds).
- 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 Fund (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. This is a major fund of the District.
- 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. The District is committed to construction contracts in the amount of \$19,035,296 for ongoing projects.

II. Debt Service Fund

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

III. Proprietary Fund (Enterprise Fund)

(A) The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

(B) The Adult Education Fund is used to account for programs for adult education.

(C) The Summer Enrichment Fund is used to account for programs for additional learning opportunities outside of the normal school calendar.

IV. Fiduciary Fund Type (Agency and Trust Funds)

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

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The GASB is responsible for establishing GAAP for state and local government through its pronouncements (Statements and Interpretations).

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

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

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

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on 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.

Taxes

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 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 GAAP of the United States of America. 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).

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

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

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 district-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 district-wide statement of net position and in the respective funds.

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statement
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

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

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 District’s experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

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.

Accrued Liabilities and Long-Term Obligations

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

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reserves

Beginning with fiscal year 2012 the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by 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 the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Position

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

Operating Revenues and Expenses

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Activity

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

Pensions

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

NOTE 2 ESTIMATES

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

NOTE 3 CASH AND CASH EQUIVALENTS

The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The amounts exceeding the federally insured limits are covered by a collateral agreement and the collateral is held by the pledging banks' trust departments in the District's name. The District has not experienced any losses in such accounts and the District believes it is not exposed to any significant credit risk on cash and cash equivalents.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 4 CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Land	\$ 465,820	\$ -	\$ -	\$ 465,820
Land improvements	218,119	-	-	218,119
Buildings and improvements	66,730,698	7,865,642	-	74,596,340
Technology equipment	3,300,811	846,409	13,323	4,133,897
Vehicles	371,437	-	-	371,437
General equipment	2,916,874	-	-	2,916,874
Construction work in progress	3,279,440	4,589,143	3,279,440	4,589,143
Totals at historical cost	<u>77,283,199</u>	<u>13,301,194</u>	<u>3,292,763</u>	<u>87,291,630</u>
Less: accumulated depreciation				
Land improvements	217,195	-	-	217,195
Buildings and improvements	10,904,029	1,588,595	-	12,492,624
Technology equipment	2,217,896	537,392	3,725	2,751,563
Vehicles	221,922	32,095	-	254,017
General equipment	1,109,669	174,832	-	1,284,501
Total accumulated depreciation	<u>14,670,711</u>	<u>2,332,914</u>	<u>3,725</u>	<u>16,999,900</u>
Governmental activities capital assets - net	<u>\$ 62,612,488</u>	<u>\$ 10,968,280</u>	<u>\$ 3,289,038</u>	<u>\$ 70,291,730</u>
<u>Business - Type Activities</u>				
General equipment	\$ 631,157	\$ -	\$ -	\$ 631,157
Technology equipment	4,244	-	-	4,244
Totals at historical cost	<u>635,401</u>	<u>-</u>	<u>-</u>	<u>635,401</u>
Less: accumulated depreciation				
General equipment	330,946	34,901	-	365,847
Technology equipment	4,072	79	-	4,151
Total accumulated depreciation	<u>335,018</u>	<u>34,980</u>	<u>-</u>	<u>369,998</u>
Business - type activities capital assets - net	<u>\$ 300,383</u>	<u>\$ (34,980)</u>	<u>\$ -</u>	<u>\$ 265,403</u>

Depreciation expense by function for the fiscal year ended June 30, 2016 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instruction	\$ 1,713,043	\$ -
Staff support services	-	-
District administration	7,283	-
School administration	598,284	-
Business support services	464	-
Plant operation and maintenance	923	-
Student transportation	12,917	-
Community services	-	-
Food service	-	34,980
Total	<u>\$ 2,332,914</u>	<u>\$ 34,980</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2016 this amount totaled approximately \$566,552 for those employees with twenty-seven or more years of experience.

NOTE 6 COMMITMENTS UNDER CAPITAL LEASES

The District is the lessee of computer technology under capital leases expiring between 2019 and 2020. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets 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.

Future minimum lease payments under capital leases as of June 30, 2016, for each of the next five years and in the aggregate are as follows:

Year Ending <u>June 30,</u>	
2016-2017	\$ 449,963
2017-2018	449,963
2018-2019	<u>268,837</u>
Total minimum payments	1,168,763
Less amount representing interest	<u>37,788</u>
Present value of net minimum lease payments	<u><u>\$ 1,130,975</u></u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 7 LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued including any unamortized portions of bond discounts or bond premiums.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
April 1, 2006	\$ 11,220,000	4.130% - 4.380%
July 1, 2006	1,160,000	3.500% - 4.200%
August 1, 2007	1,380,000	3.750% - 4.130%
January 1, 2008	1,575,000	3.250% - 4.250%
June 1, 2008	1,600,000	3.350% - 4.300%
January 1, 2009	36,418	2.000% - 3.900%
May 1, 2009	10,220,000	1.000% - 3.400%
August 1, 2010	2,030,000	1.000% - 5.200%
June 1, 2011	1,130,000	1.850% - 4.200%
July 1, 2012	2,945,000	1.500% - 3.200%
May 1, 2013	3,310,000	2.000% - 3.125%
March 1, 2014	88,411	2.000% - 4.000%
April 1, 2014	2,245,000	3.000% - 4.000%
August 1, 2014	9,540,000	2.000% - 3.380%
March 1, 2015	9,080,000	2.000% - 3.000%
March 1, 2015	4,575,000	2.000% - 3.380%
November 1, 2015	23,810,000	1.000% - 3.400%

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

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. Note 18 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 has been recorded in the financial statements.

All issues 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 reported in Note 18.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 8 COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has operating leases for three copiers at term of sixty months at \$3,966 per month expiring in May, 2019 and one copier at term of fifty-five months at \$188 per month expiring in April, 2019. Expenditures for the equipment under these operating leases totaled \$49,849 for the year ended June 30, 2016.

Future minimum rental payments under the leases are as follows:

Years Ending June 30,		
2017	\$	49,849
2018		49,849
2019		41,541
	\$	<u>141,239</u>

NOTE 9 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

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/>.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Benefits provided

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

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

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

Contributions

Required contributions by the employee are based on the following tier:

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

The contribution requirement for CERS for the year ended June 30, 2016, was \$707,239, which consisted of \$538,733 from the District and \$168,506 from the employees. Total contributions for the year ended June 30, 2015 and 2014 were \$529,157 and 576,133, respectively. The contributions have been contributed in full for fiscal years 2016, 2015 and 2014.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

General information about the Teachers' Retirement System of the State of Kentucky

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—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided

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

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

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

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

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

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

Contributions—Contribution rates are established by Kentucky Revised Statutes. Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 15.865% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 13.650% of their salary to KTRS. The contribution requirement for KTRS for the year ended June 30, 2016, was \$2,271,316, which consisted of \$457,608 from the District and \$1,813,708 from the employees. Total contributions for the year ended June 30, 2015 and 2014 were \$1,984,016 and \$1,723,792, respectively. The contributions have been contributed in full for fiscal years 2016, 2015 and 2014.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 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.

Funding policy

In order to fund the post-retirement healthcare benefit, 6.44% of the gross annual payroll of employees before July 1, 2008 is contributed. 3.75% is paid by member contributions, 0.31% is credited to the Commonwealth, and 3.00% is contributed by the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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 CERS net pension liability	\$ 5,491,732
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>104,532,988</u>
	<u>\$ 110,024,720</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 0.127729% percent.

For the year ended June 30, 2016, the District recognized pension expense of \$1,222,347 related to CERS and \$5,934,880 related to KTRS. The District also recognized revenue of \$5,934,880 for KTRS support provided by the Commonwealth. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 45,638	\$ 382,962
Net difference between projected and actual earnings on pension plan investments	49,229	-
Changes of Assumptions	553,781	-
Changes in proportion and differences between employer contributions and proportionate share of contribution	-	114,869
District contributions subsequent to the measurement date	<u>538,733</u>	<u>-</u>
Total	<u>\$ 1,187,381</u>	<u>\$ 497,831</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

\$538,733 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2017	\$ 11,015
2018	11,015
2019	11,015
2020	11,015
2021	106,756

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:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

For CERS, mortality rates used for active members was 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 (set back 1 year for females). For disabled member, 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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 2008 through 2013, is outlined in a report dated April 30, 2014. 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.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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 and CER's investment consultant, are summarized in the following table:

Asset Class	KTRS Target Allocation	KTRS Long-Term Expected Real Rate of Return	CERS Target Allocation	CERS Long-Term Expected Real Rate of Return
US equity	45%	6.40%		
Non-US equity	17%	6.50%		
Combined equity			44%	5.40%
Emerging market equity				
Private equity			10%	8.50%
Fixed income	24%	1.60%	19%	1.50%
Real return (diversified inflation strategies)			10%	3.50%
High yield bonds	4%	3.10%		
Real estate	4%	5.80%	5%	4.50%
Absolute return (diversified hedge funds)			10%	4.25%
Alternatives	4%	6.80%		
Cash	2%	1.50%	2%	-0.25%
Total	<u>100%</u>		<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 7.5%. 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 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. 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.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 9 RETIREMENT PLANS (CONTINUED)

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 net pension liability	7,010,878	5,491,732	4,190,718
KTRS	3.88%	4.88%	5.88%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position

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

NOTE 10 CONTINGENCIES

Grant Fund Approval

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 the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and 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 the programs.

NOTE 11 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 are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated, which includes workers' compensation insurance.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 12 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 participates in the Kentucky School Boards Insurance Trust (KISBIT) Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. 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 13 DEFICIT OPERATING/FUND BALANCES

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

General Fund	\$ 402,881
Building Fund	2,251
Highlands High School	308,019
Highlands Middle School	3,809
Robert Johnson Elementary	19,533
Ruth Moyer Elementary	31,701
Samuel Woodfill Elementary	271

NOTE 14 COBRA

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

NOTE 15 CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2016, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$63,955. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 16 TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Matching	\$ 65,331
General Fund	Construction Fund	Operations	\$ 715,706
Summer Enrichment	General Fund	Operations	\$ 30,000
Building Fund	Construction Fund	Operations	\$ 23,560,535
Building Fund	Debt Service Fund	Debt Service	\$ 2,193,120
Capital Outlay Fund	Debt Service Fund	Debt Service	\$ 170,638

NOTE 17 ON-BEHALF PAYMENTS

For the year ended June 30, 2016 total payments of \$6,455,693 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 4,686,173
Debt Service	1,702,784
Food Service	<u>66,736</u>
Total On-Behalf	<u><u>\$ 6,455,693</u></u>

NOTE 18 SCHEDULE OF LONG-TERM OBLIGATIONS

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

2006B, 2007, 2008, 2008B, 2009, 2009 Kista, 2010, 2011, 2012, 2013, 2014, 2014-Ref, 2014
Kista 2015, 2015B and 2015C Issues

FISCAL YEAR	Fort Thomas Independent School District			KY School Facilities Construction Commission			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2016-2017	\$ 1,552,164	\$ 848,762	\$ 2,400,926	\$ 1,910,122	\$ 1,116,954	\$ 3,027,076	\$ 5,428,002
2017-2018	1,599,046	807,980	2,407,026	1,947,837	1,072,281	3,020,118	5,427,144
2018-2019	1,637,501	765,735	2,403,236	1,994,664	1,026,409	3,021,073	5,424,309
2019-2020	1,680,593	720,340	2,400,933	2,043,300	978,458	3,021,758	5,422,691
2020-2021	1,731,602	672,398	2,404,000	1,922,452	928,427	2,850,879	5,254,879
2021-2022	1,769,967	632,237	2,402,204	1,969,312	881,605	2,850,917	5,253,122
2022-2023	1,822,410	578,610	2,401,020	2,015,581	830,089	2,845,670	5,246,691
2023-2024	1,877,413	522,223	2,399,636	2,070,835	774,177	2,845,012	5,244,648
2024-2025	1,926,599	464,345	2,390,944	2,133,401	710,683	2,844,084	5,235,028
2025-2026	1,602,894	405,036	2,007,930	2,202,106	640,138	2,842,244	4,850,174
2026-2027	1,590,816	348,855	1,939,671	2,049,184	571,483	2,620,667	4,560,338
2027-2028	1,639,908	297,176	1,937,084	2,085,092	501,557	2,586,649	4,523,733
2028-2029	1,480,645	242,812	1,723,457	1,984,355	430,883	2,415,238	4,138,695
2029-2030	1,527,022	194,507	1,721,529	1,892,978	365,201	2,258,179	3,979,708
2030-2031	1,249,499	149,729	1,399,228	1,555,501	305,285	1,860,786	3,260,014
2031-2032	1,156,593	107,335	1,263,928	1,488,407	249,993	1,738,400	3,002,328
2032-2033	1,199,157	68,830	1,267,987	1,535,843	194,055	1,729,898	2,997,885
2033-2034	603,770	34,031	637,801	1,486,230	135,230	1,621,460	2,259,261
2034-2035	422,783	12,302	435,085	1,537,217	76,571	1,613,788	2,048,873
2035-2036	3,560	60	3,620	1,231,440	20,781	1,252,221	1,255,841
	<u>\$ 28,073,942</u>	<u>\$ 7,873,305</u>	<u>\$ 35,947,247</u>	<u>\$ 37,055,857</u>	<u>\$ 11,810,259</u>	<u>\$ 48,866,116</u>	<u>\$ 84,813,363</u>

A summary of the changes in the principal of the outstanding bond obligations and the capital leases for the District during the year ended June 30, 2016 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2016</u>
Bond Obligations	<u>\$ 43,803,350</u>	<u>\$ 23,810,000</u>	<u>\$ 2,483,551</u>	<u>\$ 65,129,799</u>
Capital Leases	<u>\$ 716,312</u>	<u>\$ 845,580</u>	<u>\$ 430,917</u>	<u>\$ 1,130,975</u>

NOTE 19 SUBSEQUENT EVENTS

Subsequent to year-end, the District issued \$5,530,000 of new bonds to refinance the 2006B, 2007, 2008A, 2008B, and 2010 BABS bond issues. Subsequent events were considered through November 14, 2016, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Combining Balance Sheet – Nonmajor Governmental Funds
As of June 30, 2016**

	<u>Capital Outlay Fund</u>	<u>Special Revenue Activity Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-major Government Funds</u>
Assets				
Current:				
Cash and cash equivalents	\$ 108,293	332,170	\$ -	\$ 440,463
Total current	<u>\$ 108,293</u>	<u>\$ 332,170</u>	<u>\$ -</u>	<u>\$ 440,463</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 1,266	\$ -	\$ 1,266
Total liabilities	<u>-</u>	<u>1,266</u>	<u>-</u>	<u>1,266</u>
Fund Balances:				
Restricted:				
Other	108,293	330,904	-	439,197
Total fund balances	<u>108,293</u>	<u>330,904</u>	<u>-</u>	<u>439,197</u>
Total liabilities and fund balances	<u>\$ 108,293</u>	<u>\$ 332,170</u>	<u>\$ -</u>	<u>\$ 440,463</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures and Changes
In Fund Balances – Nonmajor Governmental Funds
As of June 30, 2016**

	Capital Outlay Fund	Special Revenue Activity Fund	Debt Service Fund	Total Nonmajor Government Funds
Revenues:				
Earnings on investments	\$ 298	\$ 55	\$ -	\$ 353
State sources	275,722	-	1,702,784	1,978,506
Federal sources	-	-	23,841	23,841
Other sources	-	880,221	-	880,221
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	276,020	880,276	1,726,625	2,882,921
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures:				
Instructional	-	549,372	-	549,372
Debt service:				
Principal	-	-	2,470,000	2,470,000
Interest	-	-	1,620,383	1,620,383
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	-	549,372	4,090,383	4,639,755
	<hr/>	<hr/>	<hr/>	<hr/>
Excess (deficit) of revenues over expenditures	276,020	330,904	(2,363,758)	(1,756,834)
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)				
Operating transfers in	-	-	2,363,758	2,363,758
Operating transfers out	(170,638)	-	-	(170,638)
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources(uses)	(170,638)	-	2,363,758	2,193,120
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	105,382	330,904	-	436,286
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, July 1, 2015	2,911	-	-	2,911
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2016	\$ 108,293	\$ 330,904	\$ -	\$ 439,197
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – General Fund
Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Taxes	\$ 12,085,000	\$ 12,085,000	\$ 12,546,829	\$ 461,829
Earnings on investments	10,000	10,000	22,571	12,571
State sources	8,474,500	8,474,500	13,462,761	4,988,261
Federal sources	-	-	-	-
Other sources	<u>870,000</u>	<u>870,000</u>	<u>942,019</u>	<u>72,019</u>
Total revenues	<u>21,439,500</u>	<u>21,439,500</u>	<u>26,974,180</u>	<u>5,534,680</u>
Expenditures				
Instructional	12,703,618	12,702,032	15,853,089	(3,151,057)
Student support services	1,204,128	1,204,128	1,499,162	(295,034)
Staff support services	1,713,447	1,282,847	1,715,998	(433,151)
District administration	1,875,922	1,875,921	1,288,846	587,075
School administration	1,581,576	1,583,162	1,829,330	(246,168)
Business support services	854,351	854,351	1,008,775	(154,424)
Plant operation and maintenance	3,181,410	3,181,409	2,860,314	321,095
Student transportation	37,050	37,050	20,028	17,022
Facility acquisition and construction	-	-	54,670	54,670
Other	<u>2,373,000</u>	<u>2,218,600</u>	<u>1,246,849</u>	<u>971,751</u>
Total expenditures	<u>25,524,502</u>	<u>24,939,500</u>	<u>27,377,061</u>	<u>(2,328,221)</u>
Net change in fund balance	(4,085,002)	(3,500,000)	(402,881)	3,206,459
Fund balance, July 1, 2015	<u>6,453</u>	<u>6,453</u>	<u>4,224,843</u>	<u>4,218,390</u>
Fund balance, June 30, 2016	<u>\$ (4,078,549)</u>	<u>\$ (3,493,547)</u>	<u>\$ 3,821,962</u>	<u>\$ 7,315,509</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Special Revenue Fund
Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
State sources	\$ 476,350	\$ 477,403	\$ 501,415	\$ 24,012
Federal sources	686,542	687,140	601,724	(85,416)
Other sources	<u>-</u>	<u>-</u>	<u>244,984</u>	<u>244,984</u>
Total revenues	<u>1,162,892</u>	<u>1,164,543</u>	<u>1,348,123</u>	<u>183,580</u>
Expenditures				
Instructional	929,174	929,683	1,040,569	(110,886)
Student support services	80,650	80,650	54,949	25,701
Staff support services	102,563	103,705	103,712	(7)
District administration	-	-	8,003	(8,003)
Student transportation	50,505	50,505	100,919	(50,414)
Community service operations	<u>-</u>	<u>-</u>	<u>39,971</u>	<u>(39,971)</u>
Facility acquisition and construction				-
Other				-
Total expenditures	<u>1,162,892</u>	<u>1,164,543</u>	<u>1,348,123</u>	<u>(183,580)</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Building Fund
Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ 1,372,418	\$ 1,372,418	\$ 1,410,519	\$ 38,101
Earnings on investments	-	-	1,172	1,172
State sources	770,000	770,000	779,179	9,179
Other sources	-	-	23,810,000	23,810,000
	<u>2,142,418</u>	<u>2,142,418</u>	<u>26,000,870</u>	<u>23,858,452</u>
Total revenues				
Expenditures				
Facility acquisition and construction	-	-	249,466	(249,466)
Other	2,142,418	2,142,418	25,753,655	(23,611,237)
	<u>2,142,418</u>	<u>2,142,418</u>	<u>26,003,121</u>	<u>(23,860,703)</u>
Total expenditures				
Net change in fund balance	-	-	(2,251)	(2,251)
Fund balance, July 1, 2015	-	-	50,370	50,370
	<u>-</u>	<u>-</u>	<u>50,370</u>	<u>50,370</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,119</u>	<u>\$ 48,119</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Construction Fund
Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Earnings on investments	\$ -	\$ 523	\$ 53,296	\$ 52,773
Other sources	-	12,169	24,876,241	24,864,072
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenues	<u>\$ -</u>	<u>\$ 12,692</u>	<u>\$ 24,929,537</u>	<u>\$ 24,916,845</u>
Expenditures				
Facility acquisition and construction	\$ -	\$ -	\$ 8,445,668	\$ (8,445,668)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	<u>-</u>	<u>-</u>	<u>8,445,668</u>	<u>(8,445,668)</u>
Net change in fund balance	-	12,692	16,483,869	16,471,177
Fund balance, July 1, 2015	<u>-</u>	<u>-</u>	<u>2,551,427</u>	<u>2,551,427</u>
Fund balance, June 30, 2016	<u>\$ -</u>	<u>\$ 12,692</u>	<u>\$ 19,035,296</u>	<u>\$ 19,022,604</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Bond and Interest Redemption Funds
For the Year Ended June 30, 2016**

	<u>Issue of 2006</u>	<u>Issue of 2006B</u>	<u>Issue of 2007</u>	<u>Issue of 2008</u>	<u>Issue of 2008B</u>	<u>Issue of 2009 - Ref</u>	<u>Issue of 2009 Kista</u>	<u>Issue of 2010 BABS</u>	<u>Issue of 2011</u>
Cash at July 1, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Transfers and miscellaneous deposits	297,113	85,349	100,155	112,013	90,570	1,096,032	4,309	137,637	60,936
Disbursements:									
Bonds paid	285,000	55,000	60,000	65,000	30,000	940,000	3,788	90,000	20,000
Interest coupons	12,113	30,349	40,155	47,013	60,570	156,032	521	47,637	40,936
Total disbursements	297,113	85,349	100,155	112,013	90,570	1,096,032	4,309	137,637	60,936
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-
Cash at June 30, 2016	-	-	-	-	-	-	-	-	-
Fund balance at June 30, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	<u>Issue of 2012</u>	<u>Issue of 2013</u>	<u>Issue of 2014</u>	<u>Issue of 2014 - Ref</u>	<u>Issue of 2014 Kista</u>	<u>Issue of 2015B</u>	<u>Issue of 2015C</u>	<u>Issue of 2015 - Ref</u>	<u>Total</u>
Cash at July 1, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Transfers and miscellaneous deposits	123,860	155,219	140,000	768,837	11,540	266,926	302,289	322,307	4,014,156
Disbursements:									
Bonds paid	45,000	65,000	65,000	520,000	9,763	150,000	-	80,000	2,483,551
Interest coupons	78,860	90,219	75,000	248,837	1,777	116,926	302,289	242,307	1,591,541
Total disbursements	123,860	155,219	140,000	768,837	11,540	266,926	302,289	322,307	4,014,156
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-
Cash at June 30, 2016	-	-	-	-	-	-	-	-	-
Fund balance at June 30, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Highlands High School Activity Fund
For the Year Ended June 30, 2016**

	Fund Balance July 1, 2015	Receipts	Disbursements	Fund Balance June 30, 2016
General Account	\$ 20,902	\$ 1,408	\$ 1,655	\$ 20,655
Athletic Hall of Fame	1,000	2,707	1,827	1,880
Athletic Department	-	46,862	46,862	-
NSF Checks	-	649	649	-
Student Fees - Suspense	9,743	-	9,743	-
Credit Card Fees	-	208	208	-
Interest Earned	15,298	1,359		16,657
Surplus Payments	285	-	285	-
Cafeteria	97	344	161	281
English Department	627	-	627	-
NEHS	804	975	1,376	402
HMS Dance Team	773	13,877	14,650	-
Baseball	5,133	61,148	51,287	14,994
FBLA	212	3,730	3,194	749
FCCLA	21,153	15,378	20,763	15,768
Fashion and Interior Design	2,234	13,421	10,865	4,790
German Club	157	-	-	157
National German Exam	-	966	966	-
Junior Prom	5,261	24,136	22,257	7,140
STLP	50	-	-	50
Chorus	1,298	3,796	2,920	2,174
Drama	16,444	46,044	50,829	11,659
Yearbook/Journalism	18,674	11,506	10,154	20,026
JV Dance Team	16	7,581	7,370	227
History Club	-	315	60	255
Family and Consumer Science	1,184	-	1,184	-
Contemporary Issues Field Trips	570	-	-	570
TSA/Industrial Arts Club	266	-	266	-
TSA/Industrial Arts	1,052	1,131	1,077	1,107
Instructional Fees	107,695	617	108,231	81
Football	48,061	214,732	229,321	33,472
Football 1st Round	-	3,432	3,432	-
Football 2nd Round	-	3,158	3,158	-
Football 3rd Round	-	13,672	13,672	-
Football 4th Round	-	16,021	16,021	-
Miscellaneous	-	80	-	80
Art Club	1,092	-	740	352
National Honor Society	2,253	1,760	1,940	2,074
Principal	25,714	3,200	4,133	24,781
Resource Center	673	111	765	19
Pot Luck Luncheons	125	501	545	81
Summer Learning Program	-	-	-	-
Mock Trial	4,699	8,721	6,970	6,450
Spanish Club	1,337	175	70	1,442
NSHS	223	200	134	290

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Highlands High School Activity Fund (Continued)
For the Year Ended June 30, 2016**

	Fund Balance July 1, 2015	Receipts	Disbursements	Fund Balance June 30, 2016
NSE	-	271	270	1
Student Council	10,755	6,378	4,935	12,198
Intramural Basketball	459	960	1,419	-
Girls Track	-	14,066	12,527	1,539
Bookstore	58,453	1,460	59,913	-
Textbook Rental	8,026	13,162	21,188	-
Swimming	194	15,796	15,933	57
Softball	2,707	40,344	37,887	5,164
Softball - District Tourney	-	1,758	1,758	-
Cross Country	2,523	15,960	15,960	2,523
Boys Track	1,850	12,795	12,571	2,074
Volleyball	14,961	49,954	54,403	10,512
Speech/Debate	3,463	941	2,899	1,506
Art Fees	1,636	230	1,866	-
Girls Soccer	6,243	39,096	33,848	11,491
Boys Basketball	11,504	97,104	99,435	9,173
Basketball Concessions	-	10,048	10,048	-
Hospitality/Culinary	1,055	2,022	1,895	1,183
Creative Writing	5	-	-	5
Academic Team	241	100	159	182
Science Fees	39,021	982	40,003	-
Science Club	-	1,676	1,597	79
Boys Golf	-	11,128	8,913	2,215
Boys Soccer	13,480	44,412	37,998	19,895
Girls Basketball	3,979	60,426	61,490	2,915
Student Coke Commissions	3,565	323	-	3,888
Girls BB District Tournament	-	792	792	-
Girls BB Regional Tournament	-	5,767	5,767	-
Video Productions	1,178	195	1,373	-
Scholarships	9,761	15,850	13,800	11,811
FB 1st Round	-	8,799	8,799	-
FB 2nd Round	-	9,912	9,912	-
FB 3rd Round	-	5,000	5,000	-
Guidance Office	40,183	692	40,875	-
Cheerleaders	2,629	29,182	31,417	395
Bowling	-	5,065	5,065	-
Boys Bowling Regional Tourney	-	1,597	1,597	-
Girls Bowling Regional Tourney	-	1,546	1,546	-
We the People	-	36,610	36,542	68
Math Honor Society	41	345	385	1
Senior Class	3,685	6,613	7,740	2,559
District Softball Tournament	-	1,000	1,000	-
Robotics Team	1,337	13,136	7,896	6,577
Girls Golf	3,237	4,624	6,001	1,860

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Highlands High School Activity Fund (Continued)
For the Year Ended June 30, 2016**

	Fund Balance July 1, 2015	Receipts	Disbursements	Fund Balance June 30, 2016
Dance Team	529	18,037	18,186	379
Dance Team - Nationals	-	49,700	49,623	77
Band	7,704	57,436	59,687	5,454
Sinfonia Orchestra	2,519	31,065	25,894	7,690
Tri-M Music Honor Society	144	609	445	309
Girls Tennis	4,468	6,991	6,991	4,468
Baseball District Tournament	-	496	496	-
Baseball Regional Tournament	-	1,208	1,208	-
Baseball State Tournament	-	1,812	1,812	-
Academic Competition Grants - T	7,749	10,000	14,275	3,474
Service Learning Projects	500	-	500	-
Faculty/Staff Resources Fund	3,291	998	564	3,725
Boys Tennis	-	3,836	3,836	-
Green Club	146	99	50	194
Envirothon	-	2,890	576	2,314
BAM	4,073	48,449	48,828	3,694
Bluebird Passes	-	5,104	5,104	-
Activity Passes	-	9,128	9,128	-
Contingency Fund	87,926	-	45,925	42,001
Total	\$ 680,329	\$ 1,359,897	\$ 1,667,917	\$ 372,310

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
School Activity Funds
For the Year Ended June 30, 2016**

	<u>Highlands Middle</u>	<u>Robert Johnson Elementary</u>	<u>Ruth Moyer Elementary</u>	<u>Samuel Woodfill Elementary</u>	<u>Total</u>
Fund balances at July 1, 2015	\$ 35,704	\$ 31,027	\$ 55,886	\$ 8,090	\$ 130,707
Add: receipts	70,734	39,085	37,073	26,164	173,056
Less: disbursements	<u>(74,543)</u>	<u>(58,618)</u>	<u>(68,774)</u>	<u>(26,435)</u>	<u>(228,370)</u>
Fund balance at June 30, 2016	<u>\$ 31,895</u>	<u>\$ 11,494</u>	<u>\$ 24,185</u>	<u>\$ 7,819</u>	<u>\$ 75,393</u>

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – KTRS

Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
District's proportion of the net pension liability	0%	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ -	*	*	*	*	*	*	*	*	*
State's proportionate share of the net pension liability associated with the District	<u>104,532,988</u>	*	*	*	*	*	*	*	*	*
Total	<u>\$ 104,532,988</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	*	*	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	*	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	42.49%	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: None

Changes of assumption: In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Table rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – KTRS

Last 10 Fiscal Years*

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 457,608	*	*	*	*	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(457,608)</u>	*	*	*	*	*	*	*	*	*	*
Contribution excess/(deficiency)	<u>\$ -</u>	*	*	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 14,109,264	*	*	*	*	*	*	*	*	*	*
Contributions as a percentage of of covered-employee payroll	3.24%	*	*	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability – CERS

Last 10 Fiscal Years*

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
District's proportion of net pension liability	0.127729%	0.132183%	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 5,491,732	\$ 4,288,514	*	*	*	*	*	*	*	*
Total net pension liability	\$ 4,299,525,565	\$ 3,244,377,000	*	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 2,994,701	\$ 3,049,942	*	*	*	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	183.4%	140.6%	*	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	59.97%	66.80%	*	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

2015: The assumed investment rate of return was decreased from 7.75% to 7.50%.

2015: The assumed rate of inflation was reduced from 3.50% to 3.25%.

2015: The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

2015: Payroll growth assumption was reduced from 4.50% to 4.00%.

2015: 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).

2015: For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 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. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

2015: The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

Schedule of District Contributions – CERS

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 538,733	\$ 529,157	\$ 576,133	\$ 566,170	*	*	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(538,733)</u>	<u>(529,157)</u>	<u>(576,133)</u>	<u>(566,170)</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution excess/(deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 3,157,875	\$ 2,994,701	\$ 3,049,942	\$ 2,895,942	*	*	*	*	*	*
Contributions as a percentage of of covered-employee payroll	17.06%	17.67%	18.89%	19.55%	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

To the Members of the Board of Education
Fort Thomas Independent School District
Fort Thomas, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fort Thomas Independent School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Fort Thomas Independent School District's basic financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted other matters that we reported to management of the District in a separate letter dated November 14, 2016.

BARNES DENNIG

**INDEPENDENT AUDITORS' 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**

(Continued)

Purpose of this Report

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

Barnes, Dennig & Co., Ltd.

Crestview Hills, Kentucky

November 14, 2016

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments
Year Ended June 30, 2016**

In planning and performing our audit of the financial statements of Fort Thomas Independent 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.

This letter summarizes our comments and suggestions regarding those matters. A separate report dated November 14, 2016 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 14, 2016, on the financial statements of the Fort Thomas Independent School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable.

ACTIVITY FUNDS

Highlands High School

2016-01: Monthly financial statements and bank reconciliations not signed or reviewed timely

Criteria – Per best practices recommended by the Kentucky Department of Education, schools should have a process in place to prepare and review the monthly financial reports and bank reconciliations each month and provide them to the District finance officer.

Condition – During the testing of the Activity Funds, it was noted that several of the monthly reports and bank reconciliations were not reviewed in a timely manner and were not provided to the District finance officer.

Effect – Proper documentation of the monthly financial process were not followed.

Cause – Internal controls were not properly followed as designed by the District

Recommendation – We recommend that the financial secretary prepare and submit the monthly financial reports and bank reconciliations to the principal for review each month. Further, we recommend the District finance officer receives a copy in a timely manner.

Board Response – The District will discuss and implement corrective action.

Highlands Middle School

No matters are reportable

Robert Johnson Elementary School

No matters are reportable

Ruth Moyer Elementary School

No matters are reportable

Samuel Woodfill Elementary School

No matters are reportable

FORT THOMAS INDEPENDENT SCHOOL DISTRICT

**Management Letter Comments (Continued)
Year Ended June 30, 2016**

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable.

ACTIVITY FUNDS

Highlands High School

- It was noted in the prior year that there were teachers who were not remitting money timely to the school treasurer.
- It was noted in the prior year that the Multiple Receipt Form (Form F-SA-6) was being signed by the teachers rather than having the students sign the form.
- It was noted in the prior year that there were instances where invoices were not stamped "Paid."
- It was noted in the prior year that the bank reconciliations were not being performed on a timely basis.
- It was noted in the prior year that the principal was not receiving the bank statements prior to the bank reconciliation being performed.

Current year follow-up: See 2016-01 above as bank reconciliations were not prepared timely again in 2016.

Highlands Middle School

- It was noted in the prior year that the Requisition and Report of Ticket Sales (Form F-SA-1) was being prepared at the high school for the middle school play. However, the form was not being returned to the middle school treasurer to be completed.
- It was noted that there were teachers who were not remitting money timely to the school treasurer.

Current year follow-up: No issues were noted during the current year testing.

Robert Johnson Elementary School

No matters are reportable

Ruth Moyer Elementary School

No matters are reportable

Samuel Woodfill Elementary School

- It was noted in the prior year that the Multiple Receipt Form (Form F-SA-6) was being signed by the teachers rather than having the students sign the form.

Current year follow-up: No issues were noted during the current year testing.