

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2017

TABLE OF CONTENTS

Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 5
Basic Financial Statements	
<i>Government-wide Financial Statements</i>	
Statement of Net Position.....	6
Statement of Activities.....	7
<i>Fund Financial Statements</i>	
Balance Sheet – Governmental Funds	8
Reconciliation of Total Government Fund Balances to Net Position of Governmental Activities	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	11
Statement of Net Position – Proprietary Fund	12
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	13
Statement of Cash Flows – Proprietary Fund	14
Statement of Fiduciary Net Position – Fiduciary Fund.....	15
Notes to the Financial Statements.....	16 - 35
Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund	36
Combining Balance Sheet – Nonmajor Governmental Funds.....	37
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Nonmajor Governmental Funds.....	38
Schedule of District's Proportionate Share of the Net Pension Liability – County Employees Retirement System	39
Schedule of District's Contributions – County Employees Retirement System.....	40
Schedule of District's Proportionate Share of the Net Pension Liability – Kentucky Teachers Retirement System	41
Schedule of District's Contributions – Kentucky Teachers Retirement System	42
Statement of Receipts and Disbursements – School Activity Fund.....	43
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters required by Government Auditing Standards	44 - 45
Schedule of Prior Year Audit Findings	46
Management Letter Transmittal.....	47
Management Letter Comments	48- 50

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

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 Southgate Independent School District (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. 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.

Opinion

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 District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

In our opinion, the combining and individual nonmajor fund financial statements 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 November 6, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

November 6, 2017

As management of the Southgate Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2017 are as follows:

- The beginning cash balance for all funds of the District, excluding agency funds, was \$849,352 and the ending balance was \$1,010,761; an increase of \$161,409 for the year.
- The District's long-term debt decreased by \$70,000 due to principal payments made during the year.
- The General Fund had \$2,098,637 in revenues and \$1,934,533 in expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) 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 (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, and operation of non-instructional services.

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. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. The only proprietary fund is the food service fund. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. All other activities of the District are included in the governmental funds.

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.

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 \$1,489,375 at year end.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings and improvements, and equipment less any related debt used to acquire those assets. 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 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.

Net position for the period ending June 30, 2017

	June 30, 2017	June 30, 2016
Current assets	\$ 1,127,122	\$ 923,154
Non-current assets	1,827,064	1,902,593
Total assets	2,954,186	2,825,747
Deferred outflows	132,847	61,547
Current liabilities	149,404	113,085
Non-current liabilities	1,464,589	1,493,667
Total liabilities	1,613,993	1,606,752
Deferred inflows	13,153	20,979
Net investment in capital assets	860,229	837,593
Restricted	80,650	78,607
Unrestricted	548,496	343,363
Total net position	\$ 1,489,375	\$ 1,259,563

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

The District's total general fund revenue was \$2,098,637 compared to budgeted revenue of \$1,501,769. The favorable variance is mainly due to on-behalf payments which are not budgeted.

General Fund actual expenditures were \$1,934,533 compared to budgeted expenditures of \$2,238,258. The favorable variance is mainly due the budgeted contingency.

The following table presents a summary of revenue and expense of total governmental funds for the year ended June 30, 2017:

	June 30, 2017	June 30, 2016
Revenues and other sources:		
Local revenue	\$ 1,239,452	\$ 1,233,857
State/federal revenue	1,427,828	1,249,164
Investments	6,724	2,514
Total revenues	<u>\$ 2,674,004</u>	<u>\$ 2,485,535</u>
Expenditures:		
Instruction	\$ 1,590,896	\$ 1,360,692
Student support	51,075	45,951
Instruction staff	58,466	66,212
District administrative	285,360	259,929
School administrative	152,581	144,733
Business support	37,741	26,282
Plant operations and maintenance	221,238	182,891
Debt service	44,325	117,825
Total expenditures	<u>\$ 2,441,682</u>	<u>\$ 2,204,515</u>

General Fund Expenditures

The District expended approximately 64% of total expenditures for instruction. The remaining 36% was expended mainly for support services and plant operation and maintenance.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with a contingency of \$312,105 (14%). The beginning general fund cash balance for the next fiscal year is \$925,524.

Contacting the District's Financial Management

Questions about this report should be directed to the Superintendent at (859) 441-0743 or by mail at 6 William Blatt Avenue, Southgate, Kentucky 41071.

Southgate Independent School District
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Special Revenue	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 925,524		\$ 50,448	\$ 34,789	\$ 1,010,761
Receivables:					
Taxes	16,955		831		17,786
Intergovernmental - federal	<u>0</u>	<u>98,575</u>	<u></u>	<u></u>	<u>98,575</u>
Total assets	<u>\$ 942,479</u>	<u>\$ 98,575</u>	<u>\$ 51,279</u>	<u>\$ 34,789</u>	<u>\$ 1,127,122</u>
Liabilities:					
Accounts payable	\$ 6,279	\$ 389			\$ 6,668
Cash deficit balance	<u>0</u>	<u>66,866</u>	<u></u>	<u></u>	<u>66,866</u>
Total liabilities	<u>6,279</u>	<u>67,255</u>	<u>0</u>	<u>0</u>	<u>73,534</u>
Deferred inflows of resources:					
Deferred revenue	<u>0</u>	<u>31,320</u>	<u></u>	<u></u>	<u>31,320</u>
Total deferred inflows of resources	<u>0</u>	<u>31,320</u>	<u>0</u>	<u>0</u>	<u>31,320</u>
Fund balances:					
Restricted	0		51,279	34,789	86,068
Assigned for sick leave	25,882				25,882
Unassigned	<u>910,318</u>	<u></u>	<u>0</u>	<u>0</u>	<u>910,318</u>
Total fund balances	<u>936,200</u>	<u>0</u>	<u>51,279</u>	<u>34,789</u>	<u>1,022,268</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 942,479</u>	<u>\$ 98,575</u>	<u>\$ 51,279</u>	<u>\$ 34,789</u>	<u>\$ 1,127,122</u>

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

Southgate Independent School District
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 1,010,761	\$	\$ 1,010,761
Receivables:			
Taxes	17,786		17,786
Intergovernmental - federal	98,575		98,575
Inventory		1,323	1,323
Capital assets, net	1,827,064	28,165	1,855,229
Total assets	2,954,186	29,488	2,983,674
Deferred Outflows			
Related to pensions	132,847	0	132,847
Liabilities:			
Accounts payable	6,668	272	6,940
Checks issued in excess of account balance	66,866	6,469	73,335
Accrued interest payable	44,325		44,325
Unearned revenue	24,804		24,804
Net pension liability	329,589		329,589
Long-term liabilities:			
Due within one year	70,000		70,000
Due in more than one year	1,065,000		1,065,000
Total liabilities	1,607,252	6,741	1,613,993
Deferred inflows			
Related to pensions	13,153	0	13,153
Net position:			
Net investment in capital assets	832,064	28,165	860,229
Restricted for:			
Capital projects	86,068	(5,418)	80,650
Unrestricted	548,496		548,496
Total net position	\$ 1,466,628	\$ 22,747	\$ 1,489,375

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

Southgate Independent School District
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction	\$ 1,590,896		\$ 395,132		\$ (1,195,764)		\$ (1,195,764)
Support services:							
Student	51,075				(51,075)		(51,075)
Instruction staff	58,466				(58,466)		(58,466)
District administrative	285,360				(285,360)		(285,360)
School administrative	152,581				(152,581)		(152,581)
Business support	37,741				(37,741)		(37,741)
Plant operation and maintenance	221,238				(221,238)		(221,238)
Interest on long-term debt	44,325			35,255	(9,070)		(9,070)
Total governmental activities	2,441,682	0	395,132	35,255	(2,011,295)	0	(2,011,295)
Business-type activities:							
Food service	103,180	1,388	99,272			(2,520)	(2,520)
Total business-type activities	103,180	1,388	99,272	0	0	(2,520)	(2,520)
Total District	\$ 2,544,862	\$ 1,388	\$ 494,404	\$ 35,255	(2,011,295)	(2,520)	(2,013,815)
General Revenues:							
Property taxes					1,046,663		1,046,663
Motor vehicle taxes					72,646		72,646
Utilities tax					116,281		116,281
State aid					997,441		997,441
Investment earnings					6,724	10	6,734
Other revenues					3,862		3,862
Total general revenues					2,243,617	10	2,243,627
Change in net position					232,322	(2,510)	229,812
Net position - beginning of year					1,234,306	25,257	1,259,563
Net position - end of year					\$ 1,466,628	\$ 22,747	\$ 1,489,375

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

Southgate Independent School District
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2017

Total governmental fund balances	\$	1,022,268
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		1,827,064
Deferred bond costs are not available to pay for current period expenditures and therefore are deferred in the funds		6,516
Deferred inflows and outflows related to pensions are not reported in the funds		
Deferred outflows related to pensions		132,847
Deferred inflows related to pensions		(13,153)
Certain liabilities are not due and payable from current resources and therefore are not reported in the funds		
Net pension liability		(329,589)
Long-term liabilities		(1,135,000)
Accrued interest payable		(44,325)
Net position of governmental activities	\$	<u>1,466,628</u>

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

Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	General Fund	Special Revenue	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 990,605		\$ 56,058	\$ 0	\$ 1,046,663
Motor vehicle	64,316		8,329	0	72,645
Utilities	116,281			0	116,281
Earnings on investments	6,126		379	219	6,724
Other local revenue	1,000	2,862		0	3,862
Intergovernmental - State	515,008	195,387	7,248	16,048	733,691
Intergovernmental - State on behalf	395,132			35,255	430,387
Intergovernmental - Indirect federal	10,169	253,581		0	263,750
Total revenues	<u>2,098,637</u>	<u>451,830</u>	<u>72,014</u>	<u>51,522</u>	<u>2,674,003</u>
Expenditures:					
Instruction	1,161,676	421,318			1,582,994
Support services:					
Student	21,074	30,000			51,074
Instruction staff	55,331	3,135			58,466
District administrative	284,892	468			285,360
School administrative	152,581				152,581
Business support	37,742				37,742
Plant operation and maintenance	221,237				221,237
Debt service:					
Principal				70,000	70,000
Interest				46,075	46,075
Total expenditures	<u>1,934,533</u>	<u>454,921</u>	<u>0</u>	<u>116,075</u>	<u>2,505,529</u>
Excess of revenues over (under) expenditures	<u>164,104</u>	<u>(3,091)</u>	<u>72,014</u>	<u>(64,553)</u>	<u>168,474</u>
Other financing sources (uses):					
Transfers in		3,091		80,820	83,911
Transfers out	<u>(3,091)</u>		<u>(69,636)</u>	<u>(11,184)</u>	<u>(83,911)</u>
Total other financing sources (uses)	<u>(3,091)</u>	<u>3,091</u>	<u>(69,636)</u>	<u>69,636</u>	<u>0</u>
Net change in fund balances	161,013	0	2,378	5,083	168,474
Fund balances - beginning of year	<u>775,187</u>	<u>0</u>	<u>48,901</u>	<u>29,706</u>	<u>853,794</u>
Fund balances - end of year	<u>\$ 936,200</u>	<u>\$ 0</u>	<u>\$ 51,279</u>	<u>\$ 34,789</u>	<u>\$ 1,022,268</u>

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

Southgate Independent 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	\$	168,474
--	----	---------

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 asset additions	27,693
Depreciation expense	(73,799)

Government funds report board pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned is reported as pension expense

38,204

Certain expense such as interest expense are reported in the governmental funds as expended but are recorded in the statement of activities when due

1,750

Repayment of debt principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the statement of net position

70,000

Change in net position of governmental activities	\$	<u>232,322</u>
---	----	----------------

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

Southgate Independent School District
Statement of Net Position
Proprietary Fund
June 30, 2017

Assets:

Current assets:

Inventory	\$ 1,323
Total current assets	<u>1,323</u>

Noncurrent assets:

Capital assets, net	<u>28,165</u>
Total noncurrent assets	<u>28,165</u>

Total assets	<u><u>\$ 29,488</u></u>
--------------	-------------------------

Liabilities:

Current liabilities:

Accounts payable	\$ 272
Checks issued in excess of account balance	<u>6,469</u>
Total current liabilities	<u>6,741</u>

Total liabilities	<u>6,741</u>
-------------------	--------------

Net position:

Net investment in capital assets	28,165
Restricted	<u>(5,418)</u>
Total net position	<u>22,747</u>

Total liabilities and net position	<u><u>\$ 29,488</u></u>
------------------------------------	-------------------------

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

Southgate Independent School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2017

Operating revenues	
Lunchroom sales	\$ 1,388
Total operating revenues	<u>1,388</u>
Operating expenses	
Salaries and wages	31,136
Employee benefits	22,695
Materials and supplies	36,084
Depreciation	4,302
Other operating expenses	<u>8,963</u>
Total operating expenses	<u>103,180</u>
Operating loss	<u>(101,792)</u>
Nonoperating revenues	
Federal grants	83,563
Donated commodities	0
Intergovernmental - State	1,042
Intergovernmental - State on behalf	14,667
Interest income	<u>10</u>
Total nonoperating revenues	<u>99,282</u>
Change in net position	(2,510)
Net position - beginning of year	<u>25,257</u>
Net position - end of year	<u>\$ 22,747</u>

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

Southgate Independent School District
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

Cash flows from operating activities:

Cash received from:

Lunchroom sales	\$ 1,388
-----------------	----------

Cash paid for:

Employees	(53,831)
-----------	----------

Suppliers for goods and services	(36,445)
----------------------------------	----------

Other activities	(8,963)
------------------	---------

Net cash used for operating activities	<u>(97,851)</u>
--	-----------------

Cash flows from noncapital financing activities:

Government grants	<u>99,272</u>
-------------------	---------------

Net cash provided by noncapital financing activities	<u>99,272</u>
--	---------------

Cash flows from capital and related financing activities

Purchases of capital assets	<u>(3,044)</u>
-----------------------------	----------------

Net cash flows used for capital and related financing activities	<u>(3,044)</u>
--	----------------

Cash flows from investing activities:

Interest income received	<u>10</u>
--------------------------	-----------

Net cash flows provided by investing activities	<u>10</u>
---	-----------

Net decrease in cash and cash equivalents	(1,613)
---	---------

Cash and cash equivalents, beginning of year	<u>(4,856)</u>
--	----------------

Cash and cash equivalents, end of year	<u><u>\$ (6,469)</u></u>
--	--------------------------

Reconciliation of operating loss to net cash used for operating activities:

Operating loss	\$ (101,792)
----------------	--------------

Adjustments to reconcile operating loss to net cash used for operating activities:

Depreciation	4,302
--------------	-------

Change in inventory	633
---------------------	-----

Change in accounts payable	<u>(272)</u>
----------------------------	--------------

Net cash used for operating activities	<u><u>\$ (97,129)</u></u>
--	---------------------------

Non-cash items:

On-behalf payments	\$ 14,667
--------------------	-----------

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

Southgate Independent School District
Statement of Fiduciary Net Position
June 30, 2017

Assets:

Cash and cash equivalents	<u>\$ 3,430</u>
Total assets	<u><u>\$ 3,430</u></u>

Liabilities:

Due to student groups	<u>\$ 3,430</u>
Total liabilities	<u><u>\$ 3,430</u></u>

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

NOTE 1 – ACCOUNTING POLICIES

A. The Reporting Entity

The Southgate Independent Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Southgate Independent Board of Education (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 by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Southgate Independent Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with the Board; such as Band Boosters, Parent-Teacher Associations, and others. The financial statements of the District include those 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:

Southgate Independent Board of Education Finance Corporation. – In 1992 the Board resolved to authorize the establishment of the Southgate Independent Board of Education Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Board Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

B. Basis of Presentation

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

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

The statement of net position presents the financial condition of the governmental and business-type activities of the District at year end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program

and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses related to water and sewer operations. All revenues not meeting these definitions are reported as nonoperating revenues and expenses.

C. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflow, liabilities, and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky. This is a major fund of the District

Special Revenue Grant Fund – The special revenue fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as 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

Building Fund - This fund 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.

Proprietary Fund Types (Enterprise Fund)

Food Service Fund – This food service fund accounts 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.

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

Fiduciary Fund Types (Agency Fund)

The Agency Fund accounts for activities for 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.

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Like the government-wide financial statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

E. 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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the 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, for which the District must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future operating period.

Property taxes not received within the available period and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues. The measurement focus of governmental fund accounting is on the 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 measureable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

F. Property Taxes

Property taxes are levied in September on the assessed value listed as of the prior January 1 for all the 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 \$1.061 per \$100 valuation for real property, \$1.061 per \$100 for business real property, and \$0.504 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of gross receipts derived from telephone communication services, cablevision services, electric power, water, and gas furnished within the District's boundaries.

G. 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. The District's infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both 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 disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the District's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25 – 50 Years
Land improvements	20 Years
Technology	5 Years
Vehicles	5 – 10 Years
General equipment	15 Years
Food service equipment	10 – 12 Years

H. Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as "due from/to other funds". These amounts are eliminated in the governmental and business-type activity columns of the statement of net position, except any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Accumulated Unpaid Sick Leave Benefits

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

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

J. Budgetary Process

Budgetary Basis of Accounting - The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and GAAP basis are: (1) revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); and (2) expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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

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

K. Cash and Cash Equivalents

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

L. Inventories

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

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

N. Fund Balance Classification

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of District Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless District Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of District Council.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

O. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component of “net investment in capital assets”, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position

restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Operating Revenues and Expenses

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

Q. 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 basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

R. Subsequent Events

The Board has evaluated subsequent events for potential recognition and disclosure through November 6, 2017, the date the financial statements were available to be issued.

NOTE 2 – 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 the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

At year end the carrying amount of the District's total cash and cash equivalents was \$940,856 which was covered by Federal Deposit Insurance Corporation ("FDIC") insurance and by collateral agreements and collateral held by the pledging bank's trust department in the District's name

Cash and cash equivalents at June 30, 2017 consisted of the following

	Book Balance	Bank Balance
General checking	\$ 937,426	\$ 1,010,792
School activity	3,430	3,560
	<u>\$ 940,856</u>	<u>\$ 1,014,352</u>

Breakdown per financial statements

Governmental funds	\$ 1,010,761
Cash deficit funds	(66,866)
Proprietary fund	(6,469)
Agency fund	3,430
	<u>\$ 940,856</u>

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2017, all of the District's deposits are insured by the FDIC or covered by security pledges.

SPACE INTENTIONALLY LEFT BLANK

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 – CAPITAL ASSETS

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

	Balance 7/1/2016	Additions	Deductions	Balance 6/30/2017
Governmental Activities				
Land	\$ 9,750	\$ 0	\$ 0	\$ 9,750
Buildings and improvements	2,404,764	0	0	2,404,764
Technology equipmentmt	299,383	27,693	0	327,076
General equipment	70,126	0	0	70,126
Construction in progress	-	0	0	0
Total cost	<u>2,784,023</u>	<u>27,693</u>	<u>0</u>	<u>2,811,716</u>
Less Accumulated Depreciation				
Buildings and improvements	651,233	47,435	0	698,668
Technology equipmentmt	247,687	21,551	0	269,238
General equipment	11,933	4,813	0	16,746
Total accumulated depreciation	<u>910,853</u>	<u>73,799</u>	<u>0</u>	<u>984,652</u>
Governmental activities capital assets, net	<u>\$ 1,873,170</u>	<u>\$ (46,106)</u>	<u>\$ 0</u>	<u>\$ 1,827,064</u>
Business-type Activities				
Technology equipment	\$ 1,545	\$ 0	\$ 0	\$ 1,545
Food service equipment	63,800	3,044	0	66,844
Total cost	<u>65,345</u>	<u>3,044</u>	<u>0</u>	<u>68,389</u>
Less Accumulated Depreciation				
Technology equipment	1,545	0	0	1,545
Food service equipment	34,377	4,302	0	38,679
Total accumulated depreciation	<u>35,922</u>	<u>4,302</u>	<u>0</u>	<u>40,224</u>
Business-type capital assets, net	<u>\$ 29,423</u>	<u>\$ (1,258)</u>	<u>\$ 0</u>	<u>\$ 28,165</u>

Depreciation was charged to governmental activities functions as follows:

Instruction	\$ 73,799
Student support	0
Instructional staff	0
District administration	0
School administration	0
Plant operations	0
Community service	0
	<u>\$ 73,799</u>

NOTE 5 – BONDED DEBT AND LEASED OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligation to make lease payments relating to the bonds issued by the Southgate Independent School District Financial Corporation aggregating \$1,420,000.

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>
2002	\$ 535,000	3.60%
2011	\$ 1,355,000	2.00% - 4.50%

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

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (the "Commission"). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

SPACE INTENTIONALLY LEFT BLANK

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District and the Commission at June 30, 2017 for debt service (principal and interest) are as follows:

Fiscal Years Ending June 30	District		Commission		Total
	Principal	Interest	Principal	Interest	
2018	\$ 49,188	\$ 29,881	\$ 20,812	\$ 14,444	\$ 114,325
2019	48,668	28,652	21,332	13,923	112,575
2020	48,135	27,435	21,865	13,390	110,825
2021	47,588	26,232	22,412	12,843	109,075
2022	46,691	24,328	23,309	11,947	106,275
2023	50,759	22,460	24,241	11,015	108,475
2024	54,789	20,430	25,211	10,045	110,475
2025	58,781	18,239	26,219	9,037	112,276
2026	57,732	15,887	27,268	7,988	108,875
2027	56,573	13,432	28,427	6,829	105,261
2028	60,365	11,029	29,635	5,621	106,650
2029	59,106	8,464	30,896	4,361	102,827
2030	62,715	5,804	32,285	2,971	103,775
2031	66,263	2,982	33,735	1,518	104,498
	<u>\$ 767,353</u>	<u>\$ 255,255</u>	<u>\$ 367,647</u>	<u>\$ 125,932</u>	<u>\$ 1,516,187</u>

The schedule of changes in the District's bond obligations for the year ended June 30, 2017 is as follows:

	Outstanding July 1, 2016	Additions	Repayments	Outstanding June 30, 2017	Amounts Expected to be Paid Within One Year
Bonds payable	<u>\$ 1,205,000</u>	<u>\$ -</u>	<u>\$ 70,000</u>	<u>\$ 1,135,000</u>	<u>\$ 70,000</u>

NOTE 6 – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has no operating lease for equipment as of June 30, 2017.

NOTE 7 – RETIREMENT PLANS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the

contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

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

Medical Insurance Plan

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

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

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

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

The net pension liability for each plan 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.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Board's proportionate share of the CERS net pension liability	\$ 329,589
Commonwealth's proportionate share of the KTRS net pension liability associated with the Board	<u>9,240,614</u>
	<u><u>\$ 9,570,203</u></u>

The Board's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.0067% percent.

For the year ended June 30, 2017, the Board recognized pension expense of \$36,327 related to CERS and \$152,047 related to KTRS. The Board also recognized revenue of \$152,047 for KTRS support provided by the Commonwealth. At June 30, 2017, the Board 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 and actual experience	\$ 1,439	\$ 0
Changes of assumptions	17,460	0
Net difference between projected and actual earnings on pension plan investments	30,985	0
Changes in proportion and differences between Board contributions and proportionate share of contributions	0	13,153
Board contributions subsequent to the measurement date	<u>28,983</u>	<u>0</u>
	<u><u>\$ 78,867</u></u>	<u><u>\$ 13,153</u></u>

\$28,983 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	9,977
2019	\$	9,977
2020	\$	9,977
2021	\$	9,977
2022	\$	9,976

Actuarial 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:

	CERS	KTRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0 - 8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

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

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

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

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
Board's proportionate share of net pension liability	\$ 285,644	\$ 329,589	\$ 373,534
KTRS	6.50%	7.50%	8.50%
Board's proportionate share of net pension liability	\$ 0	\$ 0	\$ 0

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

NOTE 8 – CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 9 – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company. In addition, the District has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

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.

Management estimates that the amount of actual or potential claims against the District as of June 30, 2017 will not materially affect the financial condition of the District. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded insurance coverage amounts in any of the past three fiscal years.

NOTE 10 – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss. District management believes it is in compliance with the COBRA requirements.

NOTE 11 – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 3,091
Operating	Capital Outlay	Debt Service	Debt Service	11,184
Operating	Building Fund	Debt Service	Debt Service	69,636
				<u>\$ 83,911</u>

NOTE 12 – ON-BEHALF PAYMENTS

For the year ended June 30, 2017 payments of \$445,055 were made by the Commonwealth of Kentucky on behalf of the District for insurance benefits, retirement benefits, technology, and debt service. The following amounts were recorded in the Statement of Activities and the Statement of Revenue, Expenditures, and Changes in Fund Balance:

Insurance	\$ 220,011
Retirement	152,047
Technology	37,742
Debt service	<u>35,255</u>
Total received from Commonwealth of Kentucky	<u>\$ 445,055</u>

Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
From local sources:				
Taxes:				
Property	\$ 950,523	\$ 950,523	\$ 990,605	\$ 40,082
Motor vehicle	46,070	46,070	64,316	18,246
Utilities	100,000	100,000	116,281	16,281
Earnings on investments	400	400	6,126	5,726
Other local revenue	0	0	1,000	1,000
Intergovernmental - State	404,776	404,776	515,008	110,232
Intergovernmental - State on behalf	0	0	395,132	395,132
Intergovernmental - Indirect federal	0	0	10,169	10,169
Total revenues	<u>1,501,769</u>	<u>1,501,769</u>	<u>2,098,637</u>	<u>596,868</u>
Expenditures:				
Instruction	970,386	970,386	1,161,676	(191,290)
Support services:				
Student	22,061	22,061	21,074	987
Instruction staff	103,074	103,074	55,331	47,743
District administrative	263,419	263,419	284,892	(21,473)
School administrative	127,644	127,644	152,581	(24,937)
Business support	0	0	37,742	(37,742)
Plant operation and maintenance	439,569	439,569	221,237	218,332
Other (contingency)	312,105	312,105	0	312,105
Total expenditures	<u>2,238,258</u>	<u>2,238,258</u>	<u>1,934,533</u>	<u>303,725</u>
Excess of Revenues Over (Under) Expenditures	(736,489)	(736,489)	164,104	900,593
Other financing sources (uses):				
Transfer in	0	0	0	0
Transfers out	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,091)</u>	<u>(91)</u>
Total other financing sources (uses)	<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,091)</u>	<u>(91)</u>
Net change in fund balances	(739,489)	(739,489)	161,013	900,502
Budgetary fund balance - beginning of year	739,489	739,489	749,305	
Budgetary fund balance - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 910,318</u>	<u>\$ 900,502</u>

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

Southgate Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ 16,357	\$ 18,432	\$ 0	\$ 34,789
Receivables:				
Taxes				0
Accounts				0
Intergovernmental - federal				0
Total assets	<u>\$ 16,357</u>	<u>\$ 18,432</u>	<u>\$ 0</u>	<u>\$ 34,789</u>
Liabilities:				
Accounts payable				\$ 0
Cash deficit balance				0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Deferred inflows of resources:				
Unavailable taxes				0
Unearned revenue				0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:				
Restricted	16,357	18,432	0	34,789
Unassigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total fund balances	<u>16,357</u>	<u>18,432</u>	<u>0</u>	<u>34,789</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,357</u>	<u>\$ 18,432</u>	<u>\$ 0</u>	<u>\$ 34,789</u>

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

Southgate Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Capital Outlay Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property				\$ 0
Motor vehicle				0
Utilities				0
Earnings on investments	105	114		219
Other local revenue				0
Intergovernmental - State	16,048			16,048
Intergovernmental - State on behalf			35,255	35,255
Intergovernmental - Indirect federal				0
Total revenues	<u>16,153</u>	<u>114</u>	<u>35,255</u>	<u>51,522</u>
Expenditures:				
Instruction				0
Support services:				
Student				0
Instruction staff				0
District administrative				0
School administrative				0
Plant operation and maintenance				0
Debt service				
Principal			70,000	70,000
Interest			46,075	46,075
Total expenditures	<u>0</u>	<u>0</u>	<u>116,075</u>	<u>116,075</u>
Excess of revenues over (under) expenditures	<u>16,153</u>	<u>114</u>	<u>(80,820)</u>	<u>(64,553)</u>
Other financing sources (uses):				
Transfers in			80,820	80,820
Transfers out	(11,184)			(11,184)
Total other financing sources (uses)	<u>(11,184)</u>	<u>0</u>	<u>80,820</u>	<u>69,636</u>
Net change in fund balances	4,969	114	0	5,083
Fund balances - beginning of year	<u>11,388</u>	<u>18,318</u>	<u>0</u>	<u>29,706</u>
Fund balances - end of year	<u>\$ 16,357</u>	<u>\$ 18,432</u>	<u>\$ 0</u>	<u>\$ 34,789</u>

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

Southgate Independent School District
Statement of Receipts, Disbursements, and Cash Balances
Activity Funds
For the Year Ended June 30, 2017

Fund Name	Cash Balance July 1, 2016	Receipts	Disbursements	Cash Balance June 30, 2017
Preschool	\$ 252	\$ 507	\$ 602	\$ 157
Kindergarten	286	145	154	277
First grade	483	195	155	523
Second grade	199	175	155	219
Third grade	198	107	155	150
Fourth grade	277			277
Fifth grade	35			35
Sixth grade	15			15
Seventh grade	10			10
Eighth grade	234		143	91
Eighth grade trip	926	1,737	2,322	341
Band	574	588	602	560
NKOA		4,750	4,743	7
Student needs	191		82	109
Library	165	1,653	1,662	156
Yearbook	-	156	1,445	(1,289)
Office	1,632	6,511	6,621	1,522
Student services	91			91
Dreamfest	10	106	139	(23)
Art	196			196
GOTR	6			6
Total	<u>\$ 5,780</u>	<u>\$ 16,630</u>	<u>\$ 18,980</u>	<u>\$ 3,430</u>

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

Southgate Independent School District
Schedule of District's Proportionate Share of the Net Pension Liability
County Employees Retirement System
June 30, 2017

Last Ten Fiscal Years*

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
District's proportion of the net pension liability	0.008%	0.006714%	0.006701%
District's proportionate share of the net pension liability	\$ 276,336	\$ 288,667	\$ 329,589
District's covered employee payroll	\$ 172,689	\$ 117,069	\$ 101,809
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	160.02%	246.58%	323.73%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%

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

Southgate Independent School District
Schedule of District Contributions
County Employees Retirement System
June 30, 2017

Last Ten Fiscal Years*

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Contractually required contribution	\$ 32,621	\$ 19,972	\$ 19,018
Contributions in relation to the contractually required contribution	<u>32,621</u>	<u>19,972</u>	<u>19,018</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 172,689	\$ 117,069	\$ 101,809
Contributions as a percentage of covered-employee payroll	18.89%	17.06%	18.68%

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

Southgate Independent School District
Schedule of Commonwealth of Kentucky's Proportionate Share of the
Net Pension Liability - Kentucky Teachers Retirement System
June 30, 2017

Last Ten Fiscal Years*

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Commonwealth of Kentucky's proportion of the net pension liability	0.04%	0.03%	0.03%
Commonwealth of Kentucky's proportionate share of the net pension liability	\$ 7,434,525	\$ 6,992,493	\$ 9,240,614
Plan fiduciary net position as a percentage of the total pension liability	45.59%	55.30%	35.22%

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

Southgate Independent School District
Schedule of Commonwealth of Kentucky's Contributions
County Employees Retirement System
June 30, 2017

Last Ten Fiscal Years*

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Statutorily required contribution	\$ 175,176	\$ 144,616	\$ 152,047
Contributions in relation to the statutorily required contribution	<u>175,176</u>	<u>144,616</u>	<u>152,047</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Southgate Independent School District
Schedule of Prior Year Audit Findings
June 30, 2017

There were no audit findings in the prior year.

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

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Southgate Independent School District's basic financial statements and have issued our report thereon dated November 6, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 Southgate Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are

required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated November 6, 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

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

November 6, 2017

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

In planning and performing our audit of the financial statements of Southgate Independent School District (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 of the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion 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 November 6, 2017 on the financial statements of the District.

We will review the status of these comments during our next audit engagement.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
November 6, 2017

PRIOR YEAR COMMENTS

2016-01 Segregation of Duties

Criteria: internal controls are policies and procedures that when put into practice allows management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. One internal control is the segregation of duties.

Condition: Duties are not adequately segregated.

Cause: The District, due to its size, does not have enough employees to completely segregate duties.

Effect: Strong internal control was not achieved.

Recommendation: We recommend the district implement policies that improve existing internal controls.

Response: The following are procedures have been implemented:

Closely Review the District Treasurer's Monthly Report.

The Finance Officer prepares all monthly reports. The Finance Officer and Treasurer review all Monthly Reports in detail prior to being presented to the Board of Education each month by the Treasurer. Highlights of the Monthly Financial Reports are reviewed with the Board prior to the Board's approval.

Closely Review and Approve All Disbursements.

Electronic Purchase Requests are submitted by staff ordering supplies, equipment or services to their supervising administrator by e-mail. The supervising administrator verifies availability and source of funds and if approved forwards the e-mail with a statement of approval to the Finance Officer. The Finance Officer issues a Purchase Order and returns the Purchase Order to the staff member who orders the materials. When the materials arrive the staff member checks the packing slips for accuracy and forwards signed copies to the Finance Officer. The Finance Officer matches the packing slips with invoices received and processes payments using standard invoice documents. The Finance Officer and the Superintendent/Treasurer sign the Standard Invoices after reviewing the vendor invoices. The Finance Officer prepares all invoices for payment and issues checks for vendors. Orders of the Treasure are prepared each month for Board approval. After approval by the Board checks are signed by the Superintendent/Treasurer and the Chairman of the Board of Education. After Board approval the checks are mailed to vendors. This process involves several approval levels that make it very difficult for fraud or misuse of funds.

Closely Monitor and Investigate all significant variations between the approved budget and actual cash receipts and disbursements.

As stated above, the Finance Officer and Superintendent/Treasurer meet each month to review all Monthly Financial Reports before presentation to the Board of Education for approval.

Significant differences between budget amounts and actual receipt/expenditure amounts are pointed out and documented. Regarding receipts, actual revenue received may often exceed the budgeted amount because of conservative budget levels for revenue to avoid potential shortfalls because of poor tax collection rate or state revenue shortfalls that may affect SEEK income. Regarding expenditures, disbursements exceeding budget levels are rare but always reviewed and noted. This often occurs because funds are budgeted in one area of MUNIS coding and actual expenses are required to be reported in an unbudgeted area when the expense was not expected for that year. Total amounts budgeted for each function area are always compared to actual expenses in the function to assure Contingency levels are within requirements and recommended guidelines. This process makes fraud or misuse of funds less likely.

CURRENT YEAR COMMENTS

2017-01 Activity Fund

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines that require multiple receipts be used when collecting money and requires student signatures for students in 3rd grade or above.

Condition: Multiple receipt form F-SA-6 was not being utilized.

Cause: District personnel were not aware of the multiple receipt form requirement.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that school personnel use the multiple receipt form for collecting money from students.

Response: In the future school personnel will use the multiple receipt F-SA-6 form for collecting money to comply with Red Book guidelines.

2017-02 Activity Fund

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines for standard invoices that required the activity fund that is being charged for the invoice be documented on the form.

Condition: The activity fund was not recorded on form F-SA-8.

Cause: District personnel were not following Red Book guidelines.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that school personnel document the activity fund on all invoices.

Response: In the future school personnel will indicate the specific fund in the activity account affected by the expenditure by recording it on the F-SA-9 document.