

SPENCER COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2017

SPENCER COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits and
Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky 40071

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (the "District"), as of and for the year ended June 30, 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 on the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District, as of June 30, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2017, the District adopted Governmental Accounting Standards Board Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement 77, *Tax Abatement Disclosures*, Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*, and Statement 81, *Irrevocable Split-Interest Agreements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4 – 10 and 47 – 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements, school activity funds, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, school activity funds, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2017, on our consideration of Spencer County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spencer County School District's internal control over financial reporting and compliance.

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
October 30, 2017

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

As management of the Spencer County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District for the year ended June 30, 2017 (FY17) was \$14.3 million, including a construction fund cash balance of \$5.3 million, and a building fund cash balance of \$4.4 million.
- The District has no industrial tax base. The District’s property tax base is derived from residential growth and assessments. Property assessment values grew 2.4%. The District levied FY17 property tax rates of 63.7 cents per \$100 for real estate and tangible property. This rate reflects an increase of .7 cents above the FY16 rate of 63 cents. The motor vehicle rate of 56 cents per \$100 of assessed value and the 3% utility tax rate remained unchanged from FY16.
- The District ended FY17 with an unassigned fund balance in the general fund of approximately \$3.6 million, reflecting a slight (.5%) increase over the previous year. The unassigned fund balance approximates an 18.6% contingency.
- Bonds are issued as the District constructs and/or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education’s stringent compliance regulations. The District’s bond debt was reduced \$1.3 million in FY17.
- The District’s major construction projects for FY17 included the construction of the new Taylorsville Elementary School. Construction of the school continued into FY18 with the school opening in August 2017. The District received approval from the Kentucky Department of Education to build a new Academic/Athletics Building at the Spencer County High School with a projected cost of \$4.5 million and a Bus/Maintenance Garage with a projected cost of \$2.4 million. In addition, the District received approval of a Capital Funds Request in the amount of \$1.2 million for the purchase of 5.4 acres adjoining the Spencer County High School property and for the expansion of and improvements to the athletic fields, tracks and courts.
- Employees received a 1.5% pay increase in addition to normal step and rank increases.
- The District purchased three new buses in FY17 utilizing general fund cash, resulting in future interest expense savings of approximately \$34,000. The District has \$1.1 million in KISTA school bus debt scheduled to expire in FY26.
- As the District enters into FY18, budget concerns are focused on Kentucky’s pension crisis and the financial impact legislative actions will have on K-12 funding.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the District’s assets and liabilities, including capital assets as well as long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

the liability incurred. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$14.1 million as of June 30, 2017.

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

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

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

Net Position

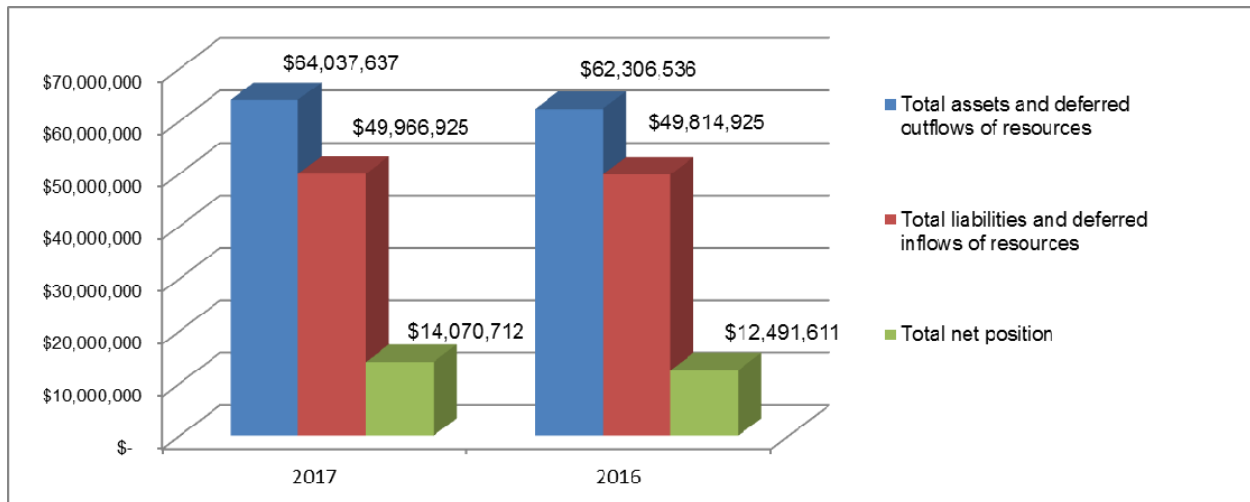
The 2017 Government-wide net position compared to 2016 is as follows:

**Net Position
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 15,021,418	\$ 27,504,521	\$ 321,409	\$ 315,148	\$ 15,342,827	\$ 27,819,669
Capital assets	46,119,903	32,436,412	101,630	150,581	46,221,533	32,586,993
Total assets	61,141,321	59,940,933	423,039	465,729	61,564,360	60,406,662
Deferred outflows of resources	2,175,281	1,707,737	297,996	192,137	2,473,277	1,899,874
Long-term obligations	45,005,374	46,267,572	1,237,115	977,330	46,242,489	47,244,902
Other liabilities	3,685,019	2,074,810	39,417	30,413	3,724,436	2,105,223
Total liabilities	48,690,393	48,342,382	1,276,532	1,007,743	49,966,925	49,350,125
Deferred inflows of resources	-	402,052	-	62,748	-	464,800
Net position:						
Net investment in capital assets	6,692,803	(8,676,995)	101,630	150,581	6,794,433	(8,526,414)
Restricted	9,078,959	22,465,574	-	-	9,078,959	22,465,574
Unrestricted	(1,145,553)	(884,343)	(657,127)	(563,206)	(1,802,680)	(1,447,549)
Total net position	\$ 14,626,209	\$ 12,904,236	\$ (555,497)	\$ (412,625)	\$ 14,070,712	\$ 12,491,611

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

- Capital assets increased approximately \$13.6 million due to current year depreciation of \$1.2 million offset by FY2017 additions of approximately \$14.8 million primarily as a result of construction costs related to the new Taylorsville Elementary School and buses.
- Total long-term obligations for bonds decreased approximately \$1.3 million as a result of regularly schedules principal payments. Also, the District paid \$38,718 toward a claim related to outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT). The District's proportionate share of CERS reported net pension liability increased approximately \$1.73 million during fiscal year 2017. As of June 30, 2017, the District's proportionate share of the CERS net pension liability was \$8.28 million (as actuarially determined by CERS).



SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2017 and 2016.

**Changes in Net Position
(Table 2)**

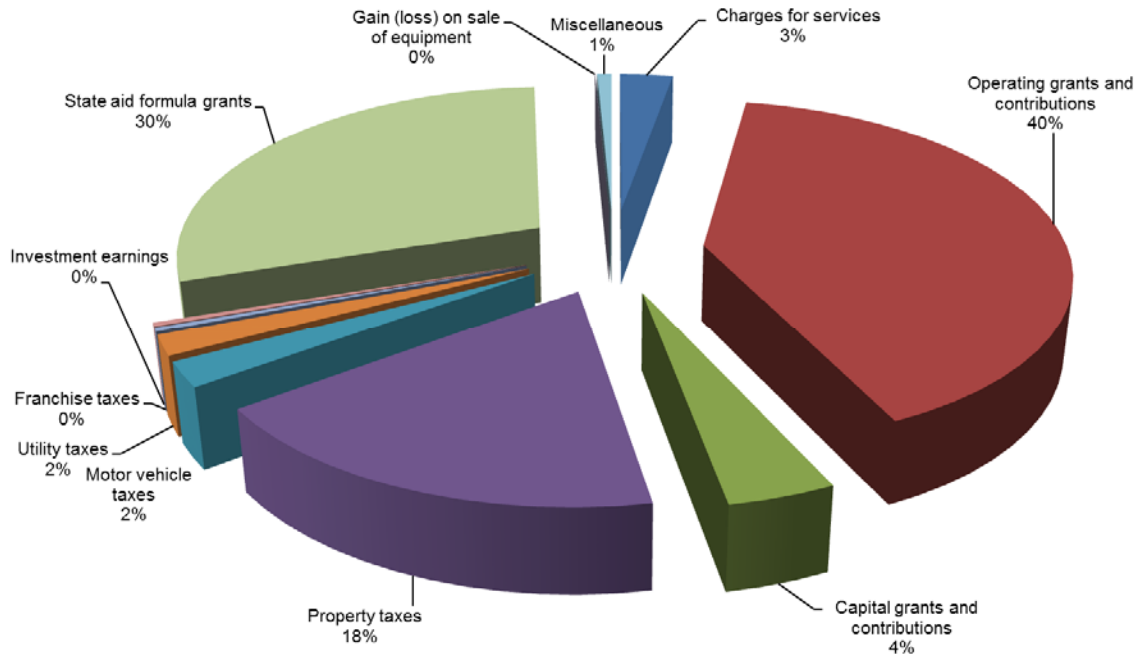
	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	(Restated) 2016	2017	(Restated) 2016	2017	2016
REVENUES						
Program Revenues						
Charges for services	\$ 233,330	\$ 200,082	\$ 815,506	\$ 802,073	\$ 1,048,836	\$ 1,002,155
Operating grants and contributions	14,311,992	10,166,795	996,113	975,808	15,308,105	11,142,603
Capital grants and contributions	1,523,647	1,353,460	-	-	1,523,647	1,353,460
General Revenues						
Property taxes	6,782,395	6,578,378	-	-	6,782,395	6,578,378
Motor vehicle taxes	870,884	818,239	-	-	870,884	818,239
Utility taxes	705,892	707,458	-	-	705,892	707,458
Franchise taxes	133,216	166,332	-	-	133,216	166,332
Investment earnings	139,900	56,905	2,590	1,263	142,490	58,168
State aid formula grants	11,151,314	11,023,981	-	-	11,151,314	11,023,981
Gain (loss) on sale of equipment	4,137	(1,857)	-	-	4,137	(1,857)
Miscellaneous	275,984	495,883	11,226	-	287,210	495,883
Total revenues	36,132,691	31,565,656	1,825,435	1,779,144	37,958,126	33,344,800
EXPENSES						
Program Activities						
Instruction	22,326,614	18,326,679	-	-	22,326,614	18,326,679
Student support	1,384,081	1,242,462	-	-	1,384,081	1,242,462
Instruction staff support	1,653,633	1,670,594	-	-	1,653,633	1,670,594
District administration support	762,490	770,506	-	-	762,490	770,506
School administrative support	1,629,849	1,677,603	-	-	1,629,849	1,677,603
Business support	765,428	819,576	-	-	765,428	819,576
Plant operation and maintenance	2,362,303	2,804,248	-	-	2,362,303	2,804,248
Adult education	67,761	68,081	-	-	67,761	68,081
Student transportation	2,163,267	2,282,549	-	-	2,163,267	2,282,549
Community service activities	177,498	178,824	-	-	177,498	178,824
Other	-	-	-	-	-	-
Interest on long-term debt	1,174,116	908,544	-	-	1,174,116	908,544
Business-type Activities						
Food service	-	-	1,511,569	1,556,399	1,511,569	1,556,399
Child care	-	-	400,416	417,959	400,416	417,959
Total expenses	34,467,040	30,749,666	1,911,985	1,974,358	36,379,025	32,724,024
Transfers	56,322	30,185	(56,322)	(30,185)	-	-
CHANGE IN NET POSITION	\$ 1,721,973	\$ 846,175	\$ (142,872)	\$ (225,399)	\$ 1,579,101	\$ 620,776

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

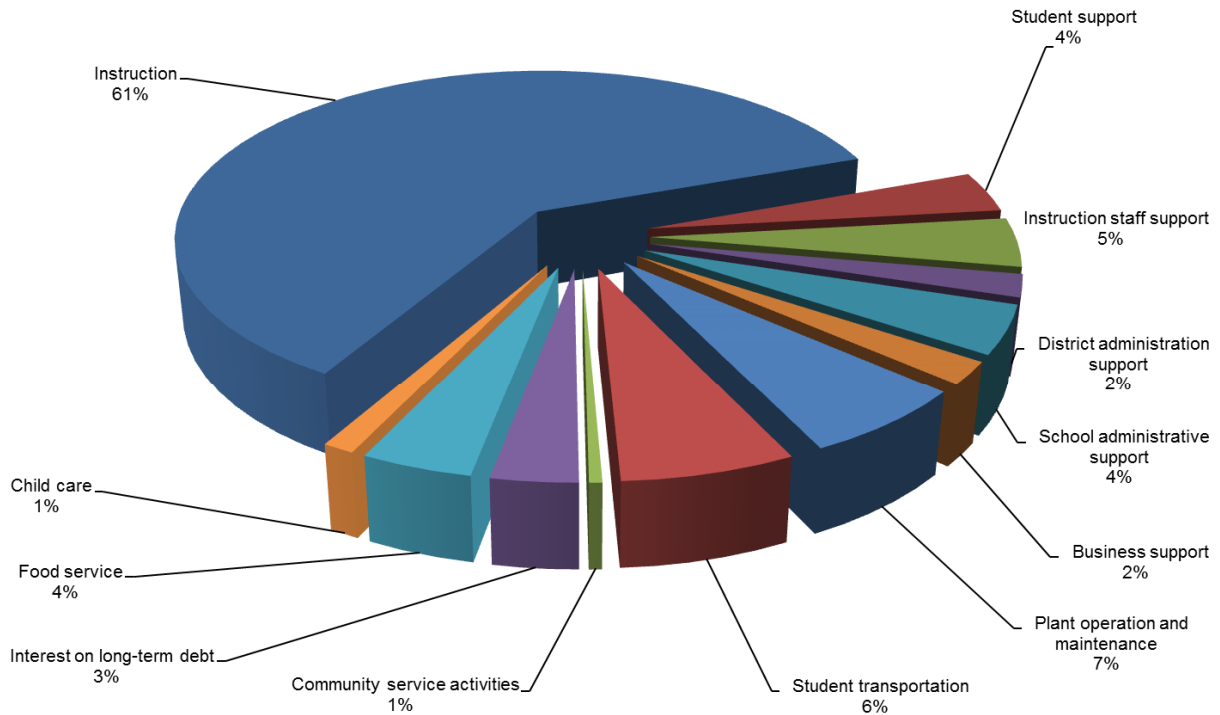
- Total revenues increased approximately \$4.6 million primarily due to increases in operating grants and contributions (\$4.1 million increase) related to additional on-behalf revenues recorded for the increase in the TRS net pension liability increase; additional increases in property tax revenues; and approximately \$127,000 increase in state aid grants.
- Total expenses increased approximately \$3.7 million as a result of increases additional on-behalf revenues recorded for the increase in the TRS net pension liability (\$4.0 million increase); increases of approximately \$266,000 in interest expense; offset by decreases in Plant Operations and Maintenance (\$442,000 decrease).

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

The following provides a breakdown of total primary government revenues for the year ending June 30, 2017:



The following provides a breakdown of total primary government expenses for the year ending June 30, 2017:



SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

Capital Assets

At the end of fiscal year 2017, the School District had approximately \$46.2 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2017 and 2016 balances.

Capital Assets, Net of Depreciation
(Table 3)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Land	\$ 677,346	\$ 677,346	\$ -	\$ -	\$ 677,346	\$ 677,346
Buildings and improvements	27,597,990	28,430,337	-	-	27,597,990	28,430,337
Technology Equipment	23,459	49,865	-	699	23,459	50,564
Vehicles	1,417,706	1,344,358	-	-	1,417,706	1,344,358
General equipment	206,843	226,839	101,630	149,882	308,473	376,721
Total	29,923,344	30,728,745	101,630	150,581	30,024,974	30,879,326
Construction in process	16,196,559	1,707,667	-	-	16,196,559	1,707,667
Total	\$ 46,119,903	\$ 32,436,412	\$ 101,630	\$ 150,581	\$ 46,221,533	\$ 32,586,993

The following were major additions and capital assets placed in service during fiscal year 2017:

Buses \$ 272,910

The District also spent \$14,488,892 for construction and related costs for the new Taylorsville Elementary school. The amounts were added to construction in process as of June 30, 2017.

Debt

At June 30, 2017, the School District had \$39,150,000 in bonds outstanding. Of this amount, \$3,211,175 is to be paid by the Kentucky School Facility Construction Commission. A total of \$1,910,000 is due within one year.

General Fund – Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at approximately \$22.4 million with actual amounts of approximately \$22.6 million. Budgeted expenditures of approximately \$26.5 million compare with actual expenditures of approximately \$22.6 million. The most significant fluctuation is in the other category for \$3.0 million budget for contingency that was not needed. Additional significant variances from budgeted amounts include: (1) plant operation and maintenance expenditures fell below budget by approximately \$287,000 and (2) student transportation where expenditures fell below budget by approximately \$270,000.

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

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2017

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal, operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget for 2016-2017 with a contingency that exceeded the 2% minimum. The District has adopted a budget for 2017-2018 with a contingency that exceeds the 2% requirement.

ADDITIONAL CONTACT INFORMATION

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

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2017

	Governmental Activities	Business- Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 14,087,253	\$ 259,473	\$ 14,346,726
Inventory	-	38,419	38,419
Receivables:			
Taxes-current	223,594	-	223,594
Taxes-delinquent	6,272	-	6,272
Other receivables	68,225	10,823	79,048
Intergovernmental-State	16,357	-	16,357
Intergovernmental-Indirect Federal	232,689	12,694	245,383
Prepays	387,028	-	387,028
Total Current Assets	15,021,418	321,409	15,342,827
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	16,873,905	-	16,873,905
Depreciable capital assets, net of accumulated depreciation	29,245,998	101,630	29,347,628
Total Noncurrent Assets	46,119,903	101,630	46,221,533
Total Assets	\$ 61,141,321	\$ 423,039	\$ 61,564,360
Deferred Outflows of Resources			
Deferred amount on debt refundings	\$ 478,614	\$ -	\$ 478,614
CERS	1,696,667	297,996	1,994,663
Total Deferred Outflows of Resources	\$ 2,175,281	\$ 297,996	\$ 2,473,277
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 975,563	\$ 8,872	\$ 984,435
Accrued liabilities	63,483	17,311	80,794
Unearned revenue	147,742	13,234	160,976
Bond obligations	1,910,000	-	1,910,000
Capital leases payable	210,711	-	210,711
Claims payable - KSBIT	38,718	-	38,718
Compensated absences	2,237	-	2,237
Interest payable	220,411	-	220,411
Total Current Liabilities	3,568,865	39,417	3,608,282
<u>Noncurrent Liabilities</u>			
Bond obligations	36,896,399	-	36,896,399
Capital leases payable	888,604	-	888,604
Claims payable - KSBIT	116,154	-	116,154
Compensated absences	176,736	-	176,736
Net pension liability - CERS	7,043,635	1,237,115	8,280,750
Total Noncurrent Liabilities	45,121,528	1,237,115	46,358,643
Total Liabilities	\$ 48,690,393	\$ 1,276,532	\$ 49,966,925
<u>Net Position</u>			
Net investment in capital assets	\$ 11,140,468	\$ 101,630	\$ 11,242,098
Restricted	4,631,294	-	4,631,294
Unrestricted	(1,145,553)	(657,127)	(1,802,680)
Total Net Position	\$ 14,626,209	\$ (555,497)	\$ 14,070,712

The notes to financial statements are an integral part of the statements.

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

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	22,326,614	189,511	12,968,767	-	\$ (9,168,336)	\$ -	\$ (9,168,336)
Support services:							
Student	1,384,081	-	280,791	-	(1,103,290)	-	(1,103,290)
Instruction staff	1,653,633	-	304,134	-	(1,349,499)	-	(1,349,499)
District administrative	762,490	-	57,481	-	(705,009)	-	(705,009)
School administrative	1,629,849	-	311,518	-	(1,318,331)	-	(1,318,331)
Business	765,428	-	82,705	-	(682,723)	-	(682,723)
Plant operation and maintenance	2,362,303	-	121,526	-	(2,240,777)	-	(2,240,777)
Student transportation	2,163,267	11,508	185,070	-	(1,966,689)	-	(1,966,689)
Community service activities	177,498	-	-	-	(177,498)	-	(177,498)
Other	67,761	32,311	-	-	(35,450)	-	(35,450)
Facilities acquisition and construction	-	-	-	1,069,960	1,069,960	-	1,069,960
Interest on long-term debt	1,174,116	-	-	453,687	(720,429)	-	(720,429)
Total Governmental Activities	34,467,040	233,330	14,311,992	1,523,647	(18,398,071)	-	(18,398,071)
Business-Type Activities:							
Food service	1,511,569	490,794	948,369	-	-	(72,406)	(72,406)
Daycare	400,416	324,712	47,744	-	-	(27,960)	(27,960)
Total Business-Type Activities	1,911,985	815,506	996,113	-	-	(100,366)	(100,366)
Total Primary Government	<u>\$ 36,379,025</u>	<u>\$ 1,048,836</u>	<u>\$ 15,308,105</u>	<u>\$ 1,523,647</u>	(18,398,071)	(100,366)	(18,498,437)
General Revenues:							
Taxes:							
Property taxes					6,782,395	-	6,782,395
Motor vehicle taxes					870,884	-	870,884
Utility taxes					705,892	-	705,892
Other taxes					133,216	-	133,216
Investment earnings					139,900	2,590	142,490
Gain on disposal of capital assets					4,137	-	4,137
State and formula grants					11,151,314	-	11,151,314
Miscellaneous					275,984	11,226	287,210
Total general revenues					<u>20,063,722</u>	<u>13,816</u>	<u>20,077,538</u>
Transfers					<u>56,322</u>	<u>(56,322)</u>	-
Change in net position					1,721,973	(142,872)	1,579,101
Net position - beginning					<u>12,904,236</u>	<u>(412,625)</u>	<u>12,491,611</u>
Net position - ending					<u>\$ 14,626,209</u>	<u>\$ (555,497)</u>	<u>\$ 14,070,712</u>

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2017

	General Fund	Special Revenue	Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 4,187,329	\$ -	5,330,280	\$ 4,360,243	\$ 209,401	\$ 14,087,253
Due from other funds	7,598	-	-	-	-	7,598
Receivables:						
Taxes - current	223,594	-	-	-	-	223,594
Taxes - delinquent	6,272	-	-	-	-	6,272
Other receivables	39,580	27,668	45	-	932	68,225
Intergovernmental - State	-	16,357	-	-	-	16,357
Intergovernmental - Indirect Federal	13,438	219,251	-	-	-	232,689
Prepays	387,028	-	-	-	-	387,028
Total Assets	\$ 4,864,839	\$ 263,276	\$ 5,330,325	\$ 4,360,243	\$ 210,333	\$ 15,029,016
Liabilities and Fund Balances:						
Liabilities						
Due to other funds	\$ -	\$ 7,598	\$ -	\$ -	\$ -	\$ 7,598
Accounts payable	76,469	10,720	882,660	-	5,714	975,563
Accrued liabilities	32,700	30,784	-	-	-	63,484
Claims payable	38,718	-	-	-	-	38,718
Compensated absences	2,237	-	-	-	-	2,237
Unearned revenue	-	147,742	-	-	-	147,742
Total Liabilities	150,124	196,844	882,660	-	5,714	1,235,342
Fund Balances						
Nonspendable	387,028	-	-	-	-	387,028
Restricted	-	66,432	4,447,665	4,360,243	204,619	9,078,959
Committed	475,250	-	-	-	-	475,250
Assigned	213,204	-	-	-	-	213,204
Unassigned	3,639,233	-	-	-	-	3,639,233
Total Fund Balances	4,714,715	66,432	4,447,665	4,360,243	204,619	13,793,674
Total Liabilities and Fund Balances	\$ 4,864,839	\$ 263,276	\$ 5,330,325	\$ 4,360,243	\$ 210,333	\$ 15,029,016

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

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

JUNE 30, 2017

Total fund balance per fund financial statements	\$ 13,793,674
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	46,119,903
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Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	478,614
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Governmental funds do not record deferred outflows of resources for pensions but those are reported on the statement of net position as deferred outflows of resources.	1,696,667
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Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:

Bonds payable (net of discounts/premiums)	(38,806,399)
Interest payable	(220,411)
Capital lease obligations	(1,099,315)
Long-term portion of claims payable KSBIT	(116,153)
Compensated absences	(176,736)
Net pension liability - CERS	<u>(7,043,635)</u>

Net position for governmental activities	<u><u>\$ 14,626,209</u></u>
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The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Special Revenue	Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes:						
Property	\$ 4,912,243	\$ -	\$ -	\$ 1,870,152	\$ -	\$ 6,782,395
Motor vehicle	870,884	-	-	-	-	870,884
Utilities	705,892	-	-	-	-	705,892
Other taxes	133,216	-	-	-	-	133,216
Earnings on investments	63,827	504	42,587	32,982	-	139,900
Other local revenues	234,081	70,374	-	1,761	370,615	676,831
Intergovernmental - State	15,586,638	1,169,082	-	807,623	716,024	18,279,367
Intergovernmental - Indirect Federal	46,533	1,423,625	-	-	-	1,470,158
Total Revenues	22,553,314	2,663,585	42,587	2,712,518	1,086,639	29,058,643
Expenditures:						
Instruction	12,789,211	1,908,859	-	-	330,264	15,028,334
Support services:						
Student	1,200,992	177,078	-	-	2,134	1,380,204
Instruction staff	1,287,758	337,322	-	-	21,730	1,646,810
District administrative	755,315	162	-	-	-	755,477
School administrative	1,583,617	26,862	-	-	-	1,610,479
Business	748,679	3,850	-	-	-	752,529
Plant operation and maintenance	1,740,689	-	-	-	6,307	1,746,996
Student transportation	2,160,795	10,468	-	-	5,221	2,176,484
Facilities acquisition and construction	-	-	14,488,892	-	-	14,488,892
Community service activities	7,044	169,241	-	-	-	176,285
Other	904	66,858	-	-	-	67,762
Debt service:						
Principal	215,295	-	-	-	1,345,000	1,560,295
Interest	31,030	-	-	-	1,048,687	1,079,717
Total Expenditures	22,521,329	2,700,700	14,488,892	-	2,759,343	42,470,264
Excess (Deficit) of Revenues over Expenditures	31,985	(37,115)	(14,446,305)	2,712,518	(1,672,704)	(13,411,621)
Other Financing Sources (Uses):						
Proceeds from disposal of capital assets	5,300	-	-	-	-	5,300
Transfers in	66,870	59,589	1,242,169	-	1,940,000	3,308,628
Transfers out	(67,539)	(2,598)	-	(2,919,832)	(262,337)	(3,252,306)
Total Other Financing Sources (Uses)	4,631	56,991	1,242,169	(2,919,832)	1,677,663	61,622
Net Change in Fund Balances	36,616	19,876	(13,204,136)	(207,314)	4,959	(13,349,999)
Fund Balance, July 1, 2016	4,678,099	46,556	17,651,801	4,567,557	199,660	27,143,673
Fund Balance, June 30, 2017	\$ 4,714,715	\$ 66,432	\$ 4,447,665	\$ 4,360,243	\$ 204,619	\$ 13,793,674

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

Net change in total fund balances per fund financial statements \$ (13,349,999)

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

Capital outlays are reported as expenditures in this fund financial statement
because they use current financial resources, but they are presented as
assets in the statement of activities and depreciated over their estimated
economic lives. The difference is the amount by which capital outlays
exceed depreciation expense for the year.

Capital expenditures	\$ 14,810,217	
Depreciation	<u>(1,125,563)</u>	13,684,654

Debt service payments are recognized as expenditures of current financial resources
in the fund financial statement but are reductions of liabilities in the statement
of net position. The difference is the amount of principal payment during the year for:

Principal payments on bonds	1,345,000	
Principal payments on capital leases	<u>215,295</u>	1,560,295

In the statement of activities, only the gain (loss) on sale of capital assets is
reported, whereas in the governmental funds, the proceeds for the sale
increased financial resources. (1,163)

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

Compensated absences - long-term	6,943	
Changes in interest payable, discounts, and deferred amounts on refunding	(94,400)	
Claims payable - KSBIT (noncurrent)	38,718	
Pension expenses related to changes in the net pension liability and the net changes in deferred outflows and inflows for CERS	<u>(123,075)</u>	<u>(171,814)</u>

Change in net position of governmental activities		<u>\$ 1,721,973</u>
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The notes to financial statements are an
integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2017

	Food Service Fund	Child Care Fund	Total Enterprise Funds
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 232,008	\$ 27,465	\$ 259,473
Inventory	38,419	-	38,419
Other receivables	111	10,712	10,823
Intergovernmental receivable - Indirect Federal	11,878	816	12,694
Total Current Assets	282,416	38,993	321,409
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	101,630	-	101,630
Total Noncurrent Assets	101,630	-	101,630
Total Assets	\$ 384,046	\$ 38,993	\$ 423,039
Deferred Outflows of Resources			
CERS	\$ 193,241	\$ 104,755	\$ 297,996
Total Deferred Outflows of Resources	\$ 193,241	\$ 104,755	\$ 297,996
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 5,398	\$ 3,474	\$ 8,872
Accrued expenses	1,792	15,519	17,311
Unearned revenues	13,234	-	13,234
Total Current Liabilities	20,424	18,993	39,417
<u>Noncurrent Liabilities</u>			
Net pension liability - CERS	802,235	434,880	1,237,115
Total Noncurrent Liabilities	802,235	434,880	1,237,115
Total Liabilities	\$ 822,659	\$ 453,873	\$ 1,276,532
<u>Net Position</u>			
Net investment in capital assets	\$ 101,630	\$ -	\$ 101,630
Unrestricted	(347,002)	(310,125)	(657,127)
Total Net Position	\$ (245,372)	\$ (310,125)	\$ (555,497)

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION****PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Child Care Fund	Total Enterprise Funds
Operating Revenues			
Lunchroom sales	\$ 490,794	\$ -	\$ 490,794
Other revenue	2,466	8,760	11,226
Tuition and fees	-	324,712	324,712
Total Operating Revenues	<u>493,260</u>	<u>333,472</u>	<u>826,732</u>
Operating Expenses			
Salaries and wages	623,480	373,903	997,383
Materials and supplies	837,668	23,829	861,497
Depreciation	48,951	-	48,951
Other operating expenses	1,470	2,684	4,154
Total Operating Expenses	<u>1,511,569</u>	<u>400,416</u>	<u>1,911,985</u>
Operating loss	<u>(1,018,309)</u>	<u>(66,944)</u>	<u>(1,085,253)</u>
Non-Operating Revenues (Expenses)			
Federal grants	763,727	7,165	770,892
Donated commodities	96,301	-	96,301
State grants	13,321	400	13,721
State on-behalf payments	75,020	40,179	115,199
Interest income	2,166	424	2,590
Total Non-Operating Revenues (Expenses)	<u>950,535</u>	<u>48,168</u>	<u>998,703</u>
Transfers in	7,950		7,950
Transfers out	<u>(28,153)</u>	<u>(36,119)</u>	<u>(64,272)</u>
Changes in net position	(87,977)	(54,895)	(142,872)
Net Position, July 1, 2016	<u>(157,395)</u>	<u>(255,230)</u>	<u>(412,625)</u>
Net Position, June 30, 2017	<u>\$ (245,372)</u>	<u>\$ (310,125)</u>	<u>\$ (555,497)</u>

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Child Care Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 489,852	\$ -	\$ 489,852
Tuition and fees	-	323,398	323,398
Other revenue	2,466	8,760	11,226
Cash paid to/for:			
Employees	(511,112)	(271,292)	(782,404)
Supplies	(738,180)	(21,551)	(759,731)
Other activities	(1,470)	(2,684)	(4,154)
Net Cash Provided (Used) by Operating Activities	(758,444)	36,631	(721,813)
Cash flows from Non-Capital			
Financing Activities			
Federal grants	841,628	6,349	847,977
State grants	13,321	400	13,721
Transfers from other funds	7,950	-	7,950
Transfers to other funds	(28,153)	(36,119)	(64,272)
Net Cash Provided by Non-Capital	834,746	(29,370)	805,376
Financing Activities			
Cash Flows from Investing Activities			
Receipt of interest income	2,166	424	2,590
Net Cash Provided by Investing Activities	2,166	424	2,590
Net change in cash and cash equivalents	78,468	7,685	86,153
Balances, beginning of year	153,540	19,780	173,320
Balances, end of year	\$ 232,008	\$ 27,465	\$ 259,473
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (1,018,309)	\$ (66,944)	\$ (1,085,253)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	48,951	-	48,951
Donated commodities	96,301	-	96,301
State on-behalf payments	75,020	40,179	115,199
GASB 68 pension expense	35,556	55,622	91,178
Change in assets and liabilities:			
Other receivables	252	(1,314)	(1,062)
Inventory	3,869	-	3,869
Accounts payable	(682)	2,278	
Accrued expenses	1,792	6,810	
Unearned revenues	(1,194)	-	(1,194)
Net Cash Provided (Used) by Operating Activities	\$ (758,444)	\$ 36,631	\$ (721,813)
Schedule of Non-cash Transactions			
Donated commodities received from federal government	\$ 96,301	\$ -	\$ 96,301
State on-behalf payments	\$ 75,020	\$ 40,179	\$ 115,199
CERS Pensions	\$ 35,556	\$ 55,622	\$ 91,178

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2017

	Agency Fund
Assets	
Cash and cash equivalents	\$ 154,482
Receivables	-
Total Assets	\$ 154,482
Liabilities	
Accounts payable	\$ -
Due to student groups	154,482
Total Liabilities	\$ 154,482

The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Spencer County School District Finance Corporation – In 1988, the Board of Education resolved to authorize the establishment of the Spencer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the Corporation) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. The Corporation is blended into the District's financial statements.

Basis of Presentation

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

Government-wide Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within the 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities accompanied by a total column.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 57 – 58. This is a major fund of the District.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK), Building 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.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
 - D. The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.
 - E. The District Activity Fund is a special revenue fund type and is used to account for funds at the school level.
- II. Proprietary Fund Types (Enterprise Fund)
- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
 - B. The Child Care Fund is used to account for after school revenues and programs where a fee is charged for participating. The Food Service Fund is a major fund.
- III. Fiduciary Fund Type (Agency Funds)
- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

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

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

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

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

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

Property Taxes

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$0.637 per \$100 valuation for real property, \$0.637 per \$100 valuation for business personal property and \$0.560 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and Improvements	25-50 years
Land Improvements	20 years
Technology Equipment	5 years
Vehicles	5-10 years
Food Service Equipment	10-12 years
Furniture and Fixtures	7 years

Interfund Balances

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

Cash and Cash Equivalents

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

Inventories

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

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2017 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Compensated Absences

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

Pensions

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

Fund Balances

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

- *Nonspendable fund balance* - amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its decision making authority to be reported as committed, amounts cannot be used for any other purpose unless the District takes action to remove or change the constraint.
- *Assigned fund balance* - amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designees (of which there are none) have the authority to assign amounts to be used for specific purposes.
- *Unassigned fund balance* - This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

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

Net Position

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

Operating Revenues

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

Contributions of Capital

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as nonoperating revenues/expenses in proprietary funds.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued And Adopted Accounting Principles

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

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

In August 2015, the GASB issued Statement 77, *Tax Abatement Disclosures*. This statement is effective for periods beginning after December 15, 2015. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

In December 2015, the GASB issued Statement 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement is effective for periods beginning after December 15, 2015. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

In January 2016, the GASB issued Statement 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement 14*. This statement is effective for periods beginning after June 15, 2016. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

In March 2016, the GASB issued Statement 81, *Irrevocable Split-Interest Agreements*. This statement is effective for periods beginning after December 15, 2016. This statement was adopted during the fiscal year ended June 30, 2017 and did not have an impact on the District's financial statements.

Recently Issued Accounting Principles

In March 2016, the GASB issued Statement 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 72*. This statement is effective for periods beginning after June 15, 2016 except for the requirements of the Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2017, \$11,527,533 of the District's bank balance of \$11,527,533 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE D – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2017:

Fund Financial Statements:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 54,432
General	Special Revenue	Grant Match	5,157
General	Food Service Fund	Equipment	7,950
Non-major fund	Non-major fund	Debt Service	262,337
Building Fund	Construction Fund	Construction Projects	1,242,169
Building Fund	Non-major fund	Debt Service	1,677,663
Special Revenue	Special Revenue	Operations	77,920
Special Revenue	General	Indirect Costs	2,598

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE D – TRANSFER OF FUNDS

Government-wide Financial Statements:

From Fund	To Fund	Purpose	Amount
Food Service Fund	General Fund	Indirect Costs	\$ 28,153
General Fund	Food Service Fund	Equipment	7,950
Childcare Fund	General Fund	Operating	36,119

NOTE E – CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital Assets Not Being Depreciated:				
Land	\$ 677,346	\$ -	\$ -	\$ 677,346
Construction in progress	1,707,667	14,488,892	-	16,196,559
Total Capital Assets Not Being Depreciated	2,385,013	14,488,892	-	16,873,905
Capital Assets Being Depreciated:				
Land improvements	537,827	-	-	537,827
Buildings and improvements	39,560,991	-	-	39,560,991
Technology equipment	2,004,569	-	(15,714)	1,988,855
Vehicles	3,023,610	300,456	-	3,324,066
General equipment	583,958	20,869	(9,301)	595,526
Total Capital Assets Being Depreciated at Historical Cost	45,710,955	321,325	(25,015)	46,007,265
Accumulated depreciation:				
Land improvements	504,938	9,397	-	514,335
Buildings and improvements	11,163,543	822,950	-	11,986,493
Technology equipment	1,954,704	26,406	(15,714)	1,965,396
Vehicles	1,679,252	227,108	-	1,906,360
General equipment	357,119	39,702	(8,138)	388,683
Total accumulated depreciation	15,659,556	1,125,563	(23,852)	16,761,267
Total Other Capital Assets, net	30,051,399	(804,238)	(1,163)	29,245,998
Governmental Activities Capital Assets - Net	\$ 32,436,412	\$ 13,684,654	\$ (1,163)	\$ 46,119,903

Depreciation was charged to governmental functions as follows:

Instruction	\$ 285,632
District administration	4,150
School administration	5,805
Plant	601,280
Transportation	228,696
	<u>\$ 1,125,563</u>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE E – CAPITAL ASSETS – CONTINUED

Business-Type Activities	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
Capital Assets Being Depreciated:				
Technology equipment	\$ 23,583	\$ -	\$ -	\$ 23,583
General equipment	891,449	-	-	891,449
Totals at historical cost	915,032	-	-	915,032
Accumulated depreciation:				
Technology equipment	22,884	699	-	23,583
General equipment	741,567	48,252	-	789,819
Total accumulated depreciation	764,451	48,951	-	813,402
Business-type Activities Capital Assets - Net	\$ 150,581	\$ (48,951)	\$ -	\$ 101,630

NOTE F – LONG-TERM OBLIGATIONS

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

Issue Date	Original Proceeds	Interest Rates
2005	\$ 755,000	4.00%
2009 Ref	5,940,000	2.00% - 3.375%
2011	9,740,000	1.00% - 2.50%
2016 Ref	10,055,000	2.00% - 3.8%
2016	18,235,000	2.00% - 2.625%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Spencer County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2017 for debt service (principal and interest) are as follows:

SPENCER COUNTY SCHOOL DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2017

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>SFCC Participation</u>	<u>District's Portion</u>
2018	\$ 1,910,000	\$ 1,052,825	\$ 450,570	\$ 2,512,255
2019	1,970,000	1,006,207	453,668	2,522,539
2020	1,845,000	957,303	284,250	2,518,053
2021	1,895,000	911,092	284,250	2,521,842
2022	1,965,000	861,069	284,250	2,541,819
2023 - 2027	10,400,000	3,480,396	1,255,033	12,625,363
2028 - 2032	10,570,000	2,171,195	481,990	12,259,205
2033 - 2037	8,595,000	646,053	301,242	8,939,811
	<u>\$ 39,150,000</u>	<u>\$ 11,086,140</u>	<u>\$ 3,795,253</u>	<u>\$ 46,440,887</u>

Capital Lease Obligations

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

The net book value of the buses under capital lease at June 30, 2017 is \$1,237,818.

Year Ending June 30:	
2018	\$ 236,975
2019	210,408
2020	178,490
2021	174,871
2022	142,110
2023 - 2026	<u>252,963</u>
	1,195,817
Less: amount representing interest	<u>(96,501)</u>
Present value of minimum lease payments	<u>\$ 1,099,316</u>
Current maturities	210,711
Non-current maturities	<u>888,605</u>
	<u>\$ 1,099,316</u>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

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

Changes in Long-term Obligations

Long-term liability activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 40,495,000	\$ -	\$ 1,345,000	\$ 39,150,000	\$ 1,910,000
Less Premium (Discount)	(363,869)	-	20,268	(343,601)	(20,268)
Total Bonds Payable	40,131,131	-	1,365,268	38,806,399	1,889,732
Other Liabilities:					
KISTA capital lease obligation	1,314,611	-	215,295	1,099,316	210,711
Claims payable - KSBIT	193,590	-	38,718	154,872	38,718
Compensated absences	228,152	178,973	228,152	178,973	2,237
Total Other Liabilities	1,736,353	178,973	482,165	1,433,161	251,666
Total Governmental Activities Long-Term Liabilities	\$ 41,867,484	\$ 178,973	\$ 1,847,433	\$ 40,239,560	\$ 2,141,398

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

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

NOTE G – OPERATING LEASES

The District has three operating leases for copiers. The leases terms range from 36 to 48 months and monthly payments for the combined leases total \$7,160. The total amount paid in fiscal year 2017 was \$55,155.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS

Plan Descriptions

The Spencer County School District participates in the Teachers' Retirement System of the State of Kentucky (TRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. TRS, which qualifies as a special funding situation under GASB 68, and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. TRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The TRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. TRS' report may be obtained at www.ktrs.ky.gov. CERS' report may be obtained at www.kyret.ky.gov.

TRS

Retirement Plan

Benefits Provided

For Members Before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half percent (2.5%) to three percent (3%) to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service, or
- 3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27 years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Other Benefits:

The System provides post-employment medical benefits to retirees. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members. Cost of living increases are one and one-half percent (1.5%) 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. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.855 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2017, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2017. The District reimburses the State for retirement benefits paid on all federally funded employees.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

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

At June 30, 2017, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$108,746,543.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2016, the District's proportion was 0 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$8,859,243 and revenue of \$8,859,243 (\$1,789,331 in the governmental funds and an additional \$7,069,912 in government-wide activities) for support provided by the State. At June 30, 2017, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

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:

Inflation	3.50 percent
Salary increases	4.00 – 8.20 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females. The results of the experience study for the period July 1, 2010 - June 30, 2015 will be reflected in the June 30, 2016 valuation and the June 30, 2017 GASB 67 report.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study prepared as of June 30, 2015, submitted to and adopted by the Board on September 19, 2016.

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.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45%	6.4%
Non U.S. Equity	17%	6.5%
Fixed Income	24%	1.6%
High Yield Bonds	4%	3.1%
Real Estate	4%	5.8%
Alternatives	4%	6.8%
Cash	2%	1.5%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 4.20%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2040 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate (SEIR). Therefore, the long-term expected rate of return of 7.50% on Plan investments was applied to periods through 2039 and the Municipal Bond Index Rate of 3.01% was applied to periods after 2039, resulting in an SEIR of 4.20%. The TPL used last year was determined using a discount rate equal to 4.88%, which was based on a municipal bond index rate of 3.82%. These two amounts are rolled forward to June 30, 2016 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate (SEIR) for the year. The difference between the two roll-forward amounts as of June 30, 2016 is the gain or loss due to changes in assumptions and other inputs. In addition, we have determined an expected TPL as of June 30, 2016 based on the TPL roll-forward in the June 30, 2015 GASB 67 report. The difference between this amount and the roll-forward of the actual TPL based on the 4.88% interest rate is reflected as an experience gain or loss for the year.

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 4.20 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.20 percent) or 1-percentage-point higher (5.20 percent) than the current rate:

	<u>1 % Decrease (3.20%)</u>	<u>Current Discount Rate (4.20%)</u>	<u>1% Increase (5.20)</u>
System's net pension liability (in thousands)	\$ 37,937,230	\$ 30,924,069	\$ 25,168,197

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued TRS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Medical Insurance Plan

Plan Description

In addition to the pension benefits described above, KRS 161.675 requires TRS to provide postretirement healthcare benefits to eligible members and dependents. The TRS medical insurance benefit is a cost-sharing, multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

Contributions

The post-employment medical benefit provided by TRS is financed on a pre-funded basis beginning July 1, 2010 with the implementation of the "Shared Responsibility" legislation. In order to fund medical benefits, active member contributions are matched by the state at .75% of members' gross salaries. Beginning July 1, 2010 member contributions to the TRS medical plan increased incrementally to 3.75% on July 1, 2015 under the Shared Responsibility Plan. Also, the premiums collected from retirees and investment income contributes to funding the plan.

CERS

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits

may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Contributions

For the fiscal year ended June 30, 2017, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2017, was 13.95 percent of annual creditable compensation. Contributions to the pension plan from the District were \$576,318.

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 of \$8,280,750 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.168184 percent, which was an increase of .0058242 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2016, the District recognized pension expense of \$710,513. At June 30, 2017, the District reported its proportionate share of the CERS 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 economic experience	\$ 21,253	\$ -
Changes in actuarial assumptions	257,888	
Difference between projected and actual investment earnings	1,086,126	
Changes in proportion and differences between employer contributions and proportionate share of contributions	53,078	-
Contributions paid to CERS subsequent to the measurement date	576,318	
	<u>\$ 1,994,663</u>	<u>\$ -</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$576,318 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

Year Ending June 30	Pension Expense Amount
2018	\$ 513,401
2019	359,320
2020	351,220
2021	194,404
	<u>\$ 1,418,345</u>

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:

Inflation	3.25 percent
Salary increases	4.0 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Actuarial Assumptions

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the 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.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44%	5.40%
Combined Fixed Income	19%	1.50%
Real Return (Diversified Inflation Strategies)	10%	3.50%
Real Estate	5%	4.50%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 7.5%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 27 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2017. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	<u>1 % Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
District's proportionate share of the net pension liability	\$ 10,319,153	\$ 8,280,750	\$ 6,533,429

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE H – PENSION PLANS – CONTINUED

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

The District is required to contribute at an actuarially determined rate. As of June 30, 2017, 2016, and 2015, the District's required contribution rate was 4.73%, 4.64%, and 4.92%, respectively, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the District were \$194,396, 182,794 and \$180,942 for the years ended June 30, 2017, 2016, and 2015, respectively.

DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements

NOTE I – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2017, there were \$387,028 of nonspendable fund balances related to prepaid items.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2017, the District had \$66,433 restricted for grants in the special revenue fund and \$204,619 restricted for future school activities in the District Activity Fund, \$4,447,665 restricted for capital projects in the Construction Fund, and \$4,360,423 restricted for capital projects in the Building Fund.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE I – FUND BALANCES (CONTINUED)

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2017: \$48,514 for site-based carryforward; \$176,736 for sick leave; and \$250,000 for future site costs.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The amount assigned in the general fund was \$213,204 (\$13,261 for open purchase orders, \$83,787 for vacation payable and, \$116,156 for KSBIT obligation assessment).

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

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

NOTE J – COMMITMENTS AND CONTINGENCIES

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

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE J – COMMITMENTS AND CONTINGENCIES – CONTINUED

In August 2014, the District was notified of the final assessment of \$309,745. The claim is to be paid over a seven-year period with two payments due the first year. The balance of the claim payable at June 30, 2017 totals \$154,872 in the statement of net position. Payments due under the claim at June 30, 2017 are as follows:

Year Ending June 30:	
2018	\$ 38,718
2019	38,718
2020	38,718
2021	38,718
	<hr/>
	\$ 154,872
	<hr/>

Construction in process totaling \$16,196,559 is related to the construction of the new Taylorsville Elementary School. As of June 30, 2017, the remaining commitment to complete the project totals approximately \$1.48 million. The new school was placed into service in August of 2017.

NOTE K – LITIGATION

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

NOTE L – INSURANCE AND RELATED ACTIVITIES

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

NOTE M – RISK MANAGEMENT

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE N – DEFICIT OPERATING BALANCES

The Food Service Fund and Child Care Fund had a deficit net position at June 30, 2017 in the amounts of \$245,373 and \$310,125, respectively. The deficit net position is a result of the recording of the net pension liability for CERS as part of the adoption of GASB Statement 68.

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

Food Service Fund	\$ 87,978
Child Care Fund	54,895
Construction Fund	13,204,135
Building Fund	207,313

NOTE O – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2017 were as follows:

Health	\$ 2,531,023
Life	4,596
Admin	36,537
HRA	213,762
TRS	1,789,331
Technology	77,029
Debt Service	453,687
Less: Federal Reimbursement	<u>(109,372)</u>
Total on-behalf	<u><u>\$ 4,996,593</u></u>

Recorded as follows:

General Fund	\$ 4,427,707
Food Service Fund	75,020
Childcare Fund	40,179
Debt Service Fund	<u>453,687</u>
	<u><u>\$ 4,996,593</u></u>

NOTE P – COBRA

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

REQUIRED SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

	Original	Final	Actual
Revenues			
From local sources:			
Taxes:			
Property	\$ 4,824,569	\$ 4,929,986	\$ 4,912,243
Motor vehicle	784,000	852,108	870,884
Utilities	738,661	738,661	705,892
Other	125,000	168,475	133,216
Earnings on investments	25,000	30,000	63,827
Other local revenues	172,675	199,676	234,081
Intergovernmental - State	14,922,511	15,491,892	15,586,638
Intergovernmental - Indirect Federal	34,000	30,000	46,533
Total Revenues	21,626,416	22,440,798	22,553,314
Expenditures			
Instruction	12,528,753	12,945,827	12,789,211
Support services:			
Student	1,141,432	1,178,087	1,200,992
Instruction staff	1,225,640	1,316,118	1,287,758
District administrative	840,958	853,008	755,315
School administrative	1,651,199	1,623,585	1,583,617
Business	772,762	793,347	748,679
Plant operation and maintenance	2,007,278	2,027,809	1,740,689
Student transportation	2,384,408	2,430,699	2,160,795
Community service activities	3,640	3,640	7,044
Other	2,995,603	3,021,366	904
Debt service:			
Principal	215,295	215,295	215,295
Interest	31,268	31,030	31,030
Total Expenditures	25,798,236	26,439,811	22,521,329
Excess (Deficit) of Revenues over Expenditures	(4,171,820)	(3,999,013)	31,985
Other Financing Sources (Uses)			
Proceeds from disposal of capital assets	182,000	1,000	5,300
Transfers in	36,169	32,174	66,870
Transfers out	(74,043)	(79,869)	(67,539)
Total Other Financing Sources (Uses)	144,126	(46,695)	4,631
Net Change in Fund Balance	(4,027,694)	(4,045,708)	36,616
Fund Balance, July 1, 2016	4,027,694	4,045,708	4,678,099
Fund Balance, June 30, 2017	\$ -	\$ -	\$ 4,714,715

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

	Original	Final	Actual
Revenues			
Earnings on investments	\$ 200	450	\$ 504
Other local revenues	29,820	86,093	70,374
Intergovernmental - State	1,105,764	1,192,600	1,169,082
Intergovernmental - Indirect Federal	1,131,955	1,456,703	1,423,625
Total Revenues	<u>2,267,739</u>	<u>2,735,846</u>	<u>2,663,585</u>
Expenditures			
Instruction	1,689,245	2,026,021	1,908,859
Support services:			
Student	151,813	179,908	177,078
Instruction staff	293,183	314,712	337,322
District administrative		-	162
School administrative	27,501	27,530	26,862
Business	11,000	-	3,850
Student transportation	7,631	14,492	10,468
Community service activities	154,053	174,053	169,241
Other		67,030	66,858
Total Expenditures	<u>2,334,426</u>	<u>2,803,746</u>	<u>2,700,700</u>
Excess (Deficit) of Revenues over			
Other Financing Sources (Uses)			
Transfers in	74,618	70,431	59,589
Transfers out	(7,931)	(2,531)	(2,598)
Total Other Financing Sources (Uses)	<u>66,687</u>	<u>67,900</u>	<u>56,991</u>
Net Change in Fund Balance	-	-	19,876
Fund Balance, July 1, 2016	<u>-</u>	<u>-</u>	<u>46,556</u>
Fund Balance, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,432</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2017

CERS	2017	2016	[*] 2015
Proportion of the net pension liability	0.168184%	0.162360%	0.160306%
Proportionate share of the net pension liability	\$ 8,280,750	\$ 6,980,906	\$ 5,201,000
Covered - employee payroll	\$ 3,995,612	\$ 3,802,071	\$ 3,404,100
Proportionate share of the net pension liability as percentage of covered payroll	207.2%	183.6%	152.8%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

TRS	2017	2016	[*] 2015
Proportion of the net pension liability	0.0000%	0.0000%	0.0000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State proportionate share of the net pension liability associated with the District	108,746,543	84,411,624	70,702,066
Total	<u>\$ 108,746,543</u>	<u>\$ 84,411,624</u>	<u>\$ 70,702,066</u>
Covered - employee payroll	\$ 11,492,723	\$ 11,221,831	\$ 10,780,816
District's proportionate share of the net pension liability as percentage of covered payroll	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	35.20%	42.50%	45.59%

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

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT
SCHEDULES DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2017

CERS	<u>2017</u>	<u>2016</u>	<u>[*] 2015</u>
Contractually required contribution (actuarially determined)	\$ 576,318	\$ 496,255	\$ 484,764
Contribution in relation to the actuarially determined contributions	<u>576,318</u>	<u>496,255</u>	<u>484,764</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,131,311	\$ 3,995,612	\$ 3,802,071
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%
 TRS			
	<u>2017</u>	<u>2016</u>	<u>[*] 2015</u>
Contractually required contribution (actuarially determined)	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 11,569,513	\$ 11,492,723	\$ 11,221,831
Contributions as a percentage of covered employee payroll	0.00%	0.00%	0.00%

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

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS

JUNE 30, 2017

CERS

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. There were no changes in assumptions.

TRS

Changes of benefit terms. There were no changes in benefit terms.

Changes of assumptions. The following changes in assumptions were made:

Changes of assumptions. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions. Beginning with the 2014 valuation, the interest smoothing methodology is no longer used.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS

JUNE 30, 2017

	Capital Outlay Fund	District Activity Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ -	\$ 209,401	\$ -	\$ 209,401
Receivables	-	932	-	932
Total Assets	<u>\$ -</u>	<u>\$ 210,333</u>	<u>\$ -</u>	<u>\$ 210,333</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ 5,714	\$ -	5,714
Total Liabilities	<u>-</u>	<u>5,714</u>	<u>-</u>	<u>5,714</u>
Fund Balances				
Restricted	-	204,619	-	204,619
Total Fund Balances	<u>-</u>	<u>204,619</u>	<u>-</u>	<u>204,619</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 210,333</u>	<u>\$ -</u>	<u>\$ 210,333</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2017

	Capital Outlay Fund	District Activity Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Earnings on investments	-	-	-	-
Other local revenue	-	370,615	-	370,615
Intergovernmental - State	262,337	-	453,687	716,024
Total Revenues	262,337	370,615	453,687	1,086,639
Expenditures				
Instruction	-	330,264	-	330,264
Support services:				
Student	-	2,134	-	2,134
Instruction staff	-	21,730	-	21,730
District administrative	-	-	-	-
Plant operation and maintenance	-	6,307	-	6,307
Facilities acquisition and construction	-	-	-	-
Student transportation	-	5,221	-	5,221
Bond issue costs	-	-	-	-
Debt service:				
Principal	-	-	1,345,000	1,345,000
Interest	-	-	1,048,687	1,048,687
Total Expenditures	-	365,656	2,393,687	2,759,343
Excess (Deficit) of Revenues over Expenditures	262,337	4,959	(1,940,000)	(1,672,704)
Other Financing Sources (Uses)				
Transfers in	-	-	1,940,000	1,940,000
Transfers out	(262,337)	-	-	(262,337)
Total Other Financing Sources (Uses)	(262,337)	-	1,940,000	1,677,663
Net Change in Fund Balances	-	4,959	-	4,959
Fund balance, July 1, 2016	-	199,660	-	199,660
Fund balance, June 30, 2017	\$ -	\$ 204,619	\$ -	\$ 204,619

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2017

	SPENCER COUNTY HIGH SCHOOL	SPENCER COUNTY MIDDLE SCHOOL	TAYLORSVILLE ELEMENTARY SCHOOL	SPENCER COUNTY ELEMENTARY SCHOOL	TOTAL AGENCY FUND
Assets					
Cash and cash equivalents	\$ 104,759	\$ 38,143	\$ 6,791	\$ 4,789	\$ 154,482
Receivables	-	-	-	-	-
Total Assets	<u>\$ 104,759</u>	<u>\$ 38,143</u>	<u>\$ 6,791</u>	<u>\$ 4,789</u>	<u>\$ 154,482</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	104,759	38,143	6,791	4,789	154,482
Total Liabilities	<u>\$ 104,759</u>	<u>\$ 38,143</u>	<u>\$ 6,791</u>	<u>\$ 4,789</u>	<u>\$ 154,482</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF ASSETS, RECEIPTS, DISBURSEMENTS, AND LIABILITIES – ALL SCHOOLS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

SCHOOL	CASH BALANCE July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCE June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	DUE TO STUDENT GROUPS June 30, 2017
SPENCER COUNTY HIGH	\$ 128,169	\$ 540,363	\$ 563,773	\$ 104,759	\$ -	\$ -	\$ 104,759
SPENCER COUNTY MIDDLE	42,884	279,195	283,936	38,143	-	-	38,143
TAYLORSVILLE ELEMENTARY	7,440	71,144	71,793	6,791	-	-	6,791
SPENCER COUNTY ELEMENTARY	5,094	108,443	108,748	4,789	-	-	4,789
	<u>\$ 183,587</u>	<u>\$ 999,145</u>	<u>\$ 1,028,250</u>	<u>\$ 154,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,482</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2017

NAME OF ACTIVITY	CASH BALANCES July 1, 2016	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2017	RECEIVABLES June 30, 2017	ACCOUNTS PAYABLE June 30, 2017	DUE TO STUDENT GROUPS June 30, 2017
Donations	\$ -	\$ 2,543	\$ 2,539	\$ 4	\$ -	\$ -	\$ 4
YCLUB/KUNA	182	1,907	1,648	441	-	-	441
World's Travelers	362	-	288	74	-	-	74
Art Club	280	120	-	400	-	-	400
Band Club	2	51,573	51,495	80	-	-	80
FBLA	151	3,154	3,202	103	-	-	103
Idea Club	75	-	75	-	-	-	-
Chorus Club	4,588	31,282	33,838	2,032	-	-	2,032
FCCLA	1,055	1,272	1,139	1,188	-	-	1,188
Beta Club	810	5,085	4,865	1,030	-	-	1,030
TSA Club	53	695	714	34	-	-	34
Mu Alpha Theta	5	-	5	-	-	-	-
Book Club	-	28	-	28	-	-	28
HOSA	426	6,004	6,134	296	-	-	296
Hosa National	330	9,300	9,329	301	-	-	301
State FFA Dodge Truck	-	1,790	369	1,421	-	-	1,421
Dairy Team	12,300	67,337	64,896	14,741	-	-	14,741
FFA	23,962	61,036	68,436	16,562	-	-	16,562
Yearbook	6,776	4,834	6,282	5,328	-	-	5,328
Chess	229	245	386	88	-	-	88
Nationa Honor Society	565	1,093	1,122	536	-	-	536
National Tech Honor Society	-	1,425	1,222	203	-	-	203
Music Club	36	-	36	-	-	-	-
Spanish Honor Society	95	1,119	1,119	95	-	-	95
Community Service Club	255	375	395	235	-	-	235
Educators Rising	716	875	1,254	337	-	-	337
Student Council	1,341	2,965	968	3,338	-	-	3,338
Military Readiness	159	150	224	85	-	-	85
Academic Team	58	-	-	58	-	-	58
M.F. Brown Memorial	32	32	64	-	-	-	-
Coca-Cola Public	693	-	11	682	-	-	682
Coca Cola-Student	200	1,590	300	1,490	-	-	1,490
General	3,761	4,983	7,732	1,012	-	-	1,012
Prom	5,486	16,480	19,521	2,445	-	-	2,445
Class of 2018 PRAD	8,216	2,509	1,249	9,476	-	-	9,476
Class of 2019 PGRAD	-	711	-	711	-	-	711
Class of 2017 PGRAD	3,154	7,334	10,488	-	-	-	-
Class of 2017	576	-	-	576	-	-	576
Senior Trip	-	2,200	1,750	450	-	-	450
Senior Picnic	441	920	846	515	-	-	515
Senior Grad Lunch	60	1,360	1,356	64	-	-	64
Fellow of Christ	201	2,020	2,135	86	-	-	86
Athletics	-	38,569	38,569	-	-	-	-
District Tournament	-	3,053	3,053	-	-	-	-
Concessions	4,241	23,776	28,017	-	-	-	-
Baseball	10,510	32,028	36,377	6,161	-	-	6,161
Basketball-Boy	7,329	34,397	33,640	8,086	-	-	8,086
Basketball-Girls	3,768	18,953	19,176	3,545	-	-	3,545
Dance team	2,449	23,167	24,152	1,464	-	-	1,464
Cheerleader	940	12,875	11,352	2,463	-	-	2,463
Cross Country	1,661	600	1,511	750	-	-	750
Golf-Boys	444	9,402	9,579	267	-	-	267
Golf-Girls	10	450	450	10	-	-	10
Soccer-Boys	249	2,882	2,090	1,041	-	-	1,041
Soccer-Girls	1,958	7,654	7,842	1,770	-	-	1,770
Softball	2,627	8,148	6,602	4,173	-	-	4,173
Swim	4,040	3,470	4,401	3,109	-	-	3,109
Tennis-Boys	84	-	-	84	-	-	84
Girls tennis	16	-	-	16	-	-	16
Volleyball	5,293	6,955	11,584	664	-	-	664
Track	325	900	740	485	-	-	485
Football	3,107	37,274	36,564	3,817	-	-	3,817
Wrestling	1,263	1,183	2,350	96	-	-	96
Archery	224	1,423	1,434	213	-	-	213
	<u>128,169</u>	<u>563,505</u>	<u>586,915</u>	<u>104,759</u>	<u>-</u>	<u>-</u>	<u>104,759</u>
Transfers	-	(23,142)	(23,142)	-	-	-	-
	<u>\$ 128,169</u>	<u>\$ 540,363</u>	<u>\$ 563,773</u>	<u>\$ 104,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,759</u>

See accompanying independent auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Cash Assistance			
Passed Through State Department of Education			
National School Lunch Program	10.555	7750002-16	\$ 117,611
		7750002-17	429,261
School Breakfast Program	10.553	7760005-16	37,584
		7760005-17	140,764
Summer Food Service Program for Children	10.559	7740023-16	10,843
Non-Cash Assistance (Commodities)		7740023-17	11,878
National School Lunch Program	10.555	4003776	96,301
TOTAL CHILD NUTRITION CLUSTER			844,242
<u>OTHER U.S. DEPARTMENT OF AGRICULTURE PROGRAMS</u>			
Child and Adult Care Food Program	10.558	7790021	22,949
TOTAL U.S. DEPT. OF AGRICULTURE			867,191
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Passed Through Eastern Kentucky PRIDE:			
National Guard Civilian Youth Opportunities	11.420	207B	452
TOTAL U.S. DEPARTMENT OF COMMERCE			452
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster (IDEA) -			
Passed Through State Department of Education			
Special Education - Grants to States	84.027	337B	182,915
		337C	384,447
		337CP	879
			568,241
Special Education - Preschool Grants	84.173	343B	14,802
		343C	19,645
			34,447
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			602,688
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	310A	1,141
		310B	41,848
		310C	242,116
			285,105

See accompanying independent auditor's report and
notes to the schedule of expenditures of federal awards

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

(CONTINUED)

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Adult Education - State Grant Program	84.002	365C 371C 373C	8,098 26,472 21,269 <hr/> 55,839
Vocational Education (Perkins) - Basic Grants to States	84.048	3484S 348BA 348C 358C	750 1,031 19,110 1,200 <hr/> 22,091
Twenty-First Century Community Learning Centers	84.287	550A 550AU 550BE 550BJ 550BM 550BU	32,307 1,758 128,124 2,000 124,912 3,271 <hr/> 292,372
Race to the Top - District	84.416A	436A 436B 436C	3,189 7,807 54,636 <hr/> 65,632
Race to the Top - Early Learning Challenge	84.412A	475C	<hr/> 22,738
Improving Teacher Quality - State Grants	84.367	401B 401C	32,246 41,914 <hr/> 74,160
Community Clinical Linkages	84.048A	442C	<hr/> 3,000
TOTAL U.S. DEPARTMENT OF EDUCATION			<hr/> 1,423,625
TOTAL EXPENDITURES OF FEDERAL AWARDS			<hr/> <u>\$ 2,291,268</u>

See accompanying independent auditor's report and
notes to the schedule of expenditures of federal awards

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2017

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

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

NOTE D – INDIRECT COST RATE

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

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies(s) identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies(s) identified that are not considered to be material weakness(es)? ☒ yes ☐ none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2CFR 200.516(a)? ☐ yes ☒ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.555 / 10.553 / 10.559

Child Nutrition Cluster

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2017

Section I – Summary of Auditor’s Results – Continued

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

\$ 750,000

Auditee qualified as low-risk auditee?

X yes

 no

Section II – Financial Statement Findings

No findings to report.

Section III – Federal Award Findings and Questioned Costs

2017-001 – Child Nutrition Cluster – CFDA No. 10.553 School Breakfast Program, 10.555 National School Lunch Program, and 10.559 Summer Food Service Program for Children; – Year Ended June 30, 2017 – U. S. Department of Agriculture; passes through the Kentucky Department of Education

Significant Deficiency – Procurement

Criteria: Part 200 of Title 2 of the U.S. Code of Federal Regulations titled, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, lays out the basic procurement requirements that entities must comply with for the procurement of goods and services, when using federal funds.

Condition The District’s policies and procedures were in accordance with state requirements but did not include the required federal requirements regarding procurement.

Questioned Costs: None

Context: This was noted during a review of purchasing procedures.

Effect The District could have purchased from vendors who did not meet federal procurement requirements.

Cause: The District did not adopt the additional procurement policies required by the Uniform Guidance.

Recommendation: The District should adopt revised procurement procedures.

Views of Responsible Officials and Planned Corrective Actions: The District implemented revised procurement procedures effective July 1, 2017.

SPENCER COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2017

No findings reported.



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KENTUCKY SOCIETY OF CPAS

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

Kentucky State Committee for School District Audits and
Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky

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

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We also noted certain other matters that we reported to management of Spencer County School District in a separate letter dated October 30, 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 District'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.

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
October 30, 2017



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

Kentucky State Committee for School District Audits and
Members of the Board of Education
Spencer County School District
Taylorsville, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

Spencer County School District's Response to Findings

Spencer County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Spencer County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
October 30, 2017



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

In planning and performing our audit of the financial statements of Spencer County School District for the year ended June 30, 2017, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated October 30, 2017 contains our report on the District's internal control structure. This letter does not affect our report dated October 30, 2017 on the financial statements of the Spencer County School District.

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

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

Respectfully,

Stiles, Carter & Associates

Certified Public Accountants
Bardstown, Kentucky
October 30, 2017

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2017

SPENCER COUNTY MIDDLE SCHOOL

SEQUENTIAL ACCOUNTING FOR RECEIPTS

Per our review of the deposit listing for FY17, there were 31 missing deposit numbers in EPES. After inquiring about and reviewing the supporting documentation for the missing receipts, We noted 25 of the 31 were voided on the face of the deposit sheet, but were not properly voided in EPES. 5 of the 31 were completed with another deposit transaction, thereby disrupting the sequential ordering of the deposit sheets. We recommend properly account for the sequential order of receipts.

MANAGEMENT'S RESPONSE

Management has reviewed this situation and understands the importance of sequential lists of receipts and deposits for secure financial reporting. Therefore, all voided receipts will be posted to EPES showing all receipt numbers accounted for in sequential order.

SPENCER COUNTY ELEMENTARY SCHOOL

FUNDRAISER FORMS

We noted during our review, an instance of a fundraiser where the applicable F-SA forms were either missing or not properly completed. There was not a Fundraiser Worksheet (F-SA-2B) or a Requisition and Report of Ticket Sales (F-SA-1) filled out. Redbook requires fundraisers to be supported with a properly completed Fundraiser Worksheet (F-SA-2B) and a Requisition and Report of Ticket Sales (F-SA-1).

MANAGEMENT'S RESPONSE

Management will follow Redbook requirements for fundraisers, assuring all fundraisers are properly supported with the appropriate Redbook forms.