

BATH COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT	3-5
---	-----

MANAGEMENT'S DISCUSSION AND ANALYSIS	6-9
---	-----

BASIC FINANCIAL STATEMENTS:

Government-wide Financial Statements -

Statement of Net Position.....	10
Statement of Activities	11

Fund Financial Statements -

Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position - Proprietary Funds.....	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds.....	18
Statement of Net Position - Fiduciary Funds	19
Statement of Changes in Net Position - Fiduciary Funds	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund....	21
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Fund	22
Notes to the Financial Statements	23-42

REQUIRED SUPPLEMENTARY INFORMATION:

Schedule of District's Proportionate Share of the Net Pension Liability	43
Schedule of Pension Contributions.....	44
Notes to Required Supplementary Information	45-46

SUPPLEMENTARY INFORMATION:

Combining Statements - Non-major Funds -

Combining Balance Sheet - Non-Major Governmental Funds	47
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Non-Major Governmental Funds	48
Combining Statement of Net Position - Non-major Proprietary Funds	49
Combining Statement of Revenues, Expenses, and Changes in Net Position - Non-Major Proprietary Funds	50

Other -

Statement of Changes in Assets and Liabilities - School Activity Funds	51
Statement of Changes in Assets and Liabilities - School Activity Funds: Bath County High School.....	52
Schedule of Expenditures of Federal Awards	53-54

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	55-56
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	57-58
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	59
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	60
CORRECTIVE ACTION PLAN.....	61
INDEPENDENT AUDITOR'S TRANSMITTAL LETTER FOR MANAGEMENT LETTER POINTS.....	62
MANAGEMENT LETTER POINTS.....	63



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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Bath County School District
Owingsville, 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 Bath County School District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 and the Schedule of District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 43 through 46 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 Bath County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining

and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2017, on our consideration of Bath County 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 the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 19, 2017

**BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2017**

As management of the Bath County School District (the "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, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$5,423,966 and the ending balance was approximately \$5,641,079, an increase of approximately \$217,113 for the year primarily due to the timing of receipts and disbursements.
- The General Fund had \$15,783,170 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$16,258,041 in General Fund expenditures.
- 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 (KDE) stringent compliance regulations. The District's total debt decreased by \$909,218 during the current fiscal year.
- Net pension liabilities required to be recorded under GASB No. 68 increased during the year. Non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system, the District's share of the pension liability was \$5,619,137 as of June 30, 2016, which represents an increase of \$814,679 from the June 30, 2015 balance of \$4,804,458. The Kentucky Teachers Retirement System covers the District's professional staff members. The District's allocated pension liability as of June 30, 2016 was \$80,308,734, which represents an increase of \$17,336,040 from the June 30, 2015 balance of \$62,972,694. However, this pension liability is the responsibility of the Commonwealth of Kentucky.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government 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 are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 primary proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 12 through 22 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 government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$10.1 million as of June 30, 2017.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that 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 period ending June 30, 2017 and 2016

	2017	2016
Current Assets	\$ 5,949,764	\$ 5,985,651
Noncurrent Assets	26,895,127	27,340,971
Total Assets	32,844,891	33,326,622
Deferred Outflows	1,943,011	1,319,584
Current Liabilities	2,891,552	2,870,045
Noncurrent Liabilities	21,832,530	21,987,684
Total Liabilities	24,724,082	24,857,729
Net Position -		
Net investment in capital assets	10,042,511	9,284,728
Restricted	1,114,128	940,584
Unrestricted	(1,092,819)	(436,835)
Total Net Position	\$ 10,063,820	\$ 9,788,477

Comments on Budget Comparisons

- The District's total governmental funds revenues for the fiscal year ended June 30, 2017, net of interfund transfers and lease and bond proceeds were \$21,013,694, compared with \$20,649,737 in 2016. This increase is primarily a result of an increase in property tax and grant funding in the current year.
- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$1.5 million less than budget or approximately 11%.
- The total cost of all programs and services for governmental funds was \$21,390,639, compared with \$20,847,592 in 2016. The increase is primarily a result of an increase in spending on construction projects.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2017, with comparison to 2016.

	<u>2017</u>	<u>2016</u>
Revenues:		
Local Revenue Sources	\$ 3,673,594	\$ 3,613,538
State and Federal Revenue Sources	<u>24,430,684</u>	<u>21,149,073</u>
Total Revenues	<u>28,104,278</u>	<u>24,762,611</u>
Expenses:		
Instruction	15,754,943	13,920,402
Student Support Services	1,909,061	1,398,415
Instructional Support	813,350	608,688
District Administration	1,168,229	1,095,519
School Administration	1,541,009	1,131,431
Business and Other Support Services	573,328	420,223
Plant Operations	2,186,178	1,869,613
Student Transportation	1,330,437	1,307,171
Food Service Operations	1,575,748	1,645,314
Child Care Services	187,386	151,805
Community Services	350,800	346,821
Debt service	<u>438,466</u>	<u>580,903</u>
Total Expenses	<u>27,828,935</u>	<u>24,476,305</u>
Revenues Over (Under) Expenses	<u>\$ 275,343</u>	<u>\$ 286,306</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 75% and federal funding of 9% of total revenue. Local revenues make up 16% of total revenue (15% in 2016).

District-Wide Support Allocation

District-wide support services expenses were Transportation 6%, Maintenance & Operations 10%, and Business Functions 3%.

Capital Assets

At the end of June 30, 2017, the District's investment in capital assets for its governmental and business-type activities was \$26,895,127, representing a decrease of \$445,844 net of depreciation, from the prior year. Renovations at Bath County High School were still ongoing as of June 30, 2017.

Debt Service

At year-end, the District had approximately \$17.5 million in outstanding debt, compared to \$18.4 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal 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 approximately \$538,929 in contingency (3.29%). The general fund cash balance for beginning the next fiscal year is \$3,617,417.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local levels and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent year budgets.

Questions regarding this report should be directed to the Superintendent or to the Finance Officer at (606) 674-6314.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 4,661,875	\$ 979,204	\$ 5,641,079
Due from other funds	2,929	-	2,929
Receivables (net of allowances for uncollectibles):			
Taxes	177,020	-	177,020
Other	1,762	12,767	14,529
Intergovernmental	85,844	24,322	110,166
Inventories	-	4,041	4,041
Capital assets, not being depreciated	1,042,008	-	1,042,008
Capital assets, being depreciated, net	25,441,065	412,054	25,853,119
Total assets	<u>31,412,503</u>	<u>1,432,388</u>	<u>32,844,891</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	562,989	-	562,989
Deferred outflows - pension related	1,144,501	235,521	1,380,022
Total deferred outflows of resources	<u>1,707,490</u>	<u>235,521</u>	<u>1,943,011</u>
Liabilities			
Accounts payable	20,812	-	20,812
Deferred revenue	342,216	-	342,216
Accrued salaries and benefits	955,363	-	955,363
Due to other funds	-	2,929	2,929
Portion due or payable within one year:			
Debt obligations	1,462,724	-	1,462,724
KSBIT payable	15,982	-	15,982
Interest payable	91,526	-	91,526
Noncurrent liabilities:			
Net pension liability	4,782,543	836,594	5,619,137
Portion due or payable after one year:			
Debt obligations	15,952,881	-	15,952,881
KSBIT payable	47,947	-	47,947
Accrued sick leave	212,565	-	212,565
Total liabilities	<u>23,884,559</u>	<u>839,523</u>	<u>24,724,082</u>
Net Position			
Net investment in capital assets	9,630,457	412,054	10,042,511
Restricted for:			
Capital projects	697,796	-	697,796
Other purposes	-	416,332	416,332
Unrestricted	(1,092,819)	-	(1,092,819)
Total net position	<u>\$ 9,235,434</u>	<u>\$ 828,386</u>	<u>\$ 10,063,820</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
Instruction	\$ 15,754,943	\$ -	\$ 6,772,306	\$ -	\$ (8,982,637)	\$ -	\$ (8,982,637)
Support services:							
Students	1,909,061	252,444	125,949	-	(1,530,668)	-	(1,530,668)
Instructional staff	813,350	-	538,507	-	(274,843)	-	(274,843)
District administration	1,168,229	-	21,268	-	(1,146,961)	-	(1,146,961)
School administration	1,541,009	-	-	-	(1,541,009)	-	(1,541,009)
Business and other support services	573,328	-	-	-	(573,328)	-	(573,328)
Operation and maintenance of plant	2,186,178	-	27,862	-	(2,158,316)	-	(2,158,316)
Student transportation	1,330,437	-	42,758	-	(1,287,679)	-	(1,287,679)
Food service operations	4,528	-	-	-	(4,528,000)	-	(4,528,000)
Community services	350,800	-	314,156	-	(36,644)	-	(36,644)
Debt service-interest expense	438,466	-	-	1,917,135	1,478,669	-	1,478,669
Total governmental activities	26,070,329	252,444	7,842,806	1,917,135	(16,057,944)	-	(16,057,944)
Business-type activities:							
Food service	1,571,220	77,255	1,613,867	-	-	119,902	119,902
Child Care	187,386	115,148	62,717	-	-	(9,521)	(9,521)
Total business-type activities	1,758,606	192,403	1,676,584	-	-	110,381	110,381
Total primary government	\$ 27,828,935	\$ 444,847	\$ 9,519,390	\$ 1,917,135	\$ (16,057,944)	\$ 110,381	\$ (15,947,563)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 2,060,470	\$ -	\$ 2,060,470
Motor vehicle					307,939	-	307,939
Utilities					592,321	-	592,321
Intergovernmental revenues:							
State					12,994,159	-	12,994,159
Investment earnings					175,982	987	176,969
Gain on sale of assets					5,472	-	5,472
Other local revenues					85,576	-	85,576
Total general revenues and transfers					16,221,919	987	16,222,906
Change in net position					163,975	111,368	275,343
Net position, June 30, 2016					9,071,459	717,018	9,788,477
Net position, June 30, 2017					\$ 9,235,434	\$ 828,386	\$ 10,063,820

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Special Revenue Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,617,417	\$ 263,073	\$ 603,770	\$ 177,615	\$ 4,661,875
Due from other funds	2,929	-	-	-	2,929
Receivables (net of allowances for uncollectibles):					
Property taxes	177,020	-	-	-	177,020
Other	1,762	-	-	-	1,762
Intergovernmental - state	6,399	79,445	-	-	85,844
Total assets	<u>\$ 3,805,527</u>	<u>\$ 342,518</u>	<u>\$ 603,770</u>	<u>\$ 177,615</u>	<u>\$ 4,929,430</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 6,010	\$ 302	\$ -	\$ 14,500	\$ 20,812
Accrued salaries and benefits	955,363	-	-	-	955,363
Deferred revenue	-	342,216	-	-	342,216
Total liabilities	<u>961,373</u>	<u>342,518</u>	<u>-</u>	<u>14,500</u>	<u>1,318,391</u>
Fund balances:					
Restricted	-	-	603,770	94,026	697,796
Committed	71,796	-	-	69,089	140,885
Unassigned	2,772,358	-	-	-	2,772,358
Total fund balances	<u>2,844,154</u>	<u>-</u>	<u>603,770</u>	<u>163,115</u>	<u>3,611,039</u>
Total liabilities and fund balances	<u>\$ 3,805,527</u>	<u>\$ 342,518</u>	<u>\$ 603,770</u>	<u>\$ 177,615</u>	<u>\$ 4,929,430</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Fund balances—total governmental funds \$ 3,611,039

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 26,483,073

Savings from refunding bonds are not available to pay current period expenditures and therefore, not reported in the funds. 562,989

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred differences in pension experience	20,491	
Deferred pension investment earnings	435,562	
Deferred changes in pension assumptions	248,637	
Deferred changes in proportionate share of liability	132,660	
Deferred pension contributions	<u>307,151</u>	1,144,501

Certain other liabilities are not due and payable in the current period and therefore, not reported in the funds as follows:

Accrued interest payable	(91,526)	
Net pension liability	<u>(4,782,543)</u>	(4,874,069)

Some liabilities, including bonds payable, KSBIT payable, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the funds.

(17,692,099)

Net position of governmental activities

\$ 9,235,434

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue Fund	FSPK Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes -					
Property	\$ 1,569,506	\$ -	\$ 490,964	\$ -	\$ 2,060,470
Motor vehicles	307,939	-	-	-	307,939
Utilities	592,321	-	-	-	592,321
Interest income	7,963	148,012	-	20,007	175,982
Other local revenues	10,088	72,204	-	75,488	157,780
Intergovernmental - State	12,917,427	1,000,116	972,837	944,298	15,834,678
Intergovernmental - Indirect federal	-	1,626,127	-	-	1,626,127
Intergovernmental - Direct federal	252,444	-	-	-	252,444
Total revenues	<u>15,657,688</u>	<u>2,846,459</u>	<u>1,463,801</u>	<u>1,039,793</u>	<u>21,007,741</u>
Expenditures:					
Current:					
Instruction	9,379,467	1,810,578	-	87,614	11,277,659
Support services:					
Students	1,231,665	125,949	-	228	1,357,842
Instructional staff	176,536	538,507	-	11,716	726,759
District administration	939,227	21,268	-	-	960,495
School administration	1,056,644	-	-	-	1,056,644
Business and other support services	413,787	-	-	-	413,787
Operation and maintenance of plant	1,519,205	27,862	-	-	1,547,067
Student transportation	1,286,570	42,758	-	2,410	1,331,738
Food service operation	-	4,528	-	-	4,528
Community services	35,666	314,156	-	-	349,822
Facilities acquisition and construction	-	-	-	502,859	502,859
Debt service	219,274	-	-	1,642,165	1,861,439
Total expenditures	<u>16,258,041</u>	<u>2,885,606</u>	<u>-</u>	<u>2,246,992</u>	<u>21,390,639</u>
Excess (deficiency) of revenues over expenditures	<u>(600,353)</u>	<u>(39,147)</u>	<u>1,463,801</u>	<u>(1,207,199)</u>	<u>(382,898)</u>
Other financing sources (uses):					
Capital lease proceeds	119,529	-	-	-	119,529
Bond proceeds	-	-	-	6,445,000	6,445,000
Payment to escrow agent	-	-	-	(6,380,758)	(6,380,758)
Proceeds from sale of equipment	5,953	-	-	-	5,953
Transfers in	300,000	39,147	-	1,114,302	1,453,449
Transfers out	(39,147)	-	(1,126,008)	(288,294)	(1,453,449)
Total other financing sources and uses	<u>386,335</u>	<u>39,147</u>	<u>(1,126,008)</u>	<u>890,250</u>	<u>189,724</u>
Net change in fund balances	(214,018)	-	337,793	(316,949)	(193,174)
Fund balances, June 30, 2016	<u>3,058,172</u>	<u>-</u>	<u>265,977</u>	<u>480,064</u>	<u>3,804,213</u>
Fund balances, June 30, 2017	<u>\$ 2,844,154</u>	<u>\$ -</u>	<u>\$ 603,770</u>	<u>\$ 163,115</u>	<u>\$ 3,611,039</u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balances—total governmental funds \$ (193,174)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	813,006	
Adjustment to gain on disposal of assets	(481)	
Depreciation expense	<u>(1,243,517)</u>	(430,992)

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Long-term portion of accrued sick leave		(37,722)
Interest payable		19,594
Capitalized savings from bond refundings amortization expense		(74,832)
Amortization of bond discounts		(2,157)

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

KTRS on-behalf revenues	5,221,091	
KTRS on-behalf contributions	(5,221,091)	
CERS contributions	24,444	
Pension expense	<u>(437,783)</u>	(413,339)

Bond and capital lease proceeds, including related premiums and discounts, are recognized as revenues in the fund financial statements, but are increases in liabilities in the statement of net position.

Capital lease proceeds	(119,529)	
Bonds and refunding bonds issued	(6,445,000)	
Premiums and discounts on bonds and refunding bonds issued	15,535	
Payments to refunded bond escrow agent	<u>5,980,000</u>	(568,994)

Governmental funds do not report the effect of gains or losses on refunding of debt, whereas these amounts are deferred and amortized in the statement of activities.

385,223

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.

1,480,368

Change in net position of governmental activities

\$ 163,975

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ 966,118	\$ 13,086	\$ 979,204
Receivables (net of allowances for uncollectibles)			
Intergovernmental - federal	24,322	-	24,322
Other	-	12,767	12,767
Inventories	4,041	-	4,041
Total current assets	<u>994,481</u>	<u>25,853</u>	<u>1,020,334</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	412,054	-	412,054
Total noncurrent assets	<u>412,054</u>	<u>-</u>	<u>412,054</u>
Total assets	<u>1,406,535</u>	<u>25,853</u>	<u>1,432,388</u>
Deferred Outflows of Resources			
Deferred outflows - pension related	188,724	46,797	235,521
Total deferred outflows of resources	<u>188,724</u>	<u>46,797</u>	<u>235,521</u>
Total assets and deferred outflows	<u>\$ 1,595,259</u>	<u>\$ 72,650</u>	<u>\$ 1,667,909</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	2,929	2,929
Total current liabilities	<u>-</u>	<u>2,929</u>	<u>2,929</u>
Noncurrent liabilities:			
Net pension liability	761,117	75,477	836,594
Total liabilities	<u>761,117</u>	<u>78,406</u>	<u>839,523</u>
Net Position			
Net Investment in capital assets	412,054	-	412,054
Restricted	422,088	(5,756)	416,332
Total net position	<u>834,142</u>	<u>(5,756)</u>	<u>828,386</u>
Total liabilities, deferred inflows, and net position	<u>\$ 1,595,259</u>	<u>\$ 72,650</u>	<u>\$ 1,667,909</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Operating revenues:			
Lunchroom sales	\$ 77,255	\$ -	\$ 77,255
Tuition from individuals	-	115,148	115,148
Revenue from local sources	-	35,332	35,332
Total operating revenues	<u>77,255</u>	<u>150,480</u>	<u>227,735</u>
Operating expenses:			
Salaries and wages	373,040	98,025	471,065
Employee benefits	243,801	63,967	307,768
Materials and supplies	908,590	21,175	929,765
Depreciation	36,884	-	36,884
Other operating expenses	8,905	4,219	13,124
Total operating expenses	<u>1,571,220</u>	<u>187,386</u>	<u>1,758,606</u>
Operating income (loss)	<u>(1,493,965)</u>	<u>(36,906)</u>	<u>(1,530,871)</u>
Nonoperating revenues:			
Federal grants	1,438,374	6,785	1,445,159
Investment income	987	-	987
Donated commodities	83,768	-	83,768
Revenue from state sources (on-behalf)	78,392	20,600	98,992
State grants	13,333	-	13,333
Total nonoperating revenue	<u>1,614,854</u>	<u>27,385</u>	<u>1,642,239</u>
Increase (decrease) in net position	120,889	(9,521)	111,368
Net position, June 30, 2016	<u>713,253</u>	<u>3,765</u>	<u>717,018</u>
Net position, June 30, 2017	<u>\$ 834,142</u>	<u>\$ (5,756)</u>	<u>\$ 828,386</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	\$ 77,255	\$ -	\$ 77,255
Tuition	-	108,913	108,913
Other revenues	-	35,332	35,332
Cash paid to/for:			
Payments to suppliers and providers of goods and services	(835,437)	(18,246)	(853,683)
Payments to employees	(468,469)	(123,069)	(591,538)
Other payments	(8,905)	(4,219)	(13,124)
Net cash provided by (used for) operating activities	<u>(1,235,556)</u>	<u>(1,289)</u>	<u>(1,236,845)</u>
Cash flows from noncapital financing activities:			
Government grants	<u>1,460,755</u>	<u>6,785</u>	<u>1,467,540</u>
Net cash provided by noncapital and related financing activities	<u>1,460,755</u>	<u>6,785</u>	<u>1,467,540</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	<u>(22,032)</u>	<u>-</u>	<u>(22,032)</u>
Net cash used for capital and related financing activities	<u>(22,032)</u>	<u>-</u>	<u>(22,032)</u>
Cash flows from investing activities:			
Interest received on investments	<u>987</u>	<u>-</u>	<u>987</u>
Net cash provided by investing activities	<u>987</u>	<u>-</u>	<u>987</u>
Net increase (decrease) in cash and cash equivalents	204,154	5,496	209,650
Cash and cash equivalents, June 30, 2016	<u>761,964</u>	<u>7,590</u>	<u>769,554</u>
Cash and cash equivalents, June 30, 2017	<u>\$ 966,118</u>	<u>\$ 13,086</u>	<u>\$ 979,204</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	\$ (1,493,965)	\$ (36,906)	\$ (1,530,871)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation	36,884	-	36,884
Donated commodities	83,768	-	83,768
On-behalf revenues	78,392	20,600	98,992
Net pension adjustment	69,980	18,323	88,303
Change in assets and liabilities:			
Inventory	518	-	518
Accounts receivable	-	(6,235)	(6,235)
Accounts payable	(11,133)	-	(11,133)
Due to other funds	-	2,929	2,929
Net cash provided by (used for) operating activities	<u>\$ (1,235,556)</u>	<u>\$ (1,289)</u>	<u>\$ (1,236,845)</u>
Non-cash items:			
Donated commodities	\$ 83,768	\$ -	\$ 83,768
On-behalf payments	78,392	20,600	98,992

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017**

	<u>Trust Funds</u>	<u>Activity Funds</u>
Assets		
Cash and cash equivalents	\$ 23,126	\$ 216,507
Accounts receivable	-	-
Total assets	<u>23,126</u>	<u>216,507</u>
Liabilities		
Accounts payable	-	-
Interfund payable	-	-
Due to students	-	216,507
Total liabilities	<u>-</u>	<u>216,507</u>
Net position held in trust	<u><u>\$ 23,126</u></u>	<u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Trust Funds
Additions -	
Interest income	\$ -
Other local revenues	70
	<u>70</u>
Deductions -	
Transfer out	-
Benefits paid	1,000
	<u>1,000</u>
Change in net position	(930)
Net position, June 30, 2016	<u>24,056</u>
Net position, June 30, 2017	<u><u>\$ 23,126</u></u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Taxes -				
Property	\$ 1,190,000	\$ 1,190,000	\$ 1,569,506	\$ 379,506
Motor vehicles	225,000	225,000	307,939	82,939
Utilities	575,000	575,000	592,321	17,321
Interest income	3,000	3,000	7,963	4,963
Other local revenues	1,000	5,500	10,088	4,588
Intergovernmental - State	9,628,000	9,479,038	9,529,121	50,083
Intergovernmental - Direct federal	100,000	50,000	252,444	202,444
Total revenues	<u>11,722,000</u>	<u>11,527,538</u>	<u>12,269,382</u>	<u>741,844</u>
Expenditures:				
Current:				
Instruction	7,647,901	7,505,950	7,085,974	419,976
Support services:				
Students	977,306	973,573	967,964	5,609
Instructional staff	327,934	203,185	137,584	65,601
District administration	1,222,647	1,210,425	825,333	385,092
School administration	841,905	824,473	805,188	19,285
Business and other support services	315,009	282,618	333,351	(50,733)
Operation and maintenance of plant	1,711,354	1,759,482	1,364,093	395,389
Student transportation	1,375,614	1,379,714	1,103,041	276,673
Community services	27,437	24,088	27,933	(3,845)
Debt service	225,000	229,459	219,274	10,185
Contingency	420,224	415,947	-	415,947
Total expenditures	<u>15,092,331</u>	<u>14,808,914</u>	<u>12,869,735</u>	<u>1,939,179</u>
Excess (deficiency) of revenues over expenditures	<u>(3,370,331)</u>	<u>(3,281,376)</u>	<u>(600,353)</u>	<u>2,681,023</u>
Other financing sources (uses):				
Capital lease proceeds	-	-	119,529	119,529
Proceeds from sale of equipment	500	5,000	5,953	953
Transfers in	-	340,000	300,000	(40,000)
Transfers out	(50,000)	(50,000)	(39,147)	10,853
Total other financing sources and uses	<u>(49,500)</u>	<u>295,000</u>	<u>386,335</u>	<u>91,335</u>
Net change in fund balances	(3,419,831)	(2,986,376)	(214,018)	2,772,358
Fund balances, June 30, 2016	<u>3,419,831</u>	<u>2,986,376</u>	<u>3,058,172</u>	<u>71,796</u>
Fund balances, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,844,154</u>	<u>\$ 2,844,154</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 3,388,306	
On-behalf payments:				
Instruction			(2,293,493)	
Support services:				
Student support			(263,701)	
Instructional staff support			(38,952)	
District administration			(113,894)	
School administration			(251,456)	
Business and other support services			(80,436)	
Operation and maintenance of plant			(155,112)	
Student transportation			(183,529)	
Community services			(7,733)	
Fund balance, June 30, 2017 (GAAP basis)			<u>\$ 2,844,154</u>	

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Interest income	\$ 160,001	\$ 167,592	\$ 148,012	\$ (19,580)
Other local revenues	37,576	500	72,204	71,704
Intergovernmental - State	856,248	904,707	1,000,116	95,409
Intergovernmental - Indirect federal	1,529,628	1,521,070	1,626,127	105,057
Total revenues	<u>2,583,453</u>	<u>2,593,869</u>	<u>2,846,459</u>	<u>252,590</u>
Expenditures:				
Current:				
Instruction	1,741,494	1,812,192	1,810,578	1,614
Support services:				
Students	116,511	120,060	125,949	(5,889)
Instructional staff	400,314	411,423	538,507	(127,084)
District administration	-	-	21,268	(21,268)
Operation and maintenance of plant	39,307	37,489	27,862	9,627
Student transportation	59,508	59,509	42,758	16,751
Food service operation	-	-	4,528	(4,528)
Community services	276,319	277,399	314,156	(36,757)
Total expenditures	<u>2,633,453</u>	<u>2,718,072</u>	<u>2,885,606</u>	<u>(167,534)</u>
Excess (deficiency) of revenues over expenditures	<u>(50,000)</u>	<u>(124,203)</u>	<u>(39,147)</u>	<u>85,056</u>
Other financing sources (uses):				
Transfers in	<u>50,000</u>	<u>124,203</u>	<u>39,147</u>	<u>(85,056)</u>
Total other financing sources and uses	<u>50,000</u>	<u>124,203</u>	<u>39,147</u>	<u>(85,056)</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

(1) REPORTING ENTITY

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

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization's financial statements may be obtained from the Superintendent or the District's Finance Officer Brittany Combs at 405 West Main Street, Owingsville, Kentucky 40360.

Bath County Board of Education Finance Corporation - On November 29, 1988, the Bath County, Kentucky, Board of Education resolved to authorize the establishment of the Bath County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Bath County Board of Education also comprise the Corporation's Board of Directors.

The financial statements of the following entity are not included in the accompanying financial statements.

C.C. Chenault Memorial Trust

The Trust was created to establish agricultural programs for the District. The District receives a quarterly payment from the trust for its agricultural programs. The District had a carryover balance to FY 2017 of \$74,203 and received \$147,738 in quarterly payments in the current year and spent \$144,279 and had a carryover balance of \$77,662 to FY 2018. This activity is recorded in the Special Revenue Fund. The Trust maintains separate accounting records and is not governed or managed by the District.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Bath County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is 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.
 - 1. The Special Revenue Fund includes federal financial programs where unused balances are returned to the grantor, at the close of specified project periods, as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
 - 2. The District Activity Fund is a special revenue fund used to account for funds collected at individual schools for operation costs of the school or school district that allows for more flexibility in the expenditure of those funds.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. 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.
- (D) Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.
- (B) The Child Care Fund and Preschool Fund are used to account for day care type activities.

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

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.
- (B) The Trust Fund is a scholarship fund. The principal and interest earned may be used for scholarships to Bath County High School students.

Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the 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 it can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$.448 per \$100 valuation for real property, \$.448 per \$100 valuation for business personal property and \$.464 per \$100 valuation for motor vehicles.

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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>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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position. The District has committed \$71,796 for accumulated sick leave as of June 30, 2017.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District

are not budgeted. See note (14) for these amounts which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and 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, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable 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 (the "Board"); 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 a 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 any purpose; unassigned amounts are

reported only in the General Fund.

When restricted, committed, assigned and unassigned resources are available for use, it is the District's policy to use restricted, committed and assigned resources first, then unassigned resources as they are needed.

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

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

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* ("GASB 75"). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits ("OPEB"). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the District beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. The adoption of this standard did not have a material effect on the District's financial statements.

In February 2017, the GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. Generally, the focus of the criteria relates to (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities. Additionally, GASB 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust, or an equivalent arrangement, that meets specific criteria. Finally, it provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. GASB 84 will be effective for the District beginning with its year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017* ("GASB 85"), which seeks to improve consistency in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses several topics, including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (i.e., pensions and other post-employment benefits (OPEB)). In particular, this Statement covers:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.

- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 85 will be effective for the District beginning with its year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* ("GASB 86"), which seeks to (1) improve consistency in accounting and financial reporting for certain debt extinguishments and (2) enhance the decision-usefulness of such information. GASB 86 establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (i.e., resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. Additionally, it amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, GASB 86 establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. GASB 86 will be effective for the District beginning with its year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the District beginning with its year ending June 30, 2021 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

(3) ESTIMATES

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

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$5,880,712 and the related bank balances totaled \$6,243,799. Of the total cash balance, \$271,038 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

Breakdown per financial statements:

Governmental funds	\$ 4,661,875
Proprietary funds	979,204
Trust and Agency funds	239,633
	<u>\$ 5,880,712</u>

(5) LONG-TERM DEBT

Bonds

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2006-K	208,738	3.50% - 3.875%
2008	705,000	3.30% - 4.30%
2008-K	159,075	2.40% - 4.00%
2008	8,975,000	2.30% - 4.00%
2009-K	120,186	2.00% - 3.90%
2012-K	166,886	2.00% - 2.63%
2012R	1,100,000	1.10% - 2.35%
2013R	4,350,000	1.00% - 2.25%
2013	1,495,000	1.30% - 4.10%
2013QZAB	3,000,000	0.00%
2014E	1,955,000	1.10% - 3.40%
2014K	185,786	2.00% - 3.00%
2014 KSBIT	127,858	0.00%
2015 K	212,062	1.00% - 2.625%
2016 K	217,171	2.00% - 2.625%
2016R	6,445,000	1.05% - 2.00%
2017 K	119,529	2.55%

The District through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Bath County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 2008, 2012, 2013, and 2016, the District entered into "participation agreements" with the School Facility construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2017, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Kentucky School Facilities Construction Commission</u>		<u>Bath County School District</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2018	\$ 599,327	\$ 146,957	\$ 863,397	\$ 177,134	\$ 1,786,815
2019	608,532	131,431	852,610	164,273	1,756,846
2020	595,064	123,682	859,255	152,165	1,730,166
2021	607,477	115,397	865,831	139,988	1,728,693
2022	613,678	106,817	881,639	127,182	1,729,316
2023-2027	3,000,377	338,178	4,134,095	407,747	7,880,397

2028-2033	877,349	79,779	1,447,651	157,735	2,562,514
2033-2035	152,932	5,993	507,068	25,662	691,655
	<u>\$ 7,054,736</u>	<u>\$ 1,048,234</u>	<u>\$ 10,411,546</u>	<u>\$ 1,351,886</u>	<u>\$ 19,866,402</u>

On August 1, 2016, the District issued \$6,445,000 in refunding bonds with an average rate of 1.86% to advance refund \$420,000 of the series of 2008A bonds with an average rate of 4.27% and \$5,560,000 of the series of 2008B bonds with an average rate of 3.86%. The proceeds of the refunding bonds were used to purchase U.S. government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds in the amount of \$5,980,000 are considered to be defeased and the liability for those bonds has been removed from liabilities.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$385,223. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to operations through the year 2028 using the straight-line method. Additionally, the District reduced its total debt service payments over the following 12 years by \$492,482 and obtained an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$448,126.

KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during fiscal year 2013 that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance ("KEMI"). As a result the District's portion of the liability was estimated at \$127,858. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2016 with no interest. The following is a schedule by year of payments:

Year Ending	
2018	\$ 15,982
2019	15,982
2020	15,982
2021	15,983
	<u>\$ 63,929</u>

A summary of activity in bond obligations and other debts is as follows:

Description	Balance at June 30, 2016	Additions	Payments	Balance at June 30, 2017
General obligation bonds - \$28,025,000 originally issued with interest rates ranging from 0.0% to 4.3%	\$ 17,610,000	\$ 6,445,000	\$ 7,315,000	\$ 16,740,000
Discount on bonds	(37,299)	(15,535)	(2,157)	(50,677)
KISTA Loans with interest rates ranging from 1.0% to 4.0%	736,140	119,529	129,387	726,282
KSBIT Liability	79,911	-	15,982	63,929

Accumulated unpaid sick
leave benefits

174,843	37,722	-	212,565
<u>\$ 18,563,595</u>	<u>\$ 6,586,716</u>	<u>\$ 7,458,212</u>	<u>\$ 17,692,099</u>

(6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Governmental Activities				
Non-depreciable:				
Land	\$ 518,317	\$ -	\$ -	\$ 518,317
Construction in progress	25,320	498,371	-	523,691
Depreciable:				
Land improvements	1,066,761	-	-	1,066,761
Buildings and improvements	33,275,351	-	-	33,275,351
Technology equipment	2,049,939	102,510	83,151	2,069,298
General equipment	854,866	2,500	-	857,366
Vehicles	3,307,233	209,625	154,829	3,362,029
Totals	<u>41,097,787</u>	<u>813,006</u>	<u>237,980</u>	<u>41,672,813</u>
Less: accumulated depreciation				
Land improvements	894,094	27,102	-	921,196
Buildings and improvements	8,716,356	780,364	-	9,496,720
Technology equipment	1,566,832	218,172	82,670	1,702,334
General equipment	657,984	33,291	-	691,275
Vehicles	2,348,456	184,588	154,829	2,378,215
Total accumulated depreciation	<u>14,183,722</u>	<u>1,243,517</u>	<u>237,499</u>	<u>15,189,740</u>
Governmental Activities Capital Assets - Net	<u>\$ 26,914,065</u>	<u>\$ (430,511)</u>	<u>\$ 481</u>	<u>\$ 26,483,073</u>
Business-Type Activities				
Buildings and improvements	\$ 308,000	\$ -	\$ -	\$ 308,000
Food service and equipment	559,429	-	-	559,429
Technology equipment	14,492	2,037	-	16,529
Vehicles	-	19,995	-	19,995
	<u>881,921</u>	<u>22,032</u>	<u>-</u>	<u>903,953</u>
Less: accumulated depreciation				
Building and improvements	49,793	6,160	-	55,953
Food service and equipment	396,144	27,120	-	423,264
Technology equipment	9,078	2,604	-	11,682
Vehicles	-	1,000	-	1,000
	<u>455,015</u>	<u>36,884</u>	<u>-</u>	<u>491,899</u>
Business-Type Activities Capital Assets - Net	<u>\$ 426,906</u>	<u>\$ (14,852)</u>	<u>\$ -</u>	<u>\$ 412,054</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 328,915
Student support services	51,226
Instructional staff support services	26,729
District administration	25,504
School administration	5,362
Business support services	5,656
Plant operation & maintenance	615,008
Student transportation	185,117
	<u>\$ 1,243,517</u>

(7) COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of June 30, 2017, as follows:

<u>Year ending</u>	
2018	<u>\$ 15,646</u>

(8) RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description: Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (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 members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members 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 members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members 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, members 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 KTRS has been amended to change the benefit structure for members 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. Members 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 members 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 members and \$5,000 for retired or disabled members.

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

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount 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. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

KTRS - Medical Insurance Plan

Plan description: In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit 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 members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy: In order to fund the post-retirement healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2017, the District did not report a liability for its proportionate share of the net pension liability 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 State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net Pension liability	\$ -
Commonwealth's proportionate share of the Net Pension liability associated with the District	80,308,734
	<u>\$ 80,308,734</u>

The net pension liability was measured as of June 30, 2016, 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 was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June 30, 2016, the District's proportion was 0.2722%.

For the year ended June 30, 2016, the District recognized pension expense of \$6,542,503 and revenue of \$6,542,503 for support provided by the State.

Actuarial Methods and Assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	4.20%
Municipal Bond Index Rate	3.01%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

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 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 4.20%. 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 members until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. 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.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 4.20%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.20%) or 1-percentage-point higher (5.20%) than the current rate:

	<u>1% Decrease (3.20%)</u>	<u>Current discount rate (4.20%)</u>	<u>1% Increase (5.20%)</u>
Commonwealth's proportionate share of the Net Pension liability associated with the District	\$ 103,265,000	\$ 80,308,734	\$ 68,508,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report which is publically available at <http://www.ktrs.ky.gov/>.

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2017, employers were required to contribute 18.68% (13.95% - pension, 4.73% insurance) of the member's salary. During the year ending June 30, 2017, the District contributed \$369,903 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

Plan description: CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Funding policy: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2016 measurement period, CERS allocated 4.73% of the 18.68% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan.

Contributions: The District's total payroll for employees covered under CERS for the years ending June 30, 2017, 2016, and 2015 was \$2,651,634, \$2,739,498 and \$2,641,239, respectively. The District's contributions to CERS for the years ending June 30, 2017, 2016, and 2015 were \$125,422, \$129,578, and \$124,931, respectively, and equaled the actually required contributions for the year.

Funded status: The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

Total medical benefit obligation	000's omitted \$ 2,988,121
Net position available for benefits at actuarial value	(2,079,811)
Unfunded medical benefit obligation	<u>\$ 908,310</u>

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2016. At June 30 2016, the District's proportion was 0.114126%.

For the year ended June 30, 2017, the District recognized pension expense of \$835,000. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected actual experience	\$ 24,532	\$ -
Changes of assumptions	297,672	-
Net difference between projected and actual earnings on investments	528,256	-
Changes in proportion and differences between District contributions and proportionate share of contributions	159,659	-
District contributions subsequent to the measurement date	369,903	-
	<u>\$ 1,380,022</u>	<u>\$ -</u>

The \$369,903 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, 2018.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

Year	
2018	\$ 389,063
2019	284,559
2020	219,089
2021	117,408
	<u>\$ 1,010,119</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed

Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (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.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	<u>100.0%</u>	

Discount Rate: 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 members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate: The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 7,002,000	\$ 5,619,137	\$ 4,433,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2017, there was \$13,323 in payables to CERS.

(9) INSURANCE AND RELATED ACTIVITIES

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

(10) COMMITMENTS AND CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District has outstanding construction commitments of approximately \$5,000,000 at June 30, 2017 for the High School Renovation.

(11) 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 workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employer's Mutual 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. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. 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 purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management's opinion that the District is in compliance with the COBRA requirements.

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Technology Match	\$ 39,147
Operating	Building (FSPK)	Debt Service	Debt Service	820,031
Operating	Capital (SEEK)	General	Operating Expenses	260,000
Capital	Capital (SEEK)	Construction	Construction	28,294
Operating	Building (FSPK)	General	Operating Expenses	40,000
Capital	Building (FSPK)	Construction	Construction	265,977

(14) ON-BEHALF PAYMENTS

For the year ended June 30, 2017, total payments of \$4,245,190 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and SFCC debt service. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual.

On-behalf payments at June 30, 2017 consisted of the following:

Teacher Retirement	\$ 1,321,412
Health Insurance	2,077,995
Life Insurance	3,632
Admin Fee	28,860
HRA/Dental/Vision	151,287
Federal Reimbursement	(153,535)
Technology	57,647
Debt Service	757,892
Total on-behalf	<u><u>\$ 4,245,190</u></u>

(15) FUND DEFICIT

As of June 30, 2017, the Child Care Fund had a negative net position of \$18,842. This deficit resulted from the recording of the fund's proportionate share of the net pension liability in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

REQUIRED SUPPLEMENTARY INFORMATION

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Reporting Fiscal Year (Measurement Date)</u> 2017 (2016)	<u>Reporting Fiscal Year (Measurement Date)</u> 2016 (2015)	<u>Reporting Fiscal Year (Measurement Date)</u> 2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
District's proportion of the net pension liability	0.114%	0.112%	0.106%
District's proportionate share of the net pension liability	\$ 5,619,137	\$ 4,804,458	\$ 3,425,000
District's covered-employee payroll	\$ 2,651,634	\$ 2,641,239	\$ 2,421,900
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	211.912%	181.902%	141.418%
Plan fiduciary net position as a percentage of the total pension liability	55.500%	59.970%	66.800%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:			
District's proportion of the net pension liability	0.272%	0.271%	0.269%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	80,308,734	62,972,694	55,311,681
Total	<u>\$ 80,308,734</u>	<u>\$ 62,972,694</u>	<u>\$ 55,311,681</u>
District's covered-employee payroll	\$ 9,239,972	\$ 8,831,710	\$ 8,435,447
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	35.220%	42.490%	45.590%

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

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:				
Contractually required contribution	\$ 369,903	\$ 340,237	\$ 336,776	\$ 332,783
Contributions in relation to the contractually required contribution	<u>369,903</u>	<u>340,237</u>	<u>336,776</u>	<u>332,783</u>
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$2,651,634	\$2,739,498	\$2,641,239	\$2,421,900
District's contributions as a percentage of its covered-employee payroll	13.95%	12.42%	12.75%	13.74%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$9,239,972	\$9,015,981	\$8,831,710	\$8,435,447
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%

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

**BATH COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2017**

(1) CHANGES OF ASSUMPTIONS

KTRS

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables 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.

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

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

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.0% to 8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the

unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

SUPPLEMENTARY INFORMATION

**BATH COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	District Activity Fund	SEEK Funds	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 69,089	\$ 88,146	\$ 20,380	\$ -	\$ 177,615
Accounts receivable	-	-	-	-	-
Total assets	<u>\$ 69,089</u>	<u>\$ 88,146</u>	<u>\$ 20,380</u>	<u>\$ -</u>	<u>\$ 177,615</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 14,500	\$ -	\$ 14,500
Total liabilities	<u>-</u>	<u>-</u>	<u>14,500</u>	<u>-</u>	<u>14,500</u>
Fund Balances:					
Restricted	-	88,146	5,880	-	94,026
Committed	69,089	-	-	-	69,089
Total fund balance	<u>69,089</u>	<u>88,146</u>	<u>5,880</u>	<u>-</u>	<u>163,115</u>
Total liabilities and fund balances	<u>\$ 69,089</u>	<u>\$ 88,146</u>	<u>\$ 20,380</u>	<u>\$ -</u>	<u>\$ 177,615</u>

**BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	District Activity Fund	SEEK Funds	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:					
From local sources -					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Other local revenues	75,488	-	-	-	75,488
Interest income	-	-	20,007	-	20,007
Intergovernmental - State	-	186,406	-	757,892	944,298
Intergovernmental - Federal	-	-	-	-	-
Total revenues	<u>75,488</u>	<u>186,406</u>	<u>20,007</u>	<u>757,892</u>	<u>1,039,793</u>
EXPENDITURES:					
Current -					
Instruction	87,614	-	-	-	87,614
Student support services	228	-	-	-	228
Instructional staff support services	11,716	-	-	-	11,716
Student transportation	2,410	-	-	-	2,410
Facilities acquisition and construction	-	-	502,859	-	502,859
Debt service	-	-	-	1,642,165	1,642,165
Total expenditures	<u>101,968</u>	<u>-</u>	<u>502,859</u>	<u>1,642,165</u>	<u>2,246,992</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(26,480)</u>	<u>186,406</u>	<u>(482,852)</u>	<u>(884,273)</u>	<u>(1,207,199)</u>
OTHER FINANCING SOURCES (USES):					
Bond proceeds	-	-	-	6,445,000	6,445,000
Payment to bond escrow agent	-	-	-	(6,380,758)	(6,380,758)
Operating transfers in	-	-	294,271	820,031	1,114,302
Operating transfers out	-	(288,294)	-	-	(288,294)
Total other financing sources (uses)	<u>-</u>	<u>(288,294)</u>	<u>294,271</u>	<u>884,273</u>	<u>890,250</u>
NET CHANGE IN FUND BALANCES	<u>(26,480)</u>	<u>(101,888)</u>	<u>(188,581)</u>	<u>-</u>	<u>(316,949)</u>
FUND BALANCE JUNE 30, 2016	<u>95,569</u>	<u>190,034</u>	<u>194,461</u>	<u>-</u>	<u>480,064</u>
FUND BALANCE JUNE 30, 2017	<u>\$ 69,089</u>	<u>\$ 88,146</u>	<u>\$ 5,880</u>	<u>\$ -</u>	<u>\$ 163,115</u>

**BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2017**

	Child Care Fund	Preschool Fund	Total Other Proprietary Funds
ASSETS:			
Cash and cash equivalents	\$ -	\$ 13,086	\$ 13,086
Accounts receivable	12,767	-	12,767
Total assets	<u>\$ 12,767</u>	<u>\$ 13,086</u>	<u>\$ 25,853</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows - pension related	46,797	-	46,797
Total deferred outflows of resources	46,797	-	46,797
Total assets and deferred outflows of resources	<u>\$ 59,564</u>	<u>\$ 13,086</u>	<u>\$ 72,650</u>
LIABILITIES AND NET POSITION:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	2,929	-	2,929
Net pension liability	75,477	-	75,477
Total liabilities	<u>78,406</u>	<u>-</u>	<u>78,406</u>
Net Position:			
Assigned	-	-	-
Restricted	(18,842)	13,086	(5,756)
Total net position	<u>(18,842)</u>	<u>13,086</u>	<u>(5,756)</u>
Total liabilities and net position	<u>\$ 59,564</u>	<u>\$ 13,086</u>	<u>\$ 72,650</u>

**BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Child Care Fund	Preschool Funds	Total Other Proprietary Funds
Operating revenues:			
Tuition from individuals	\$ 102,588	\$ 12,560	\$ 115,148
Revenue from local sources	35,332	-	35,332
Revenue from state sources	-	-	-
Total operating revenues	<u>137,920</u>	<u>12,560</u>	<u>150,480</u>
Operating expenses:			
Salaries and wages	98,025	-	98,025
Employee benefits	63,967	-	63,967
Materials and supplies	10,873	10,302	21,175
Other operating expenses	925	3,294	4,219
Total operating expenses	<u>173,790</u>	<u>13,596</u>	<u>187,386</u>
Operating income	<u>(35,870)</u>	<u>(1,036)</u>	<u>(36,906)</u>
Nonoperating revenues :			
Federal grants	6,785	-	6,785
On-behalf payments	20,600	-	20,600
Total nonoperating revenue	<u>27,385</u>	<u>-</u>	<u>27,385</u>
Increase (decrease) in net position	(8,485)	(1,036)	(9,521)
Net position, June 30, 2016	<u>(10,357)</u>	<u>14,122</u>	<u>3,765</u>
Net position, June 30, 2017	<u>\$ (18,842)</u>	<u>\$ 13,086</u>	<u>\$ (5,756)</u>

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Cash Balance June 30, 2016	Receipts	Disbursements	Cash Balance June 30, 2017	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2017
Bath County High School	\$ 135,167	\$ 265,857	\$ 264,282	\$ 136,742	\$ -	\$ -	\$ 136,742
Bath County Middle School	36,100	105,097	99,820	41,377	-	-	41,377
Owingsville Elementary	16,389	58,788	56,399	18,778	-	-	18,778
Crossroads Elementary	25,028	61,887	67,305	19,610	-	-	19,610
	<u>\$ 212,684</u>	<u>\$ 491,629</u>	<u>\$ 487,806</u>	<u>\$ 216,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 216,507</u>

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BATH COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2017**

	Cash Balance June 30, 2016	Receipts	Disburse- ments	Cash Balance June 30, 2017	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2017
General	\$ 7,237	\$ 11,693	\$ 7,234	11,696	\$ -	\$ 11,696
Guidance	2,901	716	736	2,881	-	2,881
Student Government	120	114	-	234	-	234
Talented and gifted	673	-	-	673	-	673
Senior trip	346	49,488	48,326	1,508	-	1,508
After Prom	792	5,915	5,684	1,023	-	1,023
Faculty	1,987	1,757	2,277	1,467	-	1,467
Beta Club	2,402	5,810	5,294	2,918	-	2,918
FBLA	3,268	6,755	6,124	3,899	-	3,899
FCCLA	3,164	6,150	6,238	3,076	-	3,076
FFA	2,949	1,640	1,300	3,289	-	3,289
FEA	328	284	264	348	-	348
TSA	361	150	-	511	-	511
FCA	130	-	-	130	-	130
AG-Science	4,017	35	-	4,052	-	4,052
Art	561	2,300	1,934	927	-	927
Band	296	7,144	6,780	660	-	660
Drama	459	-	-	459	-	459
Strategic Gaming	318	600	895	23	-	23
Hort	30,589	12,613	26,893	16,309	-	16,309
Journalism	8,049	1,285	1,440	7,894	-	7,894
World Language	-	1,045	1,043	2	-	2
Health/Science	415	4,622	5,001	36	-	36
Humanities	3	-	-	3	-	3
Consumer Science	45	229	229	45	-	45
Language Arts	84	1,075	830	329	-	329
Athletics	17,759	58,601	54,065	22,295	-	22,295
Baseball	2,829	2,350	3,754	1,425	-	1,425
Boys basketball	772	2,250	2,344	678	-	678
Cheerleaders	1,860	500	1,928	432	-	432
Boys Cross Country	1,330	2,041	1,335	2,036	-	2,036
Football	2,380	1,963	3,717	626	-	626
Girls Cross Country	1,310	2,042	1,335	2,017	-	2,017
Girls Basketball	430	2,192	1,221	1,401	-	1,401
Girls Softball	4,047	10,254	7,136	7,165	-	7,165
Girls Track	1,800	4,948	2,971	3,777	-	3,777
Boys Golf	175	665	575	265	-	265
Girls Golf	1,109	500	772	837	-	837
Bass Fishing	-	1,550	534	1,016	-	1,016
Boys Soccer	134	1,493	504	1,123	-	1,123
Girls Soccer	477	1,659	942	1,194	-	1,194
Boys Track	119	3,517	1,864	1,772	-	1,772
Girls Volleyball	898	500	763	635	-	635
Junior Class	4,439	23,056	21,930	5,565	-	5,565
Sophomore Class	1,427	8,693	8,904	1,216	-	1,216
Senior Class	12,905	12,416	13,871	11,450	-	11,450
Freshman Class	-	3,247	3,247	-	-	-
Youth Service Center	6,686	-	2,048	4,638	-	4,638
Backpack	787	-	-	787	-	787
	<u>\$ 135,167</u>	<u>\$ 265,857</u>	<u>\$ 264,282</u>	<u>\$ 136,742</u>	<u>\$ -</u>	<u>\$ 136,742</u>

BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Passed through to Subrecipients	Expenditures
<u>U.S. Department of Education</u>					
Passed through State Department of Education:					
Title I Grants to Local Educational Agencies	84.010	310002-14	\$ 787,685	\$ -	\$ 3,175 *
Title I Grants to Local Educational Agencies	84.010	310002-15	872,706	-	287,719 *
Title I Grants, School Improvement (Part A)	84.010	310002-16	857,099	-	587,302 *
				-	878,196
Special Education Cluster (IDEA):					
Special Education Grants to States - IDEA, Part B	84.027	3810002-15	431,034	-	60,196
Special Education Grants to States - IDEA, Part B	84.027	3810002-16	447,461	-	352,334
Special Education Preschool Grants	84.173	3800002-15	29,619	-	5,922
Special Education Preschool Grants	84.173	3800002-16	29,619	-	23,098
				-	441,550
Title VI - Rural & Low Income	84.358	3140002-15	40,841	-	3,586
Title VI - Rural & Low Income	84.358	3140002-16	43,698	-	41,757
				-	45,343
Improving Teacher Quality State Grants	84.367	3230002-15	238,178	-	84,650
Improving Teacher Quality State Grants	84.367	3230003-15	238,178	-	86,964
Improving Teacher Quality State Grants	84.367	3230002-16	113,685	-	61,502
				-	233,116
Vocational Education Basic Grants to States	84.048	3710002-15	30,703	-	1,975
Vocational Education Basic Grants to States	84.048	3710002-16	28,030	-	26,942
				-	28,917
Total U.S. Department of Education				-	1,627,122
<u>U.S. Department of Agriculture</u>					
Pass-through State Department of Education:					
Cash Assistance:					
State Administrative Expense	10.560	7700001-15	-	-	-
Child and Adult Care Food Program	10.558	7800016-16	-	-	124
Child and Adult Care Food Program	10.558	7800016-17	-	-	152
Child and Adult Care Food Program	10.558	7790021-16	-	-	750
Child and Adult Care Food Program	10.558	7790021-17	-	-	5,759
				-	6,785
Child Nutrition Cluster:					
National School Lunch Program	10.555	7750002-16	-	-	197,840
National School Lunch Program	10.555	7750002-17	-	-	710,583
Summer Food Service Program for Children	10.559	7690024-16	-	-	792
Summer Food Service Program for Children	10.559	7740023-16	-	-	7,626
Summer Food Service Program for Children	10.559	7740023-17	-	-	24,322
School Breakfast Program	10.553	7760005-16	-	-	111,600
School Breakfast Program	10.553	7760005-17	-	-	385,611
Cash Assistance Subtotal				-	1,438,374
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555	4000810	-	-	83,768
Total Child Nutrition Cluster				-	1,522,142
Total U.S. Department of Agriculture				-	1,528,927
Total expenditures of Federal awards				\$ -	\$ 3,156,049

* Denotes major program.

The accompanying notes are an integral part of this schedule.

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2017**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Bath County School District under the programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Bath County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the organization had total inventory of \$4,041.

NOTE D - INDIRECT COST RATES

The District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.




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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 19, 2017.

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.

Kelley Holloway Smith Goolsby, PSC

Ashland, Kentucky
October 19, 2017




Kelley Galloway
Smith Goolsby, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Bath County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. Bath County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bath County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kelley Holloway Smith Hobbs, PSC

Ashland, Kentucky
October 19, 2017

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

(A) SUMMARY OF AUDIT RESULTS

Type of report the auditor issued on whether
the financial statements audited were prepared
in accordance with GAAP:

Unmodified

Internal Control over financial reporting:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies)
identified?

_____ yes x none reported

Noncompliance material to the financial
statements noted?

_____ yes x no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ yes x no

Significant deficiency(ies)
identified?

_____ yes x none reported

Type of auditor's report issued on
compliance for major federal programs:

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)?

_____ yes x no

Identification of major federal programs:

Title I Grants (84.010)

Dollar threshold to distinguish between Type A
and Type B Programs:

 \$ 750,000

The District qualified as a low risk auditee

 x yes _____ no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

BATH COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

There were no findings in the prior year.

BATH COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2017

No corrective action plan needed in the current year.




**Kelley Galloway
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Kentucky State Committee for School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

In planning and performing our audit of the financial statements of Bath County School District (the "District") as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our 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.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 19, 2017, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District 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.

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 19, 2017

BATH COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2017

2017-1 Bath County High School & Bath County Middle School Booster Clubs

Statement of Condition: We noted that booster club semi-annual and Annual Financial Reports were not being submitted to the high school or middle school on a timely basis.

Criteria for Condition: Semi-annual and Annual Financial Reports of each of the booster clubs should be prepared and submitted to the school within 30 days of month-end.

Cause of Condition: Oversight.

Effect of the Condition: Semi-annual and Annual Financial Reports of the booster clubs were not available on a timely basis.

Recommendation of the Condition: We recommend that more care be taken to ensure that the semi-annual and Annual Financial Reports are prepared on a timely basis.

Management Response: Board Policy, 04.312, addresses all the requirements for semi-annual and Annual Financial Reports for submission to the schools. The District shall reinforce the guidelines within the policy. Booster groups will be communicated with regularly to receive the proper reports on a timely basis.

2017-2 Owingsville Elementary Credit Card Sign In/Out Log

Statement of Condition: We noted two instances in which the credit card log was not signed by the person witnessing the return of the card.

Criteria for Condition: Form F-SA-13 (Credit Card Sign In/Out Log) required by the *2013 Redbook*.

Cause of Condition: Oversight.

Effect of the Condition: Credit cards can potentially be lost or stolen if custody is not properly maintained and documented.

Recommendation of the Condition: We recommend that more care be taken to ensure that all credit cards are properly logged back in upon return.

Management Response: Board Policy, 04.31, addresses the authority/administration of board credit card processes. The District shall reinforce the guidelines within the policy and will ensure proper log in/out procedures of the credit cards.

Status of Prior Year Management Points

The prior year conditions have been implemented and corrected, except 2016-1 was repeated as 2017-1 above. The Superintendent is the person responsible for initiation of the optional corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.