

**BREATHITT COUNTY SCHOOL DISTRICT**

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

**With**

**REPORT OF INDEPENDENT AUDITORS**

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## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Breathitt County School District  
Jackson, Kentucky

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Breathitt County School 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, the audit requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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*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 Breathitt 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.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Breathitt County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 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, and the schedule of expenditures of federal awards, as required by the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.





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**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 15, 2017, on our consideration of Breathitt County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Breathitt County School District's internal control over financial reporting and compliance.

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 15, 2017

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**BREATHITT COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Year Ended June 30, 2017**

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The management of Breathitt County School District offers readers this narrative overview and analysis of the financial activities and educational programs of the District for the fiscal year ended June 30, 2017. We encourage readers to review the information presented here in conjunction with additional information found within the body of this audit.

This Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, issued June 1999; GASB Statement No. 37, Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments: Omnibus, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001; and in GASB Statement No. 38, Certain Financial Statement Note Disclosures, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

- The ending cash balance for the District was \$991,621 in 2017 and \$441,867 in 2016.
- The General Fund had \$15,664,492 in revenue, excluding interfund transfers, capital lease proceeds and proceeds from the sale of assets, which primarily consisted of the state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$15,878,768 in General Fund expenditures.
- Governmental Capital Assets had a net decrease of \$1,598,030 during the current fiscal year. Business-Type Activities Capital Assets had a net decrease of \$22,268 during the current fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with the community input and keeping with the Kentucky Department of Education stringent compliance regulations.

### **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 to the basic financial statements themselves.

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

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

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

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

The government-wide financial statements can be found on the table of contents of this report.

**BREATHITT COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)—CONTINUED**  
**Year Ended June 30, 2017**

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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 proprietary funds are our food service and day care operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements can be found on the table of contents of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The financial statements can be found on pages 8 to 17 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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 used these capital assets to provide services to its students; consequently, these assets are not available for future spending.

Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Position for the period ending June 30, 2017**

Fiscal year 2017 government-wide net position compared to 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 1,852,503	\$ 1,843,171
Capital assets	19,433,203	21,053,501
Total Assets	<u>\$ 21,285,706</u>	<u>\$ 22,896,672</u>
Deferred outflow of resources	<u>\$ 1,640,096</u>	<u>\$ 1,238,378</u>
Current liabilities	\$ 1,879,820	\$ 1,848,443
Noncurrent liabilities	21,515,934	21,654,892
Total Liabilities	<u>\$ 23,395,754</u>	<u>\$ 23,503,335</u>
Deferred inflow of resources	<u>\$ 159,351</u>	<u>\$ 264,882</u>
Net investment in capital assets,	\$ 3,607,022	\$ 4,362,454
Restricted net position	45,653	64,944
Unrestricted net position	(4,281,978)	(4,060,565)
Total net position	<u>\$ (629,303)</u>	<u>\$ 366,833</u>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)—CONTINUED**  
**Year Ended June 30, 2017**

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, governmental liabilities exceeded assets by approximately \$610,025; proprietary liabilities exceeded assets by \$19,278 and total liabilities exceeded assets by \$629,303 at June 30, 2017.

The District had an overall decrease in unrestricted net position of \$221,413, comprised of a decrease in governmental activities unrestricted net position of \$209,708 and a decrease in proprietary activities unrestricted net position of \$11,705.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2017 and 2016.

	<u>2017</u>	<u>2016</u>
<b>Revenues and other financing sources</b>		
Local revenue sources	2,828,293	2,801,945
State revenue sources	15,495,493	15,700,423
Federal Revenue	2,887,919	2,861,846
<b>Total revenue</b>	<u>21,211,705</u>	<u>21,364,214</u>
<b>Expenditures and other financing uses</b>		
Instruction	\$ 11,592,266	\$ 11,235,951
Student support services	984,256	1,138,910
Instructional support	1,562,093	1,867,964
District administration	780,543	639,193
School administration	1,110,248	1,068,267
Business operations	304,536	310,018
Plant operation and maintenance	1,655,826	1,892,739
Student transportation	1,684,526	1,635,725
Community services	296,167	297,077
Site improvement	19,865	4,768,549
Debt Service	1,663,988	1,592,972
<b>Total expenditures</b>	<u>21,654,314</u>	<u>26,447,365</u>
<b>Excess revenues (expenditures)</b>	<u>(442,609)</u>	<u>(5,083,151)</u>
<b>Other financing sources (uses)</b>		
Bond principal proceeds	\$ -	\$ 2,880,000
Bond premium	-	34,142
Deposit with escrow agent	-	(2,343,645)
Debt issuance cost	-	(40,497)
Proceeds from sale of assets	30,832	137,636
Capital lease	268,845	182,336
Transfers in	1,274,690	1,357,804
Transfers out	(1,199,501)	(1,281,264)
<b>Total other financing sources (uses)</b>	<u>\$ 374,866</u>	<u>\$ 926,512</u>
<b>Net change in fund balance</b>	<u>\$ (67,743)</u>	<u>\$ (4,156,639)</u>

**BREATHITT COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)—CONTINUED  
Year Ended June 30, 2017**

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On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

**BUDGETARY IMPLICATION**

In Kentucky the public school fiscal year is July 1 through June 30; other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a working budget with \$300,000 in contingency. Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

**Comments on Budget Comparisons**

- The District's total general fund revenues, excluding transfers, proceeds from the sale of assets and capital lease proceeds, for the fiscal year ended June 30, 2017 were \$15,664,492.
- General fund budgeted revenue compared to actual revenue varied from line item to line item with the ending actual balance being \$17,868 more than budget or .11% less than budget.
- The total cost of all general fund programs and services for the fiscal year ended June 30, 2017 was \$15,878,768, excluding transfers.
- General fund budgeted expenditures compared to actual expenditures varied from line item to line item with the ending actual balance being \$493,808 less than budget or 3.02% less than budget.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

Questions regarding this report should be directed to the Superintendent at 606-666-2491, Director of Financial Services at 606-666-2491, or by mail at 420 Court Street, PO Box 750 Jackson, Kentucky 41339.

BREATHITT COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2017

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 607,468	\$ 384,153	\$ 991,621
Accounts receivable:			
Taxes	141,227	-	141,227
Other	2,714	-	2,714
Intergovernmental - State	42,384	-	42,384
Intergovernmental - Federal	640,109	18,129	658,238
Inventory	-	16,319	16,319
Capital Assets, net			
Nondepreciable	491,402	-	491,402
Depreciable	18,693,155	248,646	18,941,801
<b>Total assets</b>	<u>20,618,459</u>	<u>667,247</u>	<u>21,285,706</u>
<b>Deferred outflow of resources</b>			
Deferred amounts from refunding bonds	311,243	-	311,243
Deferred outflows from pensions	1,142,282	186,571	1,328,853
	<u>1,453,525</u>	<u>186,571</u>	<u>1,640,096</u>
<b>LIABILITIES</b>			
Accounts payable	47,359	2,885	50,244
Advances from grantors	441,717	-	441,717
Current portion of KSBIT Bond	66,169	-	66,169
Current portion of capital lease obligations	248,362	-	248,362
Current maturities of bond obligations	965,000	-	965,000
Interest payable	108,328	-	108,328
Net pension liability	5,009,473	818,206	5,827,679
Noncurrent portion of KSBIT Bond	513,218	-	513,218
Noncurrent portion of capital lease obligations	1,332,765	-	1,332,765
Noncurrent maturities of bond obligations	13,560,000	-	13,560,000
Bond premium	31,297	-	31,297
Noncurrent portion of accumulated sick leave	250,975	-	250,975
<b>Total liabilities</b>	<u>22,574,663</u>	<u>821,091</u>	<u>23,395,754</u>
<b>Deferred inflow of resources</b>			
Deferred inflows from pension	107,346	52,005	159,351
<b>NET POSITION</b>			
Net investment in capital assets	3,358,376	248,646	3,607,022
Restricted for:			
Capital expenditures	144,390		144,390
Other	181,988	(280,725)	(98,737)
Unrestricted	(4,294,779)	12,801	(4,281,978)
<b>Total net position</b>	<u>\$ (610,025)</u>	<u>\$ (19,278)</u>	<u>\$ (629,303)</u>

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

BREATHITT COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
<b>FUNCTIONS/PROGRAMS</b>							
<b>Governmental activities</b>							
Instruction	\$ 12,408,190	\$ 139,181	\$ 5,569,432	\$ -	\$ (6,699,577)	\$ -	\$ (6,699,577)
Student	994,189	-	283,948	-	(710,241)	-	(710,241)
Instructional support	1,577,857	-	1,125,200	-	(452,657)	-	(452,657)
District administration	788,955	-	100,200	-	(688,755)	-	(688,755)
School administration	1,121,504	-	233,801	-	(887,703)	-	(887,703)
Business support	307,934	-	-	-	(307,934)	-	(307,934)
Plant operations and maintenance	2,615,125	-	78,720	-	(2,536,405)	-	(2,536,405)
Student transportation	1,730,142	-	107,261	-	(1,622,881)	-	(1,622,881)
Community services	299,156	-	296,167	-	(2,989)	-	(2,989)
Interest on long-term debt	436,837	-	-	275,737	(161,100)	-	(161,100)
<b>Total governmental activities</b>	<b>22,279,889</b>	<b>139,181</b>	<b>7,794,729</b>	<b>275,737</b>	<b>(14,070,242)</b>	<b>-</b>	<b>(14,070,242)</b>
<b>Business-type activities</b>							
Food service	1,552,066	49,967	1,542,308	-	-	40,209	40,209
<b>Total business-type activities</b>	<b>1,552,066</b>	<b>49,967</b>	<b>1,542,308</b>	<b>-</b>	<b>-</b>	<b>40,209</b>	<b>40,209</b>
<b>Total primary government</b>	<b>\$ 23,831,955</b>	<b>\$ 189,148</b>	<b>\$ 9,337,037</b>	<b>\$ 275,737</b>	<b>(14,070,242)</b>	<b>40,209</b>	<b>(14,030,033)</b>
<b>General revenues</b>							
Taxes:							
Property					1,683,655	-	1,683,655
Motor vehicle					303,525	-	303,525
Utility					600,818	-	600,818
Other					35,650	-	35,650
Earnings on investments					6,444	1,007	7,451
State grants					10,173,765	-	10,173,765
Other local amounts					198,201	-	198,201
Transfers					75,189	(75,189)	-
Gain/(loss) on disposal of assets					30,832	-	30,832
<b>Total general revenues</b>					<b>13,108,079</b>	<b>(74,182)</b>	<b>13,033,897</b>
<b>Change in net position</b>					<b>(962,163)</b>	<b>(33,973)</b>	<b>(996,136)</b>
<b>Net position as if June 30, 2016</b>					<b>352,138</b>	<b>14,695</b>	<b>366,833</b>
<b>Net position as of June 30, 2017</b>					<b>\$ (610,025)</b>	<b>\$ (19,278)</b>	<b>\$ (629,303)</b>

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

BREATHITT COUNTY SCHOOL DISTRICT  
BALANCE SHEET -  
GOVERNMENTAL FUNDS  
June 30, 2017

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 463,078	\$ -	\$ 144,390	\$ 607,468
Interfund receivable	224,845			224,845
Accounts receivable:				
Taxes	141,227	-	-	141,227
Other	2,325	389		2,714
Intergovernmental - State	-	42,384	-	42,384
Intergovernmental - Federal	11,578	628,531	-	640,109
<b>Total assets</b>	<u>\$ 843,053</u>	<u>\$ 671,304</u>	<u>144,390</u>	<u>\$ 1,658,747</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Interfund payable	\$ -	\$ 224,845	\$ -	\$ 224,845
Accounts payable	42,617	4,742	-	47,359
Advances from grantors	-	441,717	-	441,717
<b>Total liabilities</b>	<u>42,617</u>	<u>671,304</u>	<u>-</u>	<u>713,921</u>
<b>Fund balances</b>				
Restricted	-	-	144,390	144,390
Committed	181,988	-		181,988
Unassigned	618,448	-	-	618,448
<b>Total fund balances</b>	<u>800,436</u>	<u>-</u>	<u>144,390</u>	<u>944,826</u>
<b>Total liabilities and fund balances</b>	<u>\$ 843,053</u>	<u>\$ 671,304</u>	<u>\$ 144,390</u>	<u>\$ 1,658,747</u>

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

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Total fund balances - governmental funds	\$ 944,826
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	19,184,557
Deferred outflow of resources is not reported in the governmental funds but is reported in the Statement of Net Position.	1,453,525
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	(15,104,387)
Capital leases payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the Statement of Net Position.	(1,581,127)
Accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	(250,975)
The net pension liability is not expected to be paid from current economic resources and is not reported in the governmental funds fund balance but is reported in the Statement of Net Position	(5,009,473)
Deferred inflow of resources is not reported in the governmental funds but is reported in the Statement of Net Position.	(107,346)
Bond premiums are recognized as revenue in the governmental funds but are reported as a liability in the Statement of Net Position.	(31,297)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the Statement of Net Position.	<u>(108,328)</u>
Total net position - governmental activities	<u>\$ (610,025)</u>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
**Year ended June 30, 2017**

	General Fund	Special Revenue Funds	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
From local sources:				
Taxes:				
Property	\$ 1,445,300	\$ -	\$ 238,355	\$ 1,683,655
Motor vehicle	303,525	-	-	303,525
Utility	600,818	-	-	600,818
Unmined minerals	35,650	-	-	35,650
Earnings on investments	5,764	445	235	6,444
Other local	25,022	173,179	-	198,201
Intergovernmental - State	13,109,232	1,495,561	890,700	15,495,493
Intergovernmental - Federal	139,181	2,748,738	-	2,887,919
<b>Total revenues</b>	<b>15,664,492</b>	<b>4,417,923</b>	<b>1,129,290</b>	<b>21,211,705</b>
<b>Expenditures</b>				
Current:				
Instruction	8,663,698	2,928,568	-	11,592,266
Student	900,709	83,547	-	984,256
Instructional support	570,493	991,600	-	1,562,093
District administration	780,543	-	-	780,543
School administration	1,110,248	-	-	1,110,248
Business support	304,536	-	-	304,536
Plant operations and maintenance	1,610,506	45,320	-	1,655,826
Student transportation	1,610,665	73,861	-	1,684,526
Community services	-	296,167	-	296,167
Site improvement	-	-	19,865	19,865
Debt service	327,370	-	1,336,618	1,663,988
<b>Total expenditures</b>	<b>15,878,768</b>	<b>4,419,063</b>	<b>1,356,483</b>	<b>21,654,314</b>
Excess (deficit) of revenues over (under) expenditures	(214,276)	(1,140)	(227,193)	(442,609)
<b>Other financing sources (uses)</b>				
Sale of assets	30,832	-	-	30,832
Capital Lease proceeds	268,845	-	-	268,845
Transfers in	159,005	54,804	1,060,881	1,274,690
Transfers out	(292,858)	(53,664)	(852,979)	(1,199,501)
<b>Total other financing sources (uses)</b>	<b>165,824</b>	<b>1,140</b>	<b>207,902</b>	<b>374,866</b>
<b>Net change in fund balance</b>	<b>(48,452)</b>	<b>-</b>	<b>(19,291)</b>	<b>(67,743)</b>
Fund balance as of June 30, 2016	848,888	-	163,681	1,012,569
<b>Fund balance as of June 30, 2017</b>	<b>\$ 800,436</b>	<b>\$ -</b>	<b>\$ 144,390</b>	<b>\$ 944,826</b>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**Year ended June 30, 2017**

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Net change in total fund balances - governmental funds	\$ (67,743)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but they are treated as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlay for the year.	(1,598,030)
Amortization of deferred outflows of resources is not recognized as an expense in the governmental fund financial statements but is recognized as expense in the Statement of Activities.	(41,206)
Bond and capital lease proceeds are recognized as revenue in the governmental fund financial statements, but are increases of liabilities in the Statement of Net Position.	(268,845)
Bond and capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the Statement of Net Position.	1,236,930
Amortizations of bond premiums are recognized as a decrease in expense in the government wide statements but are not recognized in the fund financial statements.	2,845
The net change in calculated pension expense over/(under) the contributions after the measurement date is not shown on the fund financial statements but is presented on the Statement of Activities.	(201,538)
Interest expense is accrued in the Statement of Net Position but is not accrued in the governmental funds.	28,582
Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.	<u>(53,158)</u>
Change in net position - governmental activities	<u>\$ (962,163)</u>

BREATHITT COUNTY SCHOOL DISTRICT  
 STATEMENT OF NET POSITION -  
 PROPRIETARY FUNDS  
 June 30, 2017

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	<u>Food Service Fund</u>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 384,153
Accounts receivable	18,129
Inventory	<u>16,319</u>
Total current assets	<u>418,601</u>
<b>Noncurrent assets</b>	
Capital assets	576,501
Less accumulated depreciation	<u>(327,855)</u>
Total noncurrent assets	<u>248,646</u>
<b>Total assets</b>	<u>667,247</u>
<b>Deferred outflow of resources</b>	
Deferred outflows from pensions	<u>186,571</u>
	<u>186,571</u>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable	<u>2,885</u>
<b>Noncurrent liabilities</b>	
Net pension liability	<u>818,206</u>
<b>Total liabilities</b>	<u>821,091</u>
<b>Deferred inflow of resources</b>	
Deferred pension changes	<u>52,005</u>
<b>NET POSITION</b>	
Net investment in capital assets	248,646
Restricted for:	
Other	(267,924)
Unrestricted	<u>-</u>
<b>Total net position</b>	<u>\$ (19,278)</u>

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

**BREATHITT COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -**  
**PROPRIETARY FUNDS**  
Year ended June 30, 2017

	<u>Food Service Fund</u>
<b>Operating revenues</b>	
Lunchroom sales	\$ 49,967
Total operating revenues	<u>49,967</u>
<b>Operating expenses</b>	
Salaries and wages	449,352
Contract services	17,905
Employee benefits	158,891
Pension expense	71,422
Materials and supplies	825,977
Depreciation	<u>28,519</u>
Total operating expenses	<u>1,552,066</u>
Operating loss	<u>(1,502,099)</u>
<b>Nonoperating revenues</b>	
Federal grants	1,405,929
State grants	45,687
Donated commodities	90,692
Interest income	<u>1,007</u>
Total nonoperating revenues/(expenses)	<u>1,543,315</u>
Income before contributions transfers and special items	41,216
Transfer out	<u>(75,189)</u>
<b>Change in net position</b>	<u>(33,973)</u>
Net position as of June 30, 2016	<u>14,695</u>
<b>Net position as of June 30, 2017</b>	<u>\$ (19,278)</u>

BREATHITT COUNTY SCHOOL DISTRICT  
 STATEMENT OF CASH FLOWS -  
 PROPRIETARY FUNDS  
 Year ended June 30, 2017

	<u>Food Service Fund</u>
<b>Cash flows from operating activities</b>	
Cash received from:	
Lunchroom sales	\$ 59,649
Cash paid to/for:	
Employees	(608,243)
Supplies	(752,943)
Net cash used in operating activities	<u>(1,301,537)</u>
<b>Cash flows from non-capital financing activities</b>	
Grants received	1,451,615
Transfer to from general fund	(75,189)
Net cash used in non-capital financing activities	<u>1,376,426</u>
<b>Cash flows from investing activities</b>	
Purchase of fixed assets	(6,250)
Interest received on investments	1,007
Net cash used in capital and related activities	<u>(5,243)</u>
Net increase in cash and cash equivalents	69,646
Cash and cash equivalents as of June 30, 2016	<u>314,507</u>
<b>Cash and cash equivalents as of June 30, 2017</b>	<u>\$ 384,153</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>	
Operating income/ (loss)	\$ (1,502,099)
Adjustments to reconcile change in net position to net cash used in operating activities:	
(Increase) Decrease in accounts receivable	9,682
Change in pension expense	71,422
Donated commodities	90,692
Increase (Decrease) in Accounts payable	247
Depreciation	28,519
<b>Net cash used in operating activities</b>	<u>\$ (1,301,537)</u>
<b>Schedule of non-cash transactions:</b>	
Depreciation	\$ 28,519
Donated commodities	90,692
<b>Total non-cash transactions</b>	<u>\$ 119,211</u>

BREATHITT COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION -  
FIDUCIARY FUNDS  
June 30, 2017

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	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>		
Cash	\$ 96,969	\$ 96,969
<b>Total assets</b>	<u>96,969</u>	<u>96,969</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 19,052	\$ 19,052
Due to student groups	<u>77,917</u>	<u>77,917</u>
<b>Total liabilities</b>	<u>77,917</u>	<u>77,917</u>
<b>Total net position</b>	<u>\$ 19,052</u>	<u>\$ 19,052</u>

## **1. REPORTING ENTITY**

The Breathitt 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 Breathitt County School District ("District"). The District is currently under the management of the Kentucky Department of Education (KDE) and will be until KDE determines that the five-member board can resume governing the District. The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. 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 activities relevant to the operation of the Breathitt County Board of Education. The basic 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. Such funds or groups have been considered as prospective component units under GASB Statement Number 39, *Determining Whether Certain Organizations Are Component Units*, and have been determined to have insignificant assets, liabilities, equity, revenue and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

The basic 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:

Breathitt County School District Finance Corporation - The Breathitt County Board of Education resolved to authorize the establishment of the Breathitt County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes) (the "Corporation") to act 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.

## **2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The District has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 to its proprietary funds, unless those pronouncements conflict or contradict GASB pronouncements.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

The following is a summary of the basis of presentation:

**Government-wide Financial Statements** - The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

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

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

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

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

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

The District has the following funds:

### I. Government Fund Types

The General Fund is the main operating fund of the District. It accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund. This is a budgeted fund, and any fund balances are considered as resources available for use. This is always a major fund of the District.

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

I. Government Fund Types - continued

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. This is a major fund of the District.

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds). The Capital Projects Funds account for revenue and expenditures from three sources:

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling.

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

II. Proprietary Fund Types (Enterprise Funds)

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

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

III. Fiduciary Fund Type (Agency Funds)

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 *Accounting Procedures for Kentucky School Activity Funds*.

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

Unearned Revenue/Advances from grantors - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. The District reports unearned revenue on its statement of net position and governmental funds balance sheet. In both the government-wide and governmental fund statements, grants that are intended to finance future periods are reported as unearned revenue. In subsequent periods, the liability for unearned revenue is removed from the statement of net position and governmental funds balance sheet and revenue is recognized.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on flow of current financial resources. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation and sick leave, which are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

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

### Property Taxes

Property taxes are levied by September 30 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.

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

The property tax rates (including exonerations) assessed for the year ended June 30, 2017, to finance the General Fund operations were \$.513 per \$100 valuation for real property, \$.513 per \$100 valuation for business personal property and \$.492 per \$100 valuation for motor vehicles.

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

Prepaid Assets

Payments made that will benefit periods beyond the end of the fiscal year 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.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
School buses	10 years
Other vehicles	5 years
Audio-visual equipment	15 years
Food service equipment	12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other general equipment	10 years

Interfund Receivables and Payables

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.

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### 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 vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as an assigned portion of fund balance. The balance of the liability is not recorded.

For governmental fund financial statements the current portion, if any, 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.

### Bonds and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premiums or discounts. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Discounts related to debt issuance are reported as other financing uses. Issuance costs are reported as debt service expenditures.

### Budgetary Process

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 on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).
- Expenditures are recorded on the modified accrual basis of accounting (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved by the Board, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

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

### Cash and Cash Equivalents

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

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

### Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

### Inventories

On government-wide and governmental fund financial statements inventories of supplies and materials are stated at cost and are expensed when used.

The School Food Service fund inventory consists of food, supplies and U.S. Government commodities.

The Food Service Fund inventory is stated at cost and uses the specific identification method; the General Fund inventory is stated at cost and uses the first-in, first-out method.

### 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, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balances

Fund balances are separated into five categories, as required by GASB 54, *Fund Balance reporting and Governmental Fund Type Definitions*, as follows:

**Nonspendable** fund balance is permanently nonspendable by decree of donor. Examples would be an endowment or that which may not be used for another purpose such as amounts used to prepay future expenses or already purchased inventory on hand.

**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.

**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.

**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

## 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

**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.

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

### Encumbrances

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are appropriated in the next year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2017, in the governmental funds balance sheet.

### Net Position

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

### Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

### 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 after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### 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, designated fund balances, and disclosure of contingent assets and liabilities at the

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS-CONTINUED**  
**Year Ended June 30, 2017**

**2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED**

date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Deferred Inflows and Deferred Outflows of Resources

Deferred inflows and deferred outflows are recorded on the government-wide and proprietary financial statements. The deferred outflows of resources presented were primarily created by differences in pension expectations, the prior refunding of revenue bonds, and deferral of pension contributions. Deferred inflows were primarily created by actuarial determinations of net pension liability changes.

Pensions

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

**3. 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. As of June 30, 2017, none of the District's bank balances were exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

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

	<u>Bank Balance</u>	<u>Book Balance</u>
Citizens Bank & Trust	\$ 1,889,921	\$ 991,621
Citizens Bank & Trust-Agency funds	<u>102,993</u>	<u>96,969</u>
	<u>\$ 1,992,914</u>	<u>\$ 1,088,590</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 607,468
Proprietary funds	384,153
Agency funds	<u>96,969</u>
	<u>\$ 1,088,590</u>

Cash is commingled in various bank accounts and short-term certificates of deposit. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and Federal financial assistance programs, each cash account within the following funds is considered to be restricted:

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**3. CUSTODIAL CREDIT RISK – DEPOSITS - CONTINUED**

Special Revenue Funds  
 SEEK Capital Outlay Fund  
 Facility Support Program (FSPK) Fund  
 School Construction Fund  
 School Food Service Fund  
 Agency Funds

**4. INVESTMENTS**

Funds of the District are public funds and, therefore, their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds as provided by KRS 66.480. At June 30, 2017, the District holds only demand deposits and certificates of deposit considered to be cash equivalents. Consequently, the District does not have investment related credit risk or interest risk.

**5. CAPITAL ASSETS**

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

	June 30, 2016		June 30, 2017	
	Balance	Additions	Retirements	Balance
<b>Governmental Activities</b>				
Land & land improvements	\$ 1,631,505	\$ -	\$ -	\$ 1,631,505
Buildings	34,753,916	19,865	-	34,773,781
Technology equipment	4,131,231	17,995	-	4,149,226
Vehicles	4,233,389	289,796	-	4,523,185
General equipment	1,348,093	-	-	1,348,093
Construction work in progress	-	19,865	19,865	-
Total historical cost	46,098,134	347,521	19,865	46,425,790
Less accumulated depreciation	25,315,547	1,925,686	-	27,241,233
Governmental capital assets, net	<u>\$ 20,782,587</u>	<u>\$ (1,578,165)</u>	<u>\$ 19,865</u>	<u>\$ 19,184,557</u>
<b>Business-type Activities</b>				
Buildings	\$ 67,500	\$ -	\$ -	\$ 67,500
Technology equipment	18,745	-	1,347	17,398
General equipment	557,355	6,251	72,002	491,604
Total historical cost	643,600	6,251	73,349	576,502
Less accumulated depreciation	372,686	28,519	73,349	327,856
Business-type capital assets, net	<u>\$ 270,914</u>	<u>\$ (22,268)</u>	<u>\$ -</u>	<u>\$ 248,646</u>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**5. CAPITAL ASSETS—CONTINUED**

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$	663,774
District administrative		535
School administrative		52
Business		325
Plant operation and maintenance		942,589
Student transportation		318,411
		<u>318,411</u>
	\$	<u>1,925,686</u>

**6. CAPITAL LEASE PAYABLE**

The District has entered into a capital lease agreement for buses under which the buses will become the property of the District when all the terms of the lease agreement are met. The following schedule presents the capital lease activity for the year ended June 30, 2017:

Description	Maturity	Interest Rates	Original Issue	Balance June 30, 2016	Debt Issued	Debt Paid	Balance June 30, 2017	Due Within One Year	
KISTA:									
2009	March, 2019	2.0 - 3.9%	236,876	69,726		25,426	44,300	21,757	
2010A	March, 2020	1.00 - 3.30%	161,709	64,032		16,641	47,391	17,003	
2010	March, 2020	2.0% - 3.9%	240,039	118,359		24,115	94,244	24,730	
2012	March, 2022	2.00% - 2.6%	559,152	328,571		55,013	273,558	56,087	
2013	March, 2023	2.00% - 3.00%	258,815	177,011		25,064	151,947	25,523	
2014	March, 2024	2.00% - 3.00%	279,368	218,282		26,471	191,811	26,980	
2014	June, 2034	3.00% - 3.50%	213,648	196,503		8,667	187,836	8,927	
2015	March, 2025	1.00% - 2.625%	201,361	179,534		20,904	158,630	19,214	
2016	March, 2026	2.00% - 2.625%	182,336	182,336		19,771	162,565	19,994	
2017	March, 2027	2.00% - 2.625%	268,845	-	268,845	-	268,845	28,147	
				<u>\$ 2,602,149</u>	<u>\$ 1,534,354</u>	<u>\$ 268,845</u>	<u>\$ 222,072</u>	<u>\$ 1,581,127</u>	<u>\$ 248,362</u>

The following table presents a schedule by years of the future minimum lease payments under capital lease as of June 30, 2017:

*See table on next page*

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**6. CAPITAL LEASE PAYABLE-CONTINUED**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	248,362	33,237	281,599
2019	244,082	28,027	272,109
2020	222,441	19,936	242,377
2021	202,082	17,958	220,040
2022	179,232	13,602	192,834
2023-2027	392,725	31,172	423,897
2028-2032	63,557	11,839	75,396
2033-2034	28,646	1,513	30,159
<b>Totals</b>	<b>\$ 1,581,127</b>	<b>\$ 157,284</b>	<b>\$ 1,738,411</b>
		<b>Less: amounts representing interest</b>	<b>(157,284)</b>
		<b>Net capital lease liability</b>	<b>\$ 1,581,127</b>

**7. LONG-TERM OBLIGATIONS**

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Breathitt County School District Finance Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2007R	\$ 2,690,000	3.5% - 4.3%
2008	2,850,000	3.25% - 4.00%
2012	765,000	1.5% - 2.375%
2013R	750,000	2.15%
2014	295,000	2.00% - 3.00%
2015R	2,150,000	1.00% - 2.00%
2015	7,990,000	2.00% - 3.25%
2015WW	530,000	3.10%
2016R	2,350,000	2.00% - 3.00%

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 Breathitt 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.

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**7. LONG-TERM OBLIGATIONS-CONTINUED**

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. In 2008, the District also entered into an agreement with the Urgent Needs Trust Fund. The Urgent Needs Trust Fund was established by the 2003 Kentucky General Assembly for the purpose of assisting school districts that have urgent and critical construction needs. The Urgent Needs Trust Fund is administered by the School Facility Construction Commission. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. 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:

Year	Breathitt County School District		Kentucky School Facility Construction Commission		Total Principal	Total Interest
	Principal	Interest	Principal	Interest		
2017-18	\$ 764,555	\$ 345,947	\$ 200,445	\$ 110,427	\$ 965,000	\$ 456,374
2018-19	814,284	268,222	205,716	70,021	1,020,000	338,243
2019-20	835,070	254,589	209,930	65,807	1,045,000	320,396
2020-21	870,768	238,741	214,232	61,506	1,085,000	300,247
2021-22	641,380	226,433	218,620	57,118	860,000	283,551
2022-23	661,849	211,954	223,151	52,585	885,000	264,539
2023-24	692,223	197,099	227,777	47,959	920,000	245,058
2024-25	648,133	181,312	186,867	43,129	835,000	224,441
2025-26	614,179	167,129	190,821	39,175	805,000	206,304
2026-27	639,919	152,948	195,081	34,915	835,000	187,863
2027-28	689,065	133,711	200,935	29,063	890,000	162,774
2028-29	443,560	112,921	96,440	23,035	540,000	135,956
2029-30	475,667	99,570	99,333	20,142	575,000	119,712
2030-31	502,687	85,255	102,313	17,162	605,000	102,417
2031-32	474,618	70,826	105,382	14,092	580,000	84,918
2032-33	536,325	55,995	108,675	10,799	645,000	66,794
2033-34	582,929	39,234	112,071	7,403	695,000	46,637
3034-35	624,286	20,289	115,714	3,760	740,000	24,049
	<u>\$ 11,511,497</u>	<u>\$ 2,862,175</u>	<u>\$ 3,013,503</u>	<u>\$ 708,098</u>	<u>\$ 14,525,000</u>	<u>\$ 3,570,273</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2017 is as follows:

*See table on next page*

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**7. LONG-TERM OBLIGATIONS-CONTINUED**

School Building Revenue Bonds	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
2007R	\$ 935,000	\$ -	\$ 435,000	\$ 500,000
2008	150,000	-	75,000	75,000
2012	660,000	-	40,000	620,000
2013R	720,000	-	15,000	705,000
2014	275,000	-	20,000	255,000
2015R	2,020,000	-	115,000	1,905,000
2015	7,835,000	-	165,000	7,670,000
2015WW	530,000	-	45,000	485,000
2016R	2,350,000	-	40,000	2,310,000
Net Pension Liability	5,006,264	821,415	-	5,827,679
KSBIT bonded debt	644,245	-	64,858	579,387
Accrued sick leave	197,817	53,158	-	250,975
	<u>\$ 21,323,326</u>	<u>\$ 874,573</u>	<u>\$ 1,014,858</u>	<u>\$ 21,183,041</u>

**8. RETIREMENT PLANS**

The District's employees are provided with two pension plans, based on each position's college degree requirement as described below. The two pension plans are County Employees Retirement System (CERS) and the Kentucky Teachers Retirement System (KTRS).

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

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

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

**8. RETIREMENT PLANS - CONTINUED**

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

Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement.

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

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

*Funding Policy* - Funding for the plan is provided through payroll withholdings and matching District contributions. The District contributes 18.68% of the employee's total compensation subject to contribution.

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

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

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

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

## **8. RETIREMENT PLANS - CONTINUED**

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

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

*Contributions*—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### **Medical Insurance Plan**

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

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

*Funding policy*—In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three and three quarters percent (3.75%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and three percent (3.0%) from the employer.

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

District's proportionate share of the CERS net pension liability	\$	5,827,679
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>78,611,888</u>
	\$	<u>84,439,567</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.11836%.

For the year ended June 30, 2017, the District recognized pension expense of \$272,960 related to CERS and \$1,293,488 related to KTRS. The District also recognized revenue of \$1,293,488 for KTRS support provided by the Commonwealth. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 25,442	\$ -
Changes of assumptions	308,719	-
Net difference between projected and actual earnings on pension plan investments	547,861	-
Changes in proportion and differences between District contributions and proportionate share of contributions	51,562	159,351
District contributions subsequent to the measurement date	<u>395,269</u>	<u>-</u>
Total	<u>\$ 1,328,853</u>	<u>\$ 159,351</u>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**8. RETIREMENT PLANS - CONTINUED**

The \$395,269 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	\$	284,684
2019	\$	176,246
2020	\$	191,590
2021	\$	121,713
	\$	<u>774,233</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:

	<u>CERS</u>	<u>KTRS</u>
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%
Municipal bond index rate		3.01%
Single equalivent interest rate		4.20%

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

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 4.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire

**8. RETIREMENT PLANS - CONTINUED**

projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$ 7,262,249	\$ 5,827,679	\$ 4,597,993
KTRS	3.20%	4.20%	5.20%
District's proportionate share of net pension liability	-	-	-

*Pension plan fiduciary net position*—Detailed information about the CERS and the KTRS pension plans' fiduciary net position, projected benefits, and projected funding status is available in the separately issued financial reports at <http://kyret.ky.gov/> and <https://gov.state.ky.us>, respectively.

The District also offers employees the option to participate in a defined contribution plan under Section 403 (B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute of these plans.

The District's total payroll for the year for employees covered under pensions plans was \$12,268,020. The payroll for employees covered under KTRS was \$9,394,333 and for CERS was \$2,873,687.

The contribution requirement for CERS for the years ended June 30, 2017, 2016, and 2015 was \$395,269, \$298,876, and \$483,618, respectively. The contribution requirement (both withholding and match) KTRS for the years ended June 30, 2017, 2016, and 2015, was \$1,293,488, \$1,276,545, and \$1,590,894, respectively. Per KTRS, all contributions made by the District are for health insurance and should not be considered contributions towards retirement. The District met their contribution requirements.

**9. DEFERRED COMPENSATION**

The District offers its employees participation in a deferred compensation program administered by the Kentucky Public Employees' Deferred Compensation Authority. This program offers a plan authorized by Section 457(b) of the Internal Revenue Code and a plan authorized by Section 401(k) of the Internal Revenue Code. Both plans are available to all employees and permit them to defer up to 25% of their compensation (subject to limits) until future years. The District makes no contributions to these plans.

**10. OPERATING LEASES**

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2017, aggregate cost for equipment and copier rentals was \$64,426.

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

**11. CONTINGENCIES**

*Grants* - 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 on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements, and the collectability of any related receivables as of June 30, 2017 may be impaired. 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.

**12. LITIGATION**

The District is subject to legal actions in various states 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 financial statements as a result of the cases presently in progress.

**13. RISK MANAGEMENT**

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. Settled claims resulting from these risks have created a potential liability as discussed in the *Contingencies* disclosure above.

Contributions for Workers' Compensation coverage are based on premium rates established in conjunction with the insurance carrier, subject to claims experience modifications and discounts.

**14. DEFICIT FUND BALANCES**

The District's Food Service fund has a deficit net position of \$19,278 as of June 30, 2017.

**15. 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. There were no instances of noncompliance noted.

**16. TRANSFER OF FUNDS**

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Matching	\$ 36,447
Operating	General	Debt Service	Debt Service	256,411
Operating	Capital Outlay	Debt Service	Debt Service	104,437
Operating	Building Fund	Debt Service	Debt Service	679,433
Operating	Special Revenue	Debt Service	Debt Service	20,600
Operating	Special Revenue	Special Revenue	Flex Transfer	18,357
Operating	Special Revenue	General	Indirect Costs	14,707
Operating	Food Service	General	Indirect Costs	75,189
Operating	Capital Outlay	General	COFT	69,109

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS—CONTINUED**  
**Year Ended June 30, 2017**

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**17. ON-BEHALF PAYMENTS**

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

Retirement contributions to the Teachers' Retirement System of Kentucky	\$	1,293,488
Health and Life insurance		2,229,875
Other		(183,351)
Technology		69,055
Debt Service		275,737
		<u>3,684,804</u>
	\$	<u>3,684,804</u>

**18. FUND BALANCE DESIGNATIONS**

The following funds had restricted fund balances as follows:

Fund	Amount	Purpose
Construction	\$ 144,051	Future construction
Food Service	(19,278)	Food service operations
FSPK Fund	339	Future debt service

The following funds had committed fund balances as follows:

Fund	Amount	Purpose
General	\$ 181,988	Sick leave

**19. INTERFUND RECEIVABLES AND PAYABLES**

The general fund presented an interfund receivable from the special revenue fund of \$24,845 and there was a corresponding presentation of an interfund payable in the special revenue fund.

**20. SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through November 15, 2017, which is the date the audit report can be released. There were no events as of the date of the financial statements that would require adjustments or to the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

BREATHITT COUNTY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL - GENERAL FUND  
 Year ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Taxes:				
Property	\$ 1,354,215	\$ 1,337,000	\$ 1,445,300	\$ 108,300
Motor vehicle	290,000	290,000	303,525	13,525
Utility	600,000	580,000	600,818	20,818
Unmined minerals	341,785	275,000	35,650	(239,350)
Earnings on investments	6,000	6,000	5,764	(236)
Other local	10,000	11,000	25,022	14,022
Intergovernmental - State	13,075,308	12,987,624	13,109,232	121,608
Intergovernmental - Federal	140,000	160,000	139,181	(20,819)
<b>Total revenues</b>	<b>15,817,308</b>	<b>15,646,624</b>	<b>15,664,492</b>	<b>17,868</b>
<b>Expenditures</b>				
Current:				
Instruction	8,412,468	8,296,955	8,663,698	(366,743)
Student	1,066,858	971,207	900,709	70,498
Instructional staff	574,574	558,116	570,493	(12,377)
District administration	803,055	815,897	780,543	35,354
School administration	1,068,373	1,081,846	1,110,248	(28,402)
Business support	284,899	303,560	304,536	(976)
Plant operations and maintenance	1,800,507	1,787,141	1,610,506	176,635
Student transportation	1,636,087	1,729,575	1,610,665	118,910
Community services	-	-	-	-
Contingency	300,000	500,910	-	500,910
Debt service	246,008	327,369	327,370	(1)
<b>Total expenditures</b>	<b>16,192,829</b>	<b>16,372,576</b>	<b>15,878,768</b>	<b>493,808</b>
Excess (deficit) of revenues over (under) expenditures	(375,521)	(725,952)	(214,276)	511,676
<b>Other financing sources (uses)</b>				
Sale of assets	5,000	8,000	30,832	22,832
Capital lease proceeds	200,000	200,000	268,845	68,845
Transfers in	138,295	157,463	159,005	1,542
Transfers out	(337,774)	(306,411)	(292,858)	13,553
<b>Total other financing sources (uses)</b>	<b>5,521</b>	<b>59,052</b>	<b>165,824</b>	<b>106,772</b>
<b>Net change in fund balance</b>	<b>(370,000)</b>	<b>(666,900)</b>	<b>(48,452)</b>	<b>618,448</b>
Fund balance as of June 30, 2016	848,888	848,888	848,888	-
<b>Fund balance as of June 30, 2017</b>	<b>\$ 478,888</b>	<b>\$ 181,988</b>	<b>\$ 800,436</b>	<b>\$ 618,448</b>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND**  
**Year ended June 30, 2017**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
From local sources				
Earnings on investments	\$ -	\$ -	\$ 445	\$ 445
Other local	73,043	74,142	173,179	99,037
Intergovernmental - State	1,629,309	1,518,176	1,495,561	(22,615)
Intergovernmental - Federal	2,624,514	2,790,452	2,748,738	(41,714)
<b>Total revenues</b>	<b>4,326,866</b>	<b>4,382,770</b>	<b>4,417,923</b>	<b>35,153</b>
<b>Expenditures</b>				
Current:				
Instruction	2,749,622	2,882,263	2,928,568	(46,305)
Student	118,506	89,960	83,547	6,413
Instructional staff	1,029,205	1,009,524	991,600	17,924
Plant operations and maintenance	61,999	44,839	45,320	(481)
Student transportation	80,910	116,155	73,861	42,294
Community services	254,270	252,296	296,167	(43,871)
<b>Total expenditures</b>	<b>4,294,512</b>	<b>4,395,037</b>	<b>4,419,063</b>	<b>(24,026)</b>
Excess (deficit) of revenues over (under) expenditures	32,354	(12,267)	(1,140)	11,127
<b>Other financing sources (uses)</b>				
Transfers in	115,493	50,000	54,804	4,804
Transfers out	(147,847)	(39,503)	(53,664)	(14,161)
<b>Total other financing sources (uses)</b>	<b>(32,354)</b>	<b>10,497</b>	<b>1,140</b>	<b>(9,357)</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>(1,770)</b>	<b>-</b>	<b>1,770</b>
Fund balance as of June 30, 2016	-	-	-	-
<b>Fund balance as of June 30, 2017</b>	<b>\$ -</b>	<b>\$ (1,770)</b>	<b>\$ -</b>	<b>\$ 1,770</b>

**BREATHITT COUNTY SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGET AND ACTUAL - GENERAL FUND AND SPECIAL REVENUE FUND**

**Year ended June 30, 2017**

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The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other Local, State, and Federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board. The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each calendar year. Additionally, the District must submit a certified budget to the Kentucky Department of Education, based on the District's staffing policy, and the amount for the instructional supplies, materials, travel and equipment. Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a 2% reserve but not greater than 10%. Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of each calendar year. The Board has the ability to amend the working budget. The working budget was amended during the year.

**BREATHITT COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**COUNTY EMPLOYEES RETIREMENT SYSTEM**  
 June 30, 2017

	<u>District's proportion of net pension liability (asset)</u>	<u>District's proportionate share of the net pension liability (asset)</u>	<u>District's covered-employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	0.12%	\$ 5,827,679	\$ 2,873,687	202.79%	55.50%
2016	0.12%	\$ 5,006,264	\$ 2,845,655	175.93%	59.97%
2015	0.13%	\$ 4,111,000	\$ 2,960,407	138.87%	66.80%

\* The amounts presented for each fiscal year were determined as of 6/30.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

BREATHITT COUNTY SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 June 30, 2017

	<u>Contractually required contribution</u>	<u>Contributions in relation to contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered-employee payroll</u>	<u>Contributions as a percentage of covered-employee payroll</u>
2017	\$ 529,292	\$ 529,292	\$ -	\$ 2,873,687	18.68%
2016	\$ 485,264	\$ 485,264	\$ -	\$ 2,845,655	17.05%
2015	\$ 483,689	\$ 483,565	\$ 124	\$ 2,772,508	17.44%

\* The amounts presented for each fiscal year were determined as of 6/30.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**BREATHITT COUNTY SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
COUNTY EMPLOYEES RETIREMENT SYSTEM - PENSION FUND  
Year ended June 30, 2017**

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Changes of Benefit Terms

None.

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

**BREATHITT COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**KENTUCKY TEACHERS' RETIREMENT SYSTEM**  
 June 30, 2017

	<u>State's proportion of net pension liability (asset)</u>	<u>State's proportionate share of the net pension liability (asset)</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2017	100%	\$78,611,888	35.22%
2016	100%	\$61,724,475	42.49%
2015	100%	\$63,279,460	45.59%

\* The amounts presented for each fiscal year were determined as of 6/30.

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

BREATHITT COUNTY SCHOOL DISTRICT  
 SCHEDULE OF STATE CONTRIBUTIONS  
 KENTUCKY TEACHERS' RETIREMENT SYSTEM  
 June 30, 2017

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	<u>Statutorily required contribution</u>	<u>Contributions in relation to the statutorily required contribution</u>	<u>Contribution deficiency (excess)</u>
2017	\$ 1,293,488	\$ 1,293,488	\$ -
2016	\$ 1,276,545	\$ 1,276,545	\$ -
2015	\$ 1,491,201	\$ 1,491,201	\$ -

\* The amounts presented for each fiscal year were determined as of 6/30

This schedule is presented to illustrate the requirement to show information for 10 years. More information will be added as it becomes available.

**BREATHITT COUNTY SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
KENTUCKY TEACHERS RETIREMENT SYSTEM  
Year ended June 30, 2017**

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Changes of Benefit Terms

None.

Changes of Assumptions

In the 2001 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 in 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.

**BREATHITT COUNTY SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**June 30, 2017**

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Construction Fund	Debt Service Fund	Total Non-major Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 339	\$ 144,051	\$ -	\$ 144,390
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 339</b>	<b>\$ 144,051</b>	<b>\$ -</b>	<b>\$ 144,390</b>
<b>FUND BALANCES</b>					
Fund Balances:					
Restricted	\$ -	\$ 339	\$ 144,051	\$ -	\$ 144,390
Nonspendable	-	-	-	-	-
<b>Total fund balances</b>	<b>\$ -</b>	<b>\$ 339</b>	<b>\$ 144,051</b>	<b>\$ -</b>	<b>\$ 144,390</b>

BREATHITT COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS  
 Year ended June 30, 2017

	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	Construction Fund	Debt Service Fund	Total Non-major Governmental Funds
<b>Revenues</b>					
From local sources:					
Taxes:					
Property	\$ -	\$ 238,355	\$ -	\$ -	\$ 238,355
Earnings on investments	-	-	235	-	235
Intergovernmental - State	173,546	441,417	-	275,737	890,700
Intergovernmental - Federal	-	-	-	-	-
<b>Total revenues</b>	<b>173,546</b>	<b>679,772</b>	<b>235</b>	<b>275,737</b>	<b>1,129,290</b>
<b>Expenditures</b>					
Site improvement	-	-	19,865	-	19,865
Debt service	-	-	-	1,336,618	1,336,618
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>19,865</b>	<b>1,336,618</b>	<b>1,356,483</b>
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	1,060,881	1,060,881
Transfers out	(173,546)	(679,433)	-	-	(852,979)
<b>Total other financing sources (uses)</b>	<b>(173,546)</b>	<b>(679,433)</b>	<b>-</b>	<b>1,060,881</b>	<b>207,902</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>339</b>	<b>(19,630)</b>	<b>-</b>	<b>(19,291)</b>
Fund balance as of June 30, 2016	-	-	163,681	-	163,681
<b>Fund balance as of June 30, 2017</b>	<b>\$ -</b>	<b>\$ 339</b>	<b>\$ 144,051</b>	<b>\$ -</b>	<b>\$ 144,390</b>

**BREATHITT COUNTY BOARD OF EDUCATION**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES - ELEMENTARY AND MIDDLE SCHOOL ACTIVITY FUNDS**  
**Year Ended June 30, 2017**

<u>School/ Activity Fund</u>	<u>Balances June 30, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash and Cash Equivalents June 30, 2017</u>	<u>Accounts Receivable June 30, 2017</u>	<u>Accounts Payable June 30, 2017</u>	<u>Balances June 30, 2017</u>
Highland-Turner Elementary	\$ 15,221	\$ 31,293	\$ 35,089	\$ 11,425	\$ -	\$ -	\$ 11,425
LBJ Elementary	10,101	19,225	19,062	10,264	-	-	10,264
Marie Roberts-Caney Elementary	5,521	25,232	27,472	3,281	-	-	3,281
Sebastian Middle School	20,742	29,376	33,671	16,447	-	-	16,447
<b>Totals</b>	<b>\$ 51,585</b>	<b>\$ 105,126</b>	<b>\$ 115,294</b>	<b>\$ 41,417</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 41,417</b>

BREATHITT COUNTY BOARD OF EDUCATION  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BREATHITT COUNTY HIGH SCHOOL ACTIVITY FUND  
 Year ended June 30, 2017

	Balances June 30, 2016	Receipts	Disbursements	Transfers in (out)	Cash and Cash Equivalents June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Balances June 30, 2017
Activities Fund	\$ 1,373	\$ 477	\$ 1,850	\$ -	\$ -	\$ -	\$ -	\$ -
Annual	1,197	2,100	1,597	-	1,700	-	-	1,700
AP Exam	(124)	1,596	1,088	-	384	-	-	384
AP History	652	-	-	-	652	-	-	652
Art	3,205	-	463	(2,666)	76	-	-	76
Athletic Misc	297	133	788	358	-	-	-	-
Band/Chorus	(3,255)	411	-	2,844	-	-	-	-
Baseball	(9,785)	1,093	121	8,813	-	-	-	-
BB District Tournament	-	313	424	111	-	-	-	-
Bobcat Spirit Team	7	-	-	(7)	-	-	-	-
Boys Basketball	(4,386)	16,416	27,453	17,428	2,005	-	428	1,577
Caring Committee Fund	32	-	-	-	32	-	-	32
Concession	2,757	12,317	8,514	(6,526)	34	-	34	-
Cross Country	(737)	-	-	737	-	-	-	-
Dist Tournament Baseball	247	-	448	201	-	-	-	-
District Sweep	3	-	-	-	3	-	-	3
Faculty	826	1,087	1,151	-	762	-	-	762
FCCLA	292	118	80	(175)	155	-	-	155
Elementary Tournament	-	1,593	1,456	(137)	-	-	-	-
Football	(22,974)	22,384	21,392	22,973	991	-	-	991
FRYSC	611	3,821	3,680	(300)	452	-	-	452
Future Farmers of America	7,706	23,896	27,685	-	3,917	-	-	3,917
Girls Basketball	(6,083)	15,273	18,005	8,815	-	-	-	-
Golf	(470)	1,721	780	470	941	-	-	941
Grade School Tournament	2,701	922	-	(3,623)	-	-	-	-
Greenhouse	3,260	-	372	-	2,888	-	-	2,888
Home Improvement	3,000	-	-	-	3,000	-	-	3,000
Jostens Diplomas	36	2,805	2,647	175	369	-	440	(71)
Ladycat Softball	1,787	7,797	6,868	(797)	1,919	-	-	1,919
Misc	1,859	4,439	6,257	-	41	-	-	41
Prom	2,373	5,870	4,969	(3,274)	-	-	-	-
Regional FCCLA	104	74	178	-	-	-	-	-

Continued on next page

BREATHITT COUNTY BOARD OF EDUCATION  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 BREATHITT COUNTY HIGH SCHOOL ACTIVITY FUND - CONTINUED  
 Year ended June 30, 2017

	Balances June 30, 2016	Receipts	Disbursements	Transfers in	Cash and Cash Equivalents June 30, 2017	Accounts Receivable June 30, 2017	Accounts Payable June 30, 2017	Balances June 30, 2017
ROTC	150	2,488	2,184	(60)	394	-	-	394
Science Activity	300	-	-	-	300	-	-	300
Senior Class	(2,988)	57,292	43,818	5,941	16,427	-	18,150	(1,723)
Soccer	(1,445)	3,185	3,454	1,714	-	-	-	-
Softball	(5,482)	748	590	5,324	-	-	-	-
Teens for Christ	120	-	-	-	120	-	-	120
Ticket Sales All Sports	49,639	-	-	(49,639)	-	-	-	-
Track	(325)	4,810	3,238	(500)	747	-	-	747
TSA	1	145	310	-	146	-	-	146
Varsity Tourn/Playoffs	(649)	-	-	649	-	-	-	-
Volleyball	(2,210)	-	1,480	3,690	-	-	-	-
Woods	344	330	366	(308)	-	-	-	-
BHS Cheerleaders	-	886	585	-	301	-	-	301
Ladycats Basketball	-	1,259	400	61	920	-	-	920
BHS Cheerleaders	-	4,139	3,153	-	986	-	-	986
Concessions Basketball	-	32,032	16,802	(7,719)	7,511	-	(7,719)	7,511
Bat Cats Baseball	-	1,939	1,435	158	662	-	-	662
SMS/BHS Baseball ADVT FR Play	-	350	77	-	273	-	-	273
BETA	-	889	-	-	889	-	-	889
BETA	-	435	240	-	195	-	-	195
2017 Reg Baseball Tourney	-	8,645	7,434	(158)	1,053	-	-	1,053
Academic Team	-	190	85	-	105	-	-	105
Var 55th District Tourney	-	-	(1,111)	(1,111)	-	-	-	-
Band/Chorus	-	3,426	3,480	496	442	-	-	442
Bass Fishing Club	-	400	100	-	300	-	-	300
FMD/Little	-	323	320	-	3	-	-	3
Peggy Moore Mem Classic	-	-	2,290	2,290	-	-	-	-
14th Reg Tourney Boys	-	32,004	26,796	(5,208)	-	-	-	-
14th Reg Tourney Boys Advrts	-	3,350	2,000	(1,350)	-	-	-	-
Deaton Char Trst CBT	-	2,610	-	-	2,610	-	-	2,610
Sr Class 2020	-	146	-	-	146	-	-	146
Juvenile Diabetes RS FNRT	-	104	104	-	-	-	-	-
YSC Catching Dreams	-	491	-	-	491	-	-	491
Y Club	1,479	8,825	10,094	-	210	-	-	210
<b>Total accounts</b>	<b>\$ 25,445</b>	<b>\$ 298,097</b>	<b>\$ 267,990</b>	<b>\$ -</b>	<b>\$ 55,552</b>	<b>\$ -</b>	<b>\$ 19,052</b>	<b>\$ 36,500</b>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

BREATHITT COUNTY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended June 30, 2017

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
US Department of Agriculture			
Passed Through State Department of Education:			
<i>Child Nutrition Cluster</i>			
School Breakfast Program	10.553		
Fiscal Year 16		7760005-16	\$ 91,943
Fiscal Year 17		7760005-17	324,668
National School Lunch Program	10.555		
Fiscal Year 16		7750002-16	189,407
Fiscal Year 17		7750002-17	695,193
Summer Food Service Program for Children	10.559		
Fiscal Year 16		7740023-16	28,803
Fiscal Year 17		7740023-17	18,128
Passed Through State Department of Agriculture:			
National School Lunch Program	10.555		
Fiscal Year 17		51-4950	90,692
<i>Child Nutrition Cluster Total</i>			<u>1,438,834</u>
Passed Through State Department of Agriculture:			
Fresh Fruit and Vegetable Program	10.582		
Fiscal Year 17		51-4500-215C	57,787
			<u>57,787</u>
Total US Department of Agriculture			<u>1,496,621</u>
US Department of Education			
Passed Through State Department of Education			
<i>Title I Cluster</i>			
Title I Grants to Local Educational Agencies	84.010		
Fiscal Year 16		3100002-16	327,204
Fiscal Year 17		3100002-17	859,097
Fiscal Year 16		3100102-16	59,883
Fiscal Year 17		3100102-17	17,800
<i>Title I Cluster Total</i>			<u>1,263,984</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		
Fiscal Year 17		313C	31,290
			<u>31,290</u>
<i>Special Education Cluster</i>			
Special Education_ Grants to States	84.027		
Fiscal Year 16		3810002-16	124,808
Fiscal Year 17		3810002-17	377,621
Special Education_Preschool Grants	84.173		
Fiscal Year 16		3800002-16	63,938
Fiscal Year 17		3800002-17	13,820
<i>Special Education Cluster Total</i>			<u>580,187</u>
Career and Technical Education - Basic Grants to States	84.048		
Fiscal Year 16		348B	792
Fiscal Year 17		348C	14,371
			<u>15,163</u>
Rural Education	84.358		
Fiscal Year 16		350B	34,277
Fiscal Year 17		350C	33,474
			<u>67,751</u>

BREATHITT COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 Year ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
Supporting Effective Instruction State Grant	84.367		
Fiscal Year 16		3230002-16	58,603
Fiscal Year 17		3230002-17	<u>138,815</u>
			<u>197,418</u>
Twenty-First Century Community Learning Centers	84.287		
Fiscal Year 16		2-550A	25,739
Fiscal Year 17		5-550B	<u>66,363</u>
			<u>92,102</u>
Passed through KVEC			
Race to the Top - District Grants - ARRA	84.416		
Fiscal Year 17		436C	<u>105,723</u>
			<u>105,723</u>
Passed through Berea College			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		
Fiscal Year 16		379B	83,968
Fiscal Year 17		379C	<u>270,614</u>
			<u>354,582</u>
Total US Department of Education			<u>2,708,200</u>
Appalachian Regional Commission			
Passed through Morehead University			
Appalachian Research, Technical Assistance, and Demonstration Projects	11.469		
Fiscal year 2017		272C	<u>4,795</u>
			<u>4,795</u>
Total US Department of Commerce			<u>4,795</u>
US Department of Justice			
Passed through the Center for Rural Development			
Congressionally Recommended Awards	16.753		
Fiscal Year 2017		300C	<u>2,272</u>
			<u>2,272</u>
Total US Department of Justice			<u>2,272</u>
US Department of Defense			
Passed through KY Department of Military Affairs			
ROTC	12.000		
Fiscal Year 2017		504C	<u>28,923</u>
			<u>28,923</u>
Total US Department of Defense			<u>28,923</u>
US Department of Health and Human Services			
Passed through KY Department of Education			
Assistance Programs for Chronic Disease Prevention and Control	93.945		
Fiscal Year 2017		442C	<u>4,548</u>
			<u>4,548</u>
Total US Department of Health and Human Services			<u>4,548</u>
<b>Total Expenditure of Federal Awards</b>			<b>\$ <u>4,245,359</u></b>

**BREATHITT COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2017**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Breathitt County School District and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because this Schedule presents only a selected portion of the operations of the District, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the District.

**2. IN-KIND COMMODITIES**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations. Commodities are included under the Child Nutrition Cluster. The valued amount of commodities received for June 30, 2017 is \$90,692.

**3. CLUSTER PROGRAMS**

The following CFDA numbers are considered cluster programs:

Special Education Cluster	
Special Education Grants to States	84.027
Special Education – Preschool Grants	84.173
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Special Milk Program for Children	10.556
Summer Food Services for Children	10.559
WIA Cluster	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Worker Formula Grants	17.278

**4. INDIRECT COST RATE**

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



**Cloyd & Associates, PSC**  
Certified Public Accountants

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

**Independent Auditor's Report**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Breathitt County School District  
Jackson, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Appendix I to the Independent Auditor's Contract-General Audit Requirements* and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Breathitt County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Breathitt County School District's basic financial statements, and have issued our report thereon dated November 15, 2017.

**Internal Control over Financial Reporting**

Management of Breathitt County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Breathitt 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 Breathitt County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Breathitt 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.

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*Certified Public Accountants*

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Breathitt County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our test 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 noted other matters involving the internal control over financial reporting that we have reported to the management of Breathitt County School District in a separate letter dated November 15, 2017.

**Purpose of this Report**

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

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 15, 2017



**Cloyd & Associates, PSC**  
Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

**Independent Auditor's Report**

Kentucky State Committee for  
School District Audits  
Members of the Board of Education  
Breathitt County School District  
Jackson, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Breathitt County School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Breathitt County School District's major federal programs for the year ended June 30, 2017. The Breathitt 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 Breathitt 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; Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract-General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract-State Audit Requirements*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Breathitt County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Certified Public Accountants

***Opinion on Each Major Federal Program***

In our opinion, Breathitt 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**

Management of Breathitt 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 Breathitt 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 Breathitt County School District's internal control over compliance.

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

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

**Purpose of this Report**

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

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 15, 2017



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**BREATHITT COUNTY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2017**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors' report issued		Unmodified	
Internal control over financial reporting:			
Material weakness identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statement noted	_____	Yes	<input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major programs:			
Material weaknesses identified	_____	Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses	_____	Yes	<input checked="" type="checkbox"/> None reported
Type of auditors' report issued on compliance for major programs		Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	_____	Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Title I Grants to Local Educational Agencies	84.010

Dollar threshold used to distinguish between Type A and Type B program \$750,000

Auditee qualified as low risk  Yes \_\_\_\_\_ No

(continued)

**BREATHITT COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED**  
Year Ended June 30, 2017

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**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings**

None

**BREATHITT COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended June 30, 2017

---

**Status of Prior Year Findings**

There were no prior year findings.

**MANAGEMENT LETTER COMMENTS**



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**Cloyd & Associates, PSC**  
*Certified Public Accountants*

Members of the Board of Education  
Breathitt County School District  
Jackson, Kentucky

In planning and performing our audit of the basic financial statements of Breathitt 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 basic financial statements and not to provide assurance on the internal control structure.

During our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters, if any. This letter does not affect our report thereon dated November 15, 2017, on the basic financial statements of Breathitt County School District.

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

Respectfully,

*Cloyd & Associates, PSC*

Cloyd & Associates, PSC  
London, Kentucky  
November 15, 2017

# BREATHITT COUNTY SCHOOL DISTRICT

## MANAGEMENT LETTER COMMENTS JUNE 30, 2017

### Prior Year Comments – School Activity Funds

#### Breathitt County High School

1. Ticket requisitions were either not present or improperly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event.

*This was not corrected in current year.*

2. All expenditures should follow Redbook guidelines. Auditor noted questionable expenditures made from the "Miscellaneous" account such as for postage, ink cartridges, and postage machine rental.

*This was corrected in current year.*

#### Marie Roberts-Caney Elementary

3. Invoices were not signed to authorize payment as per Redbook guidelines.

*This was not corrected in current year.*

4. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.

*This was not corrected in current year.*

5. Ticket requisitions were either not present or improperly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event.

*This was not corrected in current year.*

#### Highland-Turner Elementary

6. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor.

*This was not corrected in current year.*

# BREATHITT COUNTY SCHOOL DISTRICT

## MANAGEMENT LETTER COMMENTS JUNE 30, 2017

### Prior Year Comments – School Activity Funds - continued

7. Ticket requisitions were either not present or improperly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event.

*This was not corrected in current year.*

### Sebastian Middle School

8. Checks were not signed by two persons as required by the District.

*This was corrected in current year.*

### Current Year Comments –School Activity Funds

#### Marie Roberts-Caney Elementary

1. Invoices were not signed to authorize payment as per Redbook guidelines. This finding was not corrected last year.

*Management Response: The bookkeeper will ensure all invoices are signed per Redbook guidelines. The bookkeeper along with the principal attended a Redbook training on August 16, 2017. Since this finding was not corrected last year the district finance officer will follow up during the school year to ensure this is corrected.*

2. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor. This finding was not corrected last year.

*Management Response: The bookkeeper will ensure the multiple receipt forms are used. The district has purchased two part forms for schools to use. The bookkeeper along with the principal attended a Redbook training on August 16, 2017. Since this finding was not corrected last year the district finance officer will follow up during the school year to ensure this is corrected.*

3. Ticket requisitions were either not present or improperly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event. This finding was not corrected last year.

*Management Response: The bookkeeper will ensure the ticket requisition form is used at all events. The bookkeeper along with the principal attended a Redbook training on August 16, 2017. Since this finding was not corrected last year the district finance officer will follow up during the school year to ensure this is corrected.*

# BREATHITT COUNTY SCHOOL DISTRICT

## MANAGEMENT LETTER COMMENTS JUNE 30, 2017

### Current Year Comments –School Activity Funds - continued

#### Highland Turner Elementary

4. Multiple Receipt Forms were not used or not properly completed. The Redbook states "Teachers/sponsors/students shall use the Multiple Receipt Form (Form F-SA-6) or pre-numbered receipts when collecting money." Students shall sign the multiple receipt form when turning in money to teacher/sponsor. This finding was not corrected last year.

*Management Response: Highland-Turner has hired a new finance clerk and she along with the principal attended a Redbook training on August 16, 2017. The bookkeeper also attended a training with the district finance staff on October 5, 2017, and will be attending a KEDC training. The bookkeeper will ensure teachers are using the multiple receipt form. Since this finding was not corrected last year the district finance officer will follow up during the school year to ensure this is corrected.*

5. Ticket requisitions were either not present or improperly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event. This finding was not corrected last year.

*Management Response: Highland-Turner has hired a new finance clerk and she along with the principal attended a Redbook training on August 16, 2017. The bookkeeper also attended a training with the district finance staff on October 5, 2017, and will be attending a KEDC training. The bookkeeper will ensure the staff is using the ticket requisition form correctly. Since this finding was not corrected last year the district finance officer will follow up during the school year to ensure this is corrected.*

#### Breathitt County High School

6. Ticket requisitions were either not present or improperly completed. The Redbook states "The principal or school treasurer shall issue tickets to the person in charge of sales for each event using the Requisition and Report of Ticket Sales (Forms F-SA-1). The person in charge determines the number of tickets to be used, records the beginning ticket number, and signs the form. Ticket procedures and forms instructions must be followed to ensure monies reconcile at end of event. This finding was not corrected last year.

*Management Response: Breathitt High School has hired a new finance clerk and she along with the principal attended a Redbook training on August 16, 2017. The bookkeeper also attended a training with the district finance staff on October 5, 2017. The bookkeeper will ensure the staff is using the ticket requisition form correctly. Since this finding was not corrected last year the district finance officer will follow up during the school year to ensure this is corrected. The principal will also be reviewing the procedure in the December staff meeting.*