

BLACKWATER R-II SCHOOL DISTRICT

BLACKWATER, MISSOURI

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Education
Blackwater R-II School District
Blackwater, Missouri

We have audited the basic financial statements of the governmental activities and each major fund of the Blackwater R-II School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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. 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 auditors' 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 District'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 District'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.

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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 modified cash basis financial position of the governmental activities and each major fund of the Blackwater R-II School District as of June 30, 2016, and the respective changes in the modified cash basis financial position thereof for the year then ended, in conformity with the basis of accounting described in Note A.

Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The pension information and budgetary comparison information on pages 27-32, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Financial Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Blackwater R-II School District's basic financial statements. The data contained under Other Financial Information, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Other Financial Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Education
Blackwater R-II School District
Blackwater, Missouri

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 6, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

BLACKWATER R-II SCHOOL DISTRICT
 STATEMENT OF NET POSITION – MODIFIED CASH BASIS
 June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 877,885
TOTAL ASSETS	<u>\$ 877,885</u>
NET POSITION	
Restricted for professional development	\$ 1,176
Restricted for student activities	10,523
Unrestricted	866,186
TOTAL NET POSITION	<u>\$ 877,885</u>

See accompanying notes.

BLACKWATER R-II SCHOOL DISTRICT
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended June 30, 2016

	Cash Disbursements	Program Cash Receipts		Capital Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$ (837,418)	\$ 11,805	\$ 147,585	\$ -	\$ (678,028)
Student services	(21,317)	-	-	-	(21,317)
Instructional staff support	(37,944)	-	13,885	-	(24,059)
General administration	(165,170)	-	-	-	(165,170)
Operation of plant	(80,365)	-	-	-	(80,365)
Transportation	(82,668)	-	26,800	-	(55,868)
Food service	(81,289)	18,791	45,171	-	(17,327)
Community services	(39,135)	-	35,213	-	(3,922)
NET PROGRAM (DISBURSEMENTS) RECEIPTS	<u>\$ (1,345,306)</u>	<u>\$ 30,596</u>	<u>\$ 268,654</u>	<u>\$ -</u>	(1,046,056)
General Receipts:					
Ad valorem tax receipts					287,879
Prop C sales tax receipts					136,153
Other tax receipts					3,091
County receipts					114,339
State receipts					626,064
Interest receipts					2,603
Other receipts					1,140
TOTAL GENERAL RECEIPTS					<u>1,171,269</u>
Special Item:					
Sale of school buses					<u>1,500</u>
INCREASE IN NET POSITION					126,713
NET POSITION - Beginning of year					<u>751,172</u>
NET POSITION - End of year					<u>\$ 877,885</u>

See accompanying notes.

FUND FINANCIAL STATEMENTS

BLACKWATER R-II SCHOOL DISTRICT
 STATEMENT OF ASSETS AND FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH
 BASIS
 June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and investments	\$ 550,723	\$ -	\$ 327,162	\$ 877,885
TOTAL ASSETS	<u>\$ 550,723</u>	<u>\$ -</u>	<u>\$ 327,162</u>	<u>\$ 877,885</u>
FUND BALANCES				
Restricted for professional development	\$ 1,176	\$ -	\$ -	\$ 1,176
Restricted for student activities	10,523	-	-	10,523
Assigned to capital outlay	-	-	327,162	327,162
Unassigned	539,024	-	-	539,024
TOTAL FUND BALANCES	<u>\$ 550,723</u>	<u>\$ -</u>	<u>\$ 327,162</u>	<u>\$ 877,885</u>

See accompanying notes.

BLACKWATER R-II SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
RECEIPTS				
Local	\$ 322,270	\$ 136,153	\$ 3,039	\$ 461,462
County	98,490	15,849	-	114,339
State	62,148	619,300	55,676	737,124
Federal	88,617	68,977	-	157,594
TOTAL RECEIPTS	571,525	840,279	58,715	1,470,519
DISBURSEMENTS				
Instruction	129,680	698,424	9,314	837,418
Student services	6,677	14,640	-	21,317
Instructional staff support	19,292	18,652	-	37,944
General administration	80,556	84,614	-	165,170
Operation of plant	77,457	1,426	1,482	80,365
Transportation	78,610	4,058	-	82,668
Food service	80,465	-	824	81,289
Community services	11,054	28,081	-	39,135
TOTAL DISBURSEMENTS	483,791	849,895	11,620	1,345,306
EXCESS (DEFICIT) OF RECEIPTS OVER DISBURSEMENTS	87,734	(9,616)	47,095	125,213
OTHER FINANCING SOURCES (USES)				
Sale of school buses	-	-	1,500	1,500
Operating transfers in	-	9,616	181,567	191,183
Operating transfers (out)	(191,183)	-	-	(191,183)
TOTAL OTHER FINANCING SOURCES (USES)	(191,183)	9,616	183,067	1,500
EXCESS (DEFICIT) OF RECEIPTS AND OTHER SOURCES OVER DISBURSEMENTS AND OTHER (USES)	(103,449)	-	230,162	126,713
FUND BALANCE, July 1, 2015	654,172	-	97,000	751,172
FUND BALANCE, June 30, 2016	<u>\$ 550,723</u>	<u>\$ -</u>	<u>\$ 327,162</u>	<u>\$ 877,885</u>

See accompanying notes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's accounting policies conform to the modified cash basis of accounting, which is characteristic of local governmental units of this type.

Financial Reporting Entity

The District is organized under the laws of the State of Missouri and is a primary government governed by an elected seven-member board. The District is not financially accountable for any other organization, nor is it a component unit of any other primary governmental entity.

Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. The statements present governmental activities generally financed through taxes, intergovernmental receipts, and other non-exchange transactions.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, fund balance, receipts and disbursements. The District has only governmental funds. The governmental funds of the District are all considered major funds by the Department of Elementary and Secondary Education.

The funds presented in the accompanying basic financial statements include all funds established under Missouri Revised Statutes and controlled by the Board of Education. The purpose of each fund is:

General Fund - Accounts for disbursements for non-certified employees, school transportation costs, operation of plant, fringe benefits, student body activities, community services, the food service program, and any disbursements not accounted for in other funds.

Special Revenue Fund - Accounts for receipts for certified employees involved in administration and instruction, and includes receipts restricted by the State for the payment of teacher salaries and taxes allocated to this fund based on the District's tax levy.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Projects Fund - Accounts for taxes and other receipts restricted, committed, or assigned for acquisition or construction of major capital assets and other capital outlay as defined by State of Missouri statutes.

Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using the modified cash basis of accounting. This basis recognizes assets, net position/fund balance, receipts, and disbursements when they result from cash transactions. The modification to the cash basis relates to the presentation of investments. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Capital Outlay

General capital assets are recorded as disbursements in the Capital Projects Fund at the time invoices for the capital items are paid.

Compensated Absences

Vacation time, personal business days, and sick leave are considered as disbursements in the year paid. Such amounts unused that are vested in the employee are payable upon termination at varying rates depending on length of service.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Debt

Long-term debt arising from cash transactions of the governmental funds is not reported in the government-wide financial statements or the fund financial statements, which is consistent with the modified cash basis of accounting. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as disbursements.

Teachers' Salaries

The salary payment schedule of the District for the 2015-2016 school year requires the payment of salaries for a twelve-month period. Consequently, the July and August 2016 payroll checks are included in the financial statements as disbursements in the month of June. This practice has been consistently followed in previous years.

Pooled Cash and Investments

Cash and investments of the individual funds are combined to form a pool of cash and investments. Cash equivalents and investments of the pooled accounts consist primarily of money market accounts and Certificates of Deposit, carried at cost.

Inventories

Inventories are valued at cost and consist of food and educational materials. The cost is recorded as a disbursement at the time inventory is purchased.

Equity Classification

In the government-wide financial statements, net position is classified in two components as follows:

Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position – All other net position that does not meet the definition of “restricted”.

It is the District’s policy to first use restricted net position prior to the use of unrestricted net position when disbursements are made for purposes for which both restricted and unrestricted net position are available.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on constraints imposed on the use of these resources as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted fund balance – This classification reflects the constraints imposed on resources either a) externally by creditors, grantors, contributors, or laws and regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Board of Education – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance – This classification reflects the amounts constrained by the District’s “intent” to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in the governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is used to report negative fund balances in other governmental funds.

In circumstances when a disbursement is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

Program Receipts

Amounts reported as program receipts include 1) charges to students or others for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. All other governmental receipts are reported as general receipts. All taxes are classified as general receipts even if restricted for a specific purpose.

BLACKWATER R-II SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the District's deposits be insured or collateralized in the name of the District by the trust department of a bank that does not hold the collateralized deposits. As of June 30, 2016, all bank balances on deposit are entirely insured or collateralized with securities.

NOTE C – INVESTMENTS

Investments of the District as of June 30, 2016, are as follows:

<u>Investment Type</u>	<u>Maturity</u>	<u>Amount</u>
Certificates of Deposit	8/21/16 to 4/17/17	<u>\$ 580,210</u>

Certificates of Deposit

Certificates of Deposit with maturities in excess of three months are classified as investments but are considered deposits for custodial risk determination. State statutes require that the District's deposits be collateralized in the name of the District by the trust department of a bank that does not hold the collateralized deposits. As of June 30, 2016, all Certificates of Deposit are entirely insured or collateralized with securities.

The District has no formal policy on interest rate risk.

NOTE D – TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and payable by December 31. The counties collect the property taxes and remit them to the District.

The District also receives sales tax collected by the State and remitted based on eligible pupils. The District is required to reduce its property tax levy by one-half the amount of sales tax estimated to be received in the subsequent calendar year unless the voters have approved a waiver of the rollback provision. The District has voted a full waiver of the rollback provision.

BLACKWATER R-II SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE D – TAXES (continued)

The assessed valuation of the tangible taxable property for the calendar year 2015 for purposes of local taxation was:

Real estate	\$ 5,985,750
Personal property	<u>2,809,363</u>
TOTAL ASSESSED VALUATION	<u><u>\$ 8,795,113</u></u>

The tax levy per \$100 of the assessed valuation of tangible taxable property for the calendar year 2015 for purposes of local taxation was:

	<u>Unadjusted</u>	<u>Adjusted</u>
General Fund	<u>\$ 3.2459</u>	<u>\$ 3.2459</u>
TOTAL LEVY	<u><u>\$ 3.2459</u></u>	<u><u>\$ 3.2459</u></u>

The receipts of current and delinquent property taxes during the fiscal year ended June 30, 2016, aggregated approximately 101 percent of the current assessment computed on the basis of the levy as shown above.

NOTE E – RETIREMENT PLANS

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Summary of Significant Accounting Policies

Financial reporting information included in the notes to the financial statements pertaining to the District's participation in the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (PSRS and PEERS, also referred to as the Systems) are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* as applicable to the District's modified cash basis of accounting.

The financial statements were prepared using the modified cash basis of accounting. Therefore, member and employer contributions are recognized when paid and the District's net pension liability, deferred outflows and inflows of resources related to pensions are not recorded in these financial statements.

BLACKWATER R-II SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE E – RETIREMENT PLANS (continued)

General Information about the Pension Plan

Plan Description. PSRS is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. PSRS also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the State of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989. The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined not to be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Sections 169.070 (9) RSMo, known as the "2/3's statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

Plan Description. PEERS is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri educator certificates also contribute to PEERS. PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the System are found in Sections 169.600 - 169.715 and Sections 169.560 - 169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Board of Trustees of the Public School Retirement System of Missouri.

Benefits Provided. PSRS is a defined benefit plan providing retirement, disability, and death/survivor benefits. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% benefit factor. Beginning July 1, 2001, and ending July 1, 2014, a 2.55% benefit factor is used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with five to 24.9 years of service at age 55. Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount

BLACKWATER R-II SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE E – RETIREMENT PLANS (continued)

Benefits Provided. PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the “Rule of 80” (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% benefit factor. Members qualifying for "Rule of 80" or "30-and-out" are entitled to an additional temporary .8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are younger than age 55 and who do not qualify under the “Rule of 80” but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount.

Cost-of-Living Adjustments (“COLA”). The Board of Trustees has established a policy of providing a 2.00% COLA for years in which the CPI increases between 0.00% and 5.00%. If the CPI increase is greater than 5.00%, the Board will provide a COLA of 5.00%. If the CPI decreases, no COLA is provided. For any PSRS member retiring on or after July 1, 2001, such adjustments commence on the second January after commencement of benefits and occur annually thereafter. For PEERS members, such adjustments commence on the fourth January after commencement of benefits and occur annually thereafter. The total of such increases may not exceed 80% of the original benefit for any member.

Summary Plan descriptions detailing the provisions of the plans can be found on the Systems’ website at www.psr-peers.org.

Contributions. PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2016. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

Contributions. PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2016. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay.

The District's contributions to PSRS and PEERS were \$76,928 and \$8,272, respectively, for the year ended June 30, 2016.

BLACKWATER R-II SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE E – RETIREMENT PLANS (continued)

Pension Liability

At June 30, 2016, the District had a liability of \$681,197 for its proportionate share of PSRS' net pension liability and \$52,891 for its proportionate share of PEERS' net pension liability. In total the District had a net pension liability of \$734,088. The net pension liability for the plans in total was measured as of June 30, 2015, and determined by an actuarial valuation as of that date. The District's proportionate share of the total net pension liability was based on the ratio of its actual contributions paid to PSRS and PEERS of \$77,331 and \$10,295, respectively, for the year ended June 30, 2015, relative to the actual contributions of \$656,578,122 for PSRS and \$102,864,099 for PEERS from all participating employers. At June 30, 2016, the District's proportionate share was 0.0118% for PSRS and 0.0100% for PEERS.

Actuarial Assumptions

Actuarial valuations of the Systems involves estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2011 and the next experience study is scheduled for 2016. Significant actuarial assumptions and other inputs used to measure the total pension liability:

- Measurement Date – June 30, 2015
- Valuation Date – June 30, 2015
- Expected Return on Investments – 8.00%, net of investment expenses and including 2.5% inflation
- Inflation – 2.50%
- Total Payroll Growth
 - PSRS – 3.50% per annum, consisting of 2.50% inflation, 0.50% additional inflation due to the inclusion of health care costs in pension earnings, and 0.50% of real wage growth.
 - PEERS – 3.75% per annum, consisting of 2.50% inflation, 0.75% additional inflation due to the inclusion of health care costs in pension earnings, and 0.50% of real wage growth.
- Future Salary Increases
 - PSRS – 4.00% - 10.00%, depending on service and including 2.50% inflation, 0.50% additional inflation due to the inclusion of health care costs in pension earnings, and real wage growth of 1.00% to 7.00%.
 - PEERS – 5.00% - 12.00%, depending on service and including 2.50% inflation, 0.75% additional inflation due to the inclusion of health care costs in pension earnings, and real wage growth of 1.75% to 8.75%.

NOTE E – RETIREMENT PLANS (continued)

- Cost-Of-Living Increases
 - PSRS – 2.0% compounded annually, beginning on the second January after retirement and capped at 80% lifetime increase.
 - PEERS – 2.0% compounded annually, beginning on the fourth January after retirement and capped at 80% lifetime increase.
- Mortality Assumption:
 - Actives
 - PSRS – RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA.
 - PEERS – RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA.
 - Non-Disabled Retirees, Beneficiaries and Survivors
 - PSRS – RP 2000 Mortality Table set back one year for both males and females, then projected to 2016 using Scale AA.
 - PEERS – RP 2000 Mortality Table set forward one year for males and no set back/forward for females, then projected to 2016 using Scale AA.
 - Disabled Retirees
 - PSRS – RP 2000 Disabled Mortality Table
 - PEERS – RP 2000 Disabled Mortality Table
- Changes in Actuarial Assumptions and Methods – There were no changes in actuarial assumptions or methods for the June 30, 2015, valuation.
- Fiduciary Net Position – The Systems issue a publicly available financial report that can be obtained at www.psrs-peers.org.
- Expected Rate of Return – The long-term expected rate of return on the Systems’ investments was determined using a building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the Systems’ target allocation as of June 30, 2015, is summarized below along with the long term geometric return. Geometric return (also referred to as the time weighted return) is considered standard practice within the investment management industry. Geometric returns represent the compounded rate of growth of a portfolio. The method eliminates the effects created by cashflows.

BLACKWATER R-II SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE E – RETIREMENT PLANS (continued)

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Return Arithmetic Basis</u>	<u>Weighted Long-Term Expected Real Return Arithmetic Basis</u>
U.S. Public Equity	27.0%	5.85%	1.58%
Public Credit	12.0%	2.44%	0.29%
Hedged Assets	6.0%	5.22%	0.31%
Non-U.S. Public Equity	15.0%	6.64%	1.00%
U.S. Treasuries	16.0%	1.01%	0.16%
U.S. TIPS	4.0%	1.12%	0.04%
Private Credit	2.0%	7.61%	0.15%
Private Equity	10.5%	8.61%	0.90%
Private Real Estate	7.5%	4.60%	0.35%
Total	<u>100.0%</u>		4.78%
		Inflation	2.50%
		Long-term arithmetical nominal return	7.28%
		Effect of covariance matrix	0.81%
		Long-term expected geometric return	<u>8.09%</u>

- Discount Rate – The discount rate used to measure the total pension liability was 8.00% as of June 30, 2015, and is consistent with the long-term expected geometric return on the Systems’ investments. The projection of cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed in accordance with assumptions and methods stated in the funding policy adopted by the Board of Trustees, which requires payment of the normal cost and amortization of the unfunded actuarially accrued liability in level percent of employee payroll installments over 30 years utilizing a closed period, layered approach. Based on this assumption, the Systems’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.
- Discount Rate Sensitivity – The sensitivity of the District’s net pension liability to changes in the discount rate is presented below. The District’s net pension liability calculated using the discount rate of 8.0% is presented as well as the net pension liability using a discount rate that is 1.0% lower (7.0%) or 1.0% higher (9.0%) than the current rate.

BLACKWATER R-II SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE E – RETIREMENT PLANS (continued)

PSRS

Discount Rate	<u>1% Decrease (7.00%)</u>	<u>Current Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Proportionate share of the Net Pension Liability / (Asset)	\$ 1,252,846	\$ 681,197	\$ 201,076

PEERS

Discount Rate	<u>1% Decrease (7.00%)</u>	<u>Current Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Proportionate share of the Net Pension Liability / (Asset)	\$ 106,777	\$ 52,891	\$ 7,334

NOTE F – CLAIMS AND ADJUSTMENTS

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Disbursements financed by grants are subject to audit by the appropriate grantor government. If disbursements are disallowed due to noncompliance with grant program regulation, the District may be required to reimburse the grantor government. As of June 30, 2016, disbursements have not been audited by grantor governments, but the District believes that disallowed disbursements, if any, based on subsequent audits, will not have a material effect on any of the individual government funds or the overall financial position of the District.

NOTE G – 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. The District has transferred its risk by obtaining coverage from commercial insurance companies. In addition, it has effectively managed risk through various employee education and prevention programs. There has been no significant reduction in insurance coverage from the previous year.

BLACKWATER R-II SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H – COMPENSATED ABSENCES

Compensated absences payable consists of accumulated sick leave and personal days by District certified and noncertified personnel. The District’s policy allows employees to accrue sick leave/personal days at a prorated rate, based on employee FTE, up to a maximum of 10 days per year. Upon resignation or termination, a District employee is paid for all unused sick leave/personal days, up to a maximum of 40 days, at a rate that is determined based on that employee’s length of service with the District. Employees with 10-15 years of service are paid \$20 per day, employees with 5-9 years of service are paid \$15 per day, employees with less than 5 years of service are not paid for their unused accumulated sick leave, and employees with more than 15 years of service are paid \$30 per day. Total sick leave liability at June 30, 2016, was \$5,302.

NOTE I – POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note E, the District makes available post-retirement healthcare benefits to all employees who retire from the District. Participation by retirees in the District health plan is subjected to terms and conditions set forth in the Board policy. The cost of the coverage is charged to the retiree at a blended rate for all employees. The District has not made a formal evaluation or projection on the future cost of the existing health care benefit plan in relation to retirees.

NOTE J – INTERFUND TRANSFERS

Transfers between funds of the District for the year ended June 30, 2016, were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 191,183
Special Revenue Fund	9,616	-
Capital Projects Fund	181,567	-
	<u>\$ 191,183</u>	<u>\$ 191,183</u>

The District is required to make a transfer from the General Fund to the Special Revenue Fund to cover the excess of disbursements over receipts, if applicable, each year. The District is allowed to make various transfers from the General Fund to the Capital Projects Fund to cover disbursements and build balances.

SUPPLEMENTARY INFORMATION

BLACKWATER R-II SCHOOL DISTRICT
 SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIOS – PSRS AND PEERS
 Year Ended June 30, 2016

Public School Retirement System (PSRS)

<u>Year Ended*</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Actual Covered Member Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>
6/30/2015	0.0126%	\$ 516,925	\$ 558,864	92.50%	89.34%
6/30/2016	0.0118%	681,197	533,314	127.73%	85.78%

Public Education Employee Retirement System (PEERS)

<u>Year Ended*</u>	<u>Proportion of the Net Pension Liability (Asset)</u>	<u>Proportionate Share of the Net Pension Liability (Asset)</u>	<u>Actual Covered Member Payroll</u>	<u>Net Pension Liability (Asset) as a Percentage of Covered Payroll</u>	<u>Fiduciary Net Position as a Percentage of Total Pension Liability</u>
6/30/2015	0.0095%	\$ 34,691	\$ 138,873	24.98%	91.33%
6/30/2016	0.0100%	52,891	150,068	35.24%	88.28%

Note: These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

*The data provided in the schedule is based as of the measurement date of the Systems' net pension liability, which is as of the beginning of the District's fiscal year.

BLACKWATER R-II SCHOOL DISTRICT
 SCHEDULES OF EMPLOYER CONTRIBUTIONS – PSRS AND PEERS
 Year Ended June 30, 2016

Public School Retirement System (PSRS)

<u>Year Ended</u>	<u>Statutorily Required Contribution</u>	<u>Actual Employer Contributions</u>	<u>Contribution Excess / (Deficiency)</u>	<u>Actual Covered Member Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
6/30/2013	\$ 81,678	\$ 81,678	\$ -	\$ 563,296	14.50%
6/30/2014	81,035	81,035	-	558,864	14.50%
6/30/2015	77,331	77,331	-	533,314	14.50%
6/30/2016	76,928	76,928	-	530,539	14.50%

Public Education Employee Retirement System (PEERS)

<u>Year Ended</u>	<u>Statutorily Required Contribution</u>	<u>Actual Employer Contributions</u>	<u>Contribution Excess / (Deficiency)</u>	<u>Actual Covered Member Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
6/30/2013	\$ 9,663	\$ 9,663	\$ -	\$ 140,853	6.86%
6/30/2014	9,527	9,527	-	138,873	6.86%
6/30/2015	10,295	10,295	-	150,068	6.86%
6/30/2016	8,272	8,272	-	120,577	6.86%

Note: These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

BLACKWATER R-II SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget: Positive (Negative)
RECEIPTS				
Local	\$ 325,677	\$ 323,350	\$ 322,270	\$ (1,080)
County	88,369	98,492	98,490	(2)
State	108,378	98,977	62,148	(36,829)
Federal	98,901	88,617	88,617	-
TOTAL RECEIPTS	621,325	609,436	571,525	(37,911)
DISBURSEMENTS				
Instruction	109,999	130,272	129,680	592
Student services	6,514	6,677	6,677	-
Instructional staff support	22,131	19,292	19,292	-
General administration	92,870	80,556	80,556	-
Operation of plant	91,504	77,457	77,457	-
Transportation	87,216	78,610	78,610	-
Food service	75,073	79,873	80,465	(592)
Community services	9,074	11,054	11,054	-
TOTAL DISBURSEMENTS	494,381	483,791	483,791	-
EXCESS OF RECEIPTS OVER DISBURSEMENTS	126,944	125,645	87,734	(37,911)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(68,899)	-	(191,183)	(191,183)
EXCESS (DEFICIT) OF RECEIPTS AND OTHER SOURCES OVER DISBURSEMENTS AND OTHER (USES)	58,045	125,645	(103,449)	(229,094)
FUND BALANCE, July 1, 2015	654,172	654,172	654,172	-
FUND BALANCE, June 30, 2016	\$ 712,217	\$ 779,817	\$ 550,723	\$ (229,094)

BLACKWATER R-II SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND
 Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget: Positive (Negative)
RECEIPTS				
Local	\$ 127,181	\$ 136,153	\$ 136,153	\$ -
County	13,019	15,921	15,849	(72)
State	618,938	628,844	619,300	(9,544)
Federal	44,752	68,977	68,977	-
TOTAL RECEIPTS	803,890	849,895	840,279	(9,616)
DISBURSEMENTS				
Instruction	751,364	698,424	698,424	-
Student services	14,722	14,640	14,640	-
Instructional staff support	18,546	18,652	18,652	-
General administration	84,098	84,614	84,614	-
Operation of Plant	-	1,426	1,426	-
Transportation	4,059	4,058	4,058	-
Community services	-	28,081	28,081	-
TOTAL DISBURSEMENTS	872,789	849,895	849,895	-
(DEFICIT) OF RECEIPTS OVER DISBURSEMENTS	(68,899)	-	(9,616)	(9,616)
OTHER FINANCING SOURCES				
Operating transfers in	68,899	-	9,616	9,616
EXCESS OF RECEIPTS AND OTHER SOURCES OVER DISBURSEMENTS	-	-	-	-
FUND BALANCE, July 1, 2015	-	-	-	-
FUND BALANCE, June 30, 2016	\$ -	\$ -	\$ -	\$ -

BLACKWATER R-II SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE – CAPITAL PROJECTS FUND
 Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget:
				Positive (Negative)
RECEIPTS				
Local	\$ -	\$ -	\$ 3,039	\$ 3,039
State	-	-	55,676	55,676
TOTAL RECEIPTS	-	-	58,715	58,715
DISBURSEMENTS				
Instruction	3,500	9,314	9,314	-
Operation of plant	3,700	1,482	1,482	-
Transportation	250	-	-	-
Food services	-	824	824	-
TOTAL DISBURSEMENTS	7,450	11,620	11,620	-
EXCESS (DEFICIT) OF RECEIPTS OVER DISBURSEMENTS	(7,450)	(11,620)	47,095	58,715
OTHER FINANCING SOURCES				
Sale of school bus	-	1,500	1,500	-
Operating transfers in	-	-	181,567	181,567
TOTAL OTHER FINANCING SOURCES	-	1,500	183,067	181,567
EXCESS (DEFICIT) OF RECEIPTS AND OTHER SOURCES OVER DISBURSEMENTS	(7,450)	(10,120)	230,162	240,282
FUND BALANCE, July 1, 2015	97,000	97,000	97,000	-
FUND BALANCE, June 30, 2016	\$ 89,550	\$ 86,880	\$ 327,162	\$ 240,282

BLACKWATER R-II SCHOOL DISTRICT
NOTE TO BUDGETARY COMPARISON SCHEDULES
June 30, 2016

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1) In accordance with Chapter 67, RSMo, the District adopts a budget for each fund.
- 2) Prior to July, the Superintendent, who serves as the Budget Officer, submits to the Board of Education a proposed budget for the fiscal year beginning on the following July 1. The budget includes estimated receipts and proposed disbursements for all District funds. Budgeted disbursements cannot exceed beginning available monies plus estimated receipts for the year.
- 3) A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Education, the budget document is available for public inspection.
- 4) Prior to July 1, the budget is legally enacted by a vote of the Board of Education.
- 5) Subsequent to its formal approval of the budget, the Board of Education has the authority to make necessary adjustments to the budget by formal vote of the Board. Adjustments made during the year are reflected in the budget information included in the financial statements. Budgeted amounts are as originally adopted, or as amended by the Board of Education. Individual amendments were not material to the original appropriations, which were amended.
- 6) Budgets for District funds are prepared and adopted on the modified cash basis (budget basis).

OTHER FINANCIAL INFORMATION

BLACKWATER R-II SCHOOL DISTRICT
SCHEDULE OF RECEIPTS BY SOURCE
Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
LOCAL				
Current taxes	\$ 253,831	\$ -	\$ -	\$ 253,831
Delinquent taxes	34,048	-	-	34,048
School district trust fund (Prop C)	-	136,153	-	136,153
Financial institution taxes	13	-	-	13
M&M surtax	-	-	3,039	3,039
In lieu of tax	39	-	-	39
Earnings on investments	2,603	-	-	2,603
Food service program	18,791	-	-	18,791
Student activities	11,805	-	-	11,805
Other	1,140	-	-	1,140
TOTAL LOCAL	322,270	136,153	3,039	461,462
COUNTY				
Fines, escheats, etc.	-	15,849	-	15,849
State assessed utilities	98,490	-	-	98,490
TOTAL COUNTY	98,490	15,849	-	114,339
STATE				
Basic formula	19,231	556,918	-	576,149
Transportation	26,800	-	-	26,800
Early childhood special education	6,568	-	-	6,568
Basic formula - classroom trust fund	-	-	55,676	55,676
Educational screening program	8,945	-	-	8,945
Small schools grant	-	62,382	-	62,382
Food service	604	-	-	604
TOTAL STATE	62,148	619,300	55,676	737,124
FEDERAL				
Medicaid	1,015	-	-	1,015
IDEA entitlement funds, Part B IDEA	-	28,736	-	28,736
Early childhood special education	3,073	-	-	3,073
School lunch program	32,993	-	-	32,993
School breakfast program	11,574	-	-	11,574
Title I - ESEA	-	40,241	-	40,241
Title II, Part A, ESEA - teacher & principal quality	16,269	-	-	16,269
Title VI, Part B rural education initiative	23,693	-	-	23,693
TOTAL FEDERAL	88,617	68,977	-	157,594
OTHER SOURCES				
Sale of school buses	-	-	1,500	1,500
TOTAL OTHER SOURCES	-	-	1,500	1,500
TOTAL RECEIPTS	\$ 571,525	\$ 840,279	\$ 60,215	\$ 1,472,019

The above presentation agrees to the Annual Secretary of the Board Report.

BLACKWATER R-II SCHOOL DISTRICT
SCHEDULE OF DISBURSEMENTS BY OBJECT
Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Salaries	\$ 158,547	\$ 539,258	\$ -	\$ 697,805
Teacher retirement	-	76,927	-	76,927
Non-teacher retirement	8,272	-	-	8,272
Social security	9,204	1,352	-	10,556
Medicare	2,153	7,526	-	9,679
Employee insurance	12,438	24,565	-	37,003
Tuition	-	200,267	-	200,267
Professional services	6,057	-	-	6,057
Audit services	9,100	-	-	9,100
Technical services	173	-	-	173
Property services	32,857	-	-	32,857
Travel	3,135	-	-	3,135
Property insurance	5,726	-	-	5,726
Liability insurance	5,762	-	-	5,762
Fidelity premium	100	-	-	100
Other purchased services	81,037	-	-	81,037
General supplies	58,218	-	-	58,218
Regular textbook	9,329	-	-	9,329
Library books	2,121	-	-	2,121
Periodicals	258	-	-	258
Food service - food only	45,301	-	-	45,301
Energy supplies/service	33,855	-	-	33,855
Other supplies	148	-	-	148
Buildings	-	-	1,482	1,482
Equipment - general	-	-	824	824
Equipment - instructional apparatus	-	-	9,314	9,314
TOTAL DISBURSEMENTS	<u>\$ 483,791</u>	<u>\$ 849,895</u>	<u>\$ 11,620</u>	<u>\$ 1,345,306</u>

BLACKWATER R-II SCHOOL DISTRICT
SCHEDULE OF TRANSPORTATION COSTS ELIGIBLE FOR STATE AID
Year Ended June 30, 2016

	<u>District Owned</u>
Administrative salaries	\$ 3,500
Non-certified salaries	42,807
Employee benefits	8,222
Purchased services	15,898
Supplies	12,241
Depreciation, net	17,741
	<u>\$ 100,409</u>



**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**

Board of Education
Blackwater R-II School District
Blackwater, Missouri

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 accompanying financial statements of the governmental activities and each major fund of the Blackwater R-II School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Blackwater R-II School District's basic financial statements and have issued our report thereon dated December 6, 2016.

Internal Control over Financial Reporting

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

Board of Education
Blackwater R-II School District
Blackwater, Missouri

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness. It is identified as item 2016-001.

Compliance and Other Matters

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

Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, express no opinion on it.

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.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 6, 2016

BLACKWATER R-II SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

2016-001 Segregation of Duties

Condition: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. The District currently has one full-time bookkeeper to handle the accounting needs of the District. There are some mitigating controls in place, but it is not possible to have segregation in all areas.

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Effect: Risk is present that errors or irregularities in amounts that would be material to the basic financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: We realize that because of limited resources and personnel, management may not be able to achieve a proper segregation of duties; however, our professional standards require that we bring this lack of segregation of duties to your attention in this report.

Response: The limited number of available personnel prohibits segregation of incompatible duties and the District does not have the resources to hire additional accounting personnel.

SUPPLEMENTARY STATE INFORMATION



**INDEPENDENT ACCOUNTANTS' REPORT ON MANAGEMENT'S
ASSERTIONS ABOUT COMPLIANCE WITH SPECIFIED
REQUIREMENTS OF MISSOURI LAWS AND REGULATIONS**

Board of Education
Blackwater R-II School District
Blackwater, Missouri

We have examined management's assertions that the Blackwater R-II School District complied with the requirements of Missouri laws and regulations regarding budgetary and disbursement procedures; accurate disclosure of the District's attendance records of average daily attendance, standard day length, resident membership on the last Wednesday of September, pupil transportation records of the average daily transportation of pupils eligible and ineligible for state aid, the number of miles eligible and ineligible for state aid and other statutory requirements as listed in the schedule of selected statistics during the year ended June 30, 2016. Management is responsible for the Blackwater R-II School District's compliance with those requirements. Our responsibility is to express an opinion on management's assertions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the Blackwater R-II School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Blackwater R-II School District's compliance with specified requirements.

In our opinion, management's assertions referred to above are fairly stated, in all material respects, with the aforementioned requirements for the year ended June 30, 2016.

This report is intended solely for the information and use of the Board of Education, District management, and the Missouri Department of Elementary and Secondary Education and is not intended to be, and should not be, used by anyone other than these specified parties.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 6, 2016

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Member of The Leading Edge Alliance

BLACKWATER R-II SCHOOL DISTRICT 027-055
 SCHEDULE OF SELECTED STATISTICS
 Year Ended June 30, 2016

1. Calendar (Sections 160.041 and 171.031, RSMo)

- A. Standard Day Length (SDL) – The total number of hours between the starting time of the first class and the dismissal time of the last class, minus the time allowed for lunch and one passing time, and minus Channel One time was 6.1500.
- B. The number of actual calendar hours classes were in session and pupils were under the direction of teachers during this school year was 1,050.45.
- C. The number of days classes were in session and pupils were under the direction of the teachers during this school year was 174.

2. Average Daily Attendance (ADA)

Average Daily Attendance:

Regular term:

Full-time

Kindergarten – Grade 8

97.10

Resident II – Grades 9 – 12

37.15

Total Regular term

134.25

Summer school average daily attendance

4.10

Total Average Daily Attendance

138.35

3. September Membership

September Membership FTE Count

139.00

4. Free and Reduced Price Lunch FTE Count (Section 163.011(6), RSMo)

State FTE Total

Free

61.00

Reduced

12.00

Total

73.00

5. Finance

- A. A bond, as required by Section 162.401, RSMo, has been purchased for the District treasurer in the amount of \$50,000.
- B. The District's deposits were adequately secured during the year as required by Sections 110.010 and 110.020, RSMo.

BLACKWATER R-II SCHOOL DISTRICT 027-055
SCHEDULE OF SELECTED STATISTICS (continued)
Year Ended June 30, 2016

5. Finance (continued)

- C. The District does not have a Debt Service Fund.
- D. Salaries reported for educators in the October core data cycle are supported by payroll/contract records.
- E. The District made a 7% x SAT x WADA transfer that was not in excess of the adjusted expenditure calculation and the transfer was approved by the Board of Education.
- F. The District published a summary of the 2014-2015 audit report within thirty days of receipt of the audit, pursuant to Section 165.121, RSMo.
- G. The District has a professional development committee plan adopted by the Board with the professional development committee plan identifying the expenditure of seventy-five percent (75%) of one percent (1%) of the current year basic formula apportionment.
- H. The amount spent for approved professional development committee plan activities was \$7,209.

There were no findings noted above.

6. Transportation (Section 163.161, RSMo)

- A. The school transportation allowable costs substantially conform to 5 CSR 30-261.040, Allowable Costs for State Transportation Aid.
- B. The District's school transportation ridership records are so maintained as to accurately disclose, in all material respects, the average number of regular riders transported.
- C. Based on the ridership records, the average number of students (non-disabled K-12, career education, and K-12 students with disabilities) transported on a regular basis (ADT) eligible for state transportation aid was 82.0 and the average number of students transported on a regular basis (ADT) ineligible to be counted for state transportation aid was -0-.
- D. The District's transportation odometer mileage records are so maintained as to accurately disclose, in all material respects, the eligible and ineligible mileage for the year.
- E. Actual odometer records show the total District operated mileage for the year was 68,411. Of this total, the eligible non-disabled and students with disabilities route miles were 65,525 and the ineligible non-route and disapproved miles combined were 2,886.
- F. The District operated the school transportation system for 174 days during this school year.

There were no findings noted above.



Board of Education
Blackwater R-II School District
Blackwater, Missouri

In planning and performing our audit of the basic financial statements of the Blackwater R-II School District, for the year ended June 30, 2016, we considered the District's internal control to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the 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*, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

In addition to the material weakness discussed in the 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*, we became aware of additional matters to bring to your attention. The following paragraphs summarize our comments and recommendations regarding these matters.

1. Food Service Collections

A significant number of cash transactions occur at the District as part of the District's food service operations. Internal controls over the cash collections process are necessary tools to aid the District in monitoring and managing the activities of the food service function.

We Recommend:

The District review current food service collection policies and procedures and implement additional procedures, including daily deposits of receipts and daily reconciliations of food service transaction reports to the daily deposits. In addition, we recommend the District assign someone outside of the bookkeeping function to be responsible for performing the daily reconciliation of food service reports to the food service deposits.

2. New Overtime Rules

The Department of Labor has issued a new ruling which updates the regulations determining which salaried employees are entitled to the Fair Labor Standards Act's minimum wage and overtime pay protections. The new rule increases the salary threshold for salaried workers from \$23,660 to \$47,476 per year. Workers making less than the new salary threshold are entitled to overtime pay when working more than 40 hours per week. The new rule also automatically updates the salary threshold every three years, based on wage growth over time. The final rule was to become effective on December 1, 2016, however on November 22, 2016, a U.S. District Court Judge granted an Emergency Motion for Preliminary Injunction which prevents the Department of Labor from implementing and enforcing the new ruling.

We Recommend:

The District become familiar with the new requirements for overtime pay and determine the effect of these new requirements on the District's finances. We believe the District should identify the employees that will fall under these new requirements and develop a strategy to mitigate the impact of these new requirements if/when they become effective, as the Department of Labor disagrees with the decision by the court and is currently considering its legal options to the injunction.

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

We appreciate this opportunity to serve as the Blackwater R-II School District's independent auditor and the courtesies and assistance extended to us by the District's employees.

Respectfully submitted,

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 6, 2016



December 6, 2016

Mrs. Tanya Brown, Superintendent
Blackwater R-II School District
Blackwater, Missouri 65322

Dear Mrs. Brown:

Please find enclosed 10 signed copies of the basic financial statements with auditors' report for the year ended June 30, 2016. You will need to send one copy of this report to the Department of Elementary and Secondary Education in order for your District to be eligible for 2016-17 fiscal year state aid. The Board of Education must approve the audit report at a Board of Education meeting and the District must send a copy of the minutes that indicate approval to the Finance Section of the Department of Elementary and Secondary Education.

Also, please find enclosed 10 copies of a management letter with comments and recommendations arising from the audit and 10 copies of required audit communication for the Board of Education.

Within 30 days of receipt of your audit reports, the District must publish a summary statement of fund balances, and receipts and disbursements. The District must also publish the auditors' opinion from the report along with information as to where the audit report is available for inspection and examination.

We wish to express our appreciation for the cooperation given to us by all District personnel during our audit. If you have any questions regarding the basic financial statements or the management letter, please contact us at your convenience.

Thank you for the opportunity of serving the District again this year.

Sincerely,

KPM CPAs, PC

KPM CPAs, PC

www.kpmcpa.com

1445 E. Republic Road Springfield, MO 65804 | 417-882-4300 | fax 417-882-4343
500 W. Main Street, Suite 200 Branson, MO 65616 | 417-334-2987 | fax 417-336-3403

Member of The Leading Edge Alliance



Board of Education
Blackwater R-II School District
Blackwater, Missouri

We have audited the financial statements of the governmental activities and each major fund of the Blackwater R-II School District for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We communicated such information in our letter to you dated January 27, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Blackwater R-II School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015-2016. We noted no transactions entered into by the District for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We noted no misstatements regarding assets or net position.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 6, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

Board of Education
Blackwater R-II School District
Blackwater, Missouri
Page Three

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the modified cash basis of accounting, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Sincerely,

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 6, 2016