

Gallatin County School District

**Financial Statements
With Supplementary Information
Year Ended June 30, 2017
With Independent Auditors' Report**

GALLATIN COUNTY SCHOOL DISTRICT

Year Ended June 30, 2017

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GALLATIN COUNTY SCHOOL DISTRICT

Year Ended June 30, 2017

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Independent Auditors' Report

To the Members of the Board of Education
Gallatin County School District
Warsaw, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gallatin 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 Gallatin County School 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.

Auditors' Responsibility

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

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

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

Opinions

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

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Independent Auditors' Report (Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on pages 3-9, 45-48, and 53-56 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 Gallatin 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 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, combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017 on our consideration of the Gallatin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Gallatin County School District's internal control over financial reporting and compliance.



Crestview Hills, Kentucky
November 14, 2017

GALLATIN COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2017

As management of Gallatin County Board of Education (Board), the governing body for the Gallatin County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

FINANCIAL HIGHLIGHTS

- The General Fund contingency ended the year at \$1,651,127, a decrease of \$218,252. The ending fund balance represents a 13.2% contingency. Revenue exceeded prior year amounts by \$123,864. SEEK revenue decreased \$173,600, while revenues from all local tax sources increased \$87,138. Utility tax increased \$120,874 from the previous year, while property tax collections were significantly lower than FY 2016. Medicaid reimbursement revenues were up \$69,458 and the transfer from the Capital Accounts increased over \$47,000. We were also refunded \$35,000 for an oversized bond issue for KISTA.
- Salaries increased by \$77,164 to a total of \$7,913,405, an increase of 1%. Employer payroll tax, retirement match, liability insurance, unemployment and workmen's compensation increased \$108,000 to \$963,465. This was an increase of 12.6%. Total current expenditures decreased \$6,523 to \$11,123,420. Total non-personnel expenditures were reduced by more than \$193,000 from the prior year.
- In the special revenue fund, all prior year grants have been closed out. Total grant expenditures from local, state and federal grants were \$1,600,450.
- The Capital Outlay Fund allotment of \$146,610 was transferred to the General Fund for current operating expense. The Capital Outlay Fund is at a zero fund balance.
- The Building Fund is at a zero fund balance. The beginning cash fund balance of \$201,476 was transferred to the Bus Garage Construction Fund. Local revenue of \$906,730 and state revenue of \$815,208 was received. \$1,637,512 was employed to retire debt and the remaining balance of \$84,426 was transferred to General Fund for current operating expense.
- The ending fund balance in the Construction Fund is \$775,052. Remaining balance to pay Century at year end is \$700,900.
- The district made debt service payments of \$1,944,180 during the 16-17 year.
- Food Service revenue was virtually level with FY 2016 at \$1,033,929, however, total expenditures decreased by \$18,280. New contracts on food prices allowed for a decrease in food costs of \$63,832. The fund balance in Food Service is \$92,449.

GALLATIN COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2017 (Continued)

FINANCIAL HIGHLIGHTS (CONTINUED)

- Our primary financial concern continues to be state funding which has not kept up with the increases in operating expenses due to inflation, increased salaries - some of which are a direct result of mandates by the state, and an increasing portion of the retirement shortfall that we have been asked to fund. After many years of not making the necessary contributions to fully fund the Kentucky Teachers' Retirement System (KTRS), the legislature passed along a portion of the funding shortfall to employees and a larger portion to school districts. As a result, our district has paid hundreds of thousands of dollars into the retirement system over the past six years and will pay millions of dollars in the future in an effort to help stabilize the fund. We are also being required to record the portion of the unfunded state liability in our financial statements attributable to our employees, as determined by KTRS. While it remains to be seen if districts, including our own, will end up shouldering more this deficit over the years to come, if the state does not start responsibly funding the system it can be safely assumed that we will. This will continue to shift more of the responsibility for funding our education system onto the backs of school districts and subsequently local tax payers. The continual erosion of state funding makes it increasingly difficult to maintain the high standard of education and programming that our students deserve without increasing taxes locally. In this climate of shrinking state support the Gallatin County School District will maintain fiscally responsible policies in order to continue providing quality academic, extra-curricular and community service programs to all of its students.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (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 assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10-11 of this report.

GALLATIN COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2017 (Continued)

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations 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 pages 12 through 20 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 district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 through 42 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$7,083,980 as of June 30, 2017.

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

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

GALLATIN COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(Continued)

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net Position for the periods ending June 30, 2017 and 2016

The following is a summary of net position for the fiscal years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Current assets	\$ 3,103,018	\$ 2,460,472
Noncurrent assets	<u>34,317,315</u>	<u>34,312,339</u>
Total assets	<u>37,420,333</u>	<u>36,772,811</u>
Total deferred outflows	<u>2,092,621</u>	<u>1,474,486</u>
Current liabilities	2,831,417	2,375,206
Noncurrent liabilities	<u>29,298,484</u>	<u>28,859,308</u>
Total liabilities	<u>32,129,901</u>	<u>31,234,514</u>
Total deferred inflows	<u>299,073</u>	<u>339,460</u>
Net position		
Investment in capital assets (net of debt)	8,297,241	8,284,228
Restricted	(2,447,241)	(3,176,728)
Unassigned	<u>1,233,980</u>	<u>1,565,823</u>
Total net position	<u><u>\$ 7,083,980</u></u>	<u><u>\$ 6,673,323</u></u>

GALLATIN COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(Continued)

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Charges for services	\$ 52,760	\$ 61,887
Operating grants	2,550,482	2,658,783
Capital grants	1,829,817	901,149
Total grant revenues	<u>4,433,059</u>	<u>3,621,819</u>
General Revenues		
Taxes	4,858,314	4,763,299
Grants and entitlements	13,781,587	12,172,192
Earnings on investments	30,780	17,222
Miscellaneous	679,331	432,392
Total general revenues	<u>19,350,012</u>	<u>17,385,105</u>
Total revenues	<u>23,783,071</u>	<u>21,006,924</u>
Expenses		
Instructional	14,415,733	13,144,878
Student support services	704,684	739,255
Staff support services	647,041	652,456
District administration	682,211	704,414
School administration	937,942	1,101,386
Business support services	722,730	841,816
Plant operation and maintenance	1,552,197	1,238,168
Student transportation	1,663,889	1,297,778
Food service operation	1,134,358	1,184,266
Community service operations	154,052	155,419
Interest on long-term debt	711,579	717,997
Total expenses	<u>23,372,414</u>	<u>21,777,833</u>
Change in net position	<u>\$ 410,657</u>	<u>\$ (770,909)</u>

Comments on General Fund Budget Comparisons

- The District's total revenues (General Fund) for the fiscal year ended June 30, 2017, net of Inter-fund transfers and proceeds from the sale of assets, were \$13,694,833.
- General fund budget compared to actual revenue varied slightly from line item to line item. Actual ending balance was \$60,144, net of inter-fund transfers and proceeds from the sale of assets, more than budget.
- The District's total cost of all programs and services (General Fund) for the fiscal year ended June 30, 2017, net of inter-fund transfers and debt service payments, were \$13,975,186.

GALLATIN COUNTY SCHOOL DISTRICT

Management's Discussion and Analysis (MD&A) Year Ended June 30, 2017 (Continued)

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Comments on General Fund Budget Comparisons (Continued)

- General fund budgeted expenditures were greater than actual by around \$1,586,105, net of inter-fund transfers. This resulted from the board establishing a contingency totaling \$1,529,637 and other expenditures being lower than expected.

The General Fund relies heavily on state funding, primarily the SEEK program. The SEEK program is the Commonwealth of Kentucky's funding mechanism for public schools. The funds allocated from this program are driven by student average daily attendance and student demographics. Local Tax Revenue is comprised of a real property tax, a tax assessed on utility consumers and a motor vehicle tax on the assessed value of vehicles.

GENERAL FUND BUDGETARY HIGHLIGHTS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some Federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district ended 2016-2017 with a general fund contingency of \$1,529,637. The beginning cash balance for the General Fund for the fiscal year was \$1,426,940 and ending cash balance was \$1,560,770

Gallatin County Public Schools received a federal grant titled Title I Assistance, which was awarded for the period July 1 2016 through September 30, 2018. This grant was awarded in the amount of \$366,114. Its impact involved the elementary and upper elementary schools and their associated staff. This grant also helped fund Central Office Staff including a Federal Programs coordinator.

Gallatin County Public Schools received a federal grant titled IDEA Basic Assistance, which was awarded for the period July 1, 2016 through September 30, 2018. This grant was awarded in the amount of \$321,021. Its impact involved funding for special educational services for all of the district's schools and their associated staff. This grant also helped fund the Director of Special Education and the School Psychologist.

Gallatin County Public Schools received a federal grant titled IDEA Preschool Assistance, which was awarded for the period July 1, 2016 through September 30, 2018. This grant was awarded in the amount of \$11,654. This grant helped fund special education programs and services for preschool children.

Gallatin County Public Schools received a federal grant titled Carl D. Perkins Vocational and Applied Educational Grant, which was awarded for the period July 1, 2016 through June 30, 2018. This grant was awarded in the amount of \$9,778. This grant helped fund career and technical programs at the high school.

Gallatin County Public Schools received a federal grant titled Title II-A Teacher Quality Assistance, which was awarded for the period July 1, 2016 through September 30, 2018. This grant was awarded in the amount of \$68,038. This grant helped fund programs at the elementary school.

Gallatin County Public Schools received a federal grant titled Rural & Low Income Assistance, which was awarded for the period July 1, 2016 through September 30, 2018. This grant was awarded in the amount of \$34,507. This grant provided funds for all schools to supplement funding for teacher recruitment/retention, education technology, safe and drug-free schools and parent activities.

GALLATIN COUNTY SCHOOL DISTRICT

**Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2017
(Continued)**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to reflect the District's accountability for the funds it receives. Questions regarding this report should be directed to Superintendent Larry Hammond (859) 567-2828 or to Kelley Gamble, Finance Officer (859) 567-1825, or by mail at 75 Boardwalk, Warsaw, KY 41095.

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Net Position – District Wide
As of June 30, 2017**

	Governmental Activities	Business-type Activities	Total
Assets			
Current:			
Cash and cash equivalents	\$ 2,658,186	\$ 46,067	\$ 2,704,253
Accounts receivable	392,938	-	392,938
Inventories for consumption	-	5,827	5,827
Total current	<u>3,051,124</u>	<u>51,894</u>	<u>3,103,018</u>
Noncurrent:			
Construction in progress	1,217,256	-	1,217,256
Nondepreciated capital assets:			
Land	1,439,392	-	1,439,392
Depreciated capital assets:			
Land improvements	2,306,070	-	2,306,070
Buildings and improvements	39,680,296	-	39,680,296
Furniture and equipment	6,011,052	937,286	6,948,338
Less: accumulated depreciation	<u>(16,518,664)</u>	<u>(755,373)</u>	<u>(17,274,037)</u>
Total noncurrent	<u>34,135,402</u>	<u>181,913</u>	<u>34,317,315</u>
Total assets	<u>37,186,526</u>	<u>233,807</u>	<u>37,420,333</u>
Deferred outflows	<u>2,030,678</u>	<u>61,943</u>	<u>2,092,621</u>
Liabilities and Net Position			
Liabilities			
Current:			
Current portion of bonds payable	2,008,672	-	2,008,672
Accounts payable	458,298	5,880	464,178
Accrued interest	131,370	-	131,370
Accrued sick leave	23,396	-	23,396
Accrued payroll and related expenses	72,976	-	72,976
Assessed KISBIT liability	51,816	-	51,816
Deferred revenues	<u>77,687</u>	<u>1,322</u>	<u>79,009</u>
Total current	<u>2,824,215</u>	<u>7,202</u>	<u>2,831,417</u>
Noncurrent:			
Accrued sick leave	210,565	-	210,565
CERS net pension liability	4,315,821	183,878	4,499,699
Bond obligations	<u>24,588,220</u>	<u>-</u>	<u>24,588,220</u>
Total noncurrent	<u>29,114,606</u>	<u>183,878</u>	<u>29,298,484</u>
Total liabilities	<u>31,938,821</u>	<u>191,080</u>	<u>32,129,901</u>
Deferred inflows	<u>286,852</u>	<u>12,221</u>	<u>299,073</u>
Net Position			
Invested in capital assets, net of related debt	8,115,328	181,913	8,297,241
Restricted	(2,357,777)	(89,464)	(2,447,241)
Unrestricted	<u>1,233,980</u>	<u>-</u>	<u>1,233,980</u>
Total net position	<u>\$ 6,991,531</u>	<u>\$ 92,449</u>	<u>\$ 7,083,980</u>

The accompany notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Activities – District Wide
Year Ended June 30, 2017**

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes In Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
Instructional	\$ 14,415,733	\$ -	\$ 1,220,816	\$ -	\$ (13,194,917)	\$ -	\$ (13,194,917)
Student support services	704,684	-	-	-	(704,684)	-	(704,684)
Staff support services	647,041	-	53,339	-	(593,702)	-	(593,702)
District administration	682,211	-	-	-	(682,211)	-	(682,211)
School administration	937,942	-	2,436	-	(935,506)	-	(935,506)
Business support services	722,730	-	44,172	-	(678,558)	-	(678,558)
Plant operation and maintenance	1,552,197	-	-	-	(1,552,197)	-	(1,552,197)
Student transportation	1,663,889	-	94,846	-	(1,569,043)	-	(1,569,043)
Community service operations	154,052	-	154,052	-	-	-	-
Other	-	-	-	1,829,817	1,829,817	-	1,829,817
Interest on long-term debt	711,579	-	-	-	(711,579)	-	(711,579)
Total governmental activities	22,238,056	-	1,569,661	1,829,817	(18,838,578)	-	(18,838,578)
Business-type Activities							
Food service	1,134,358	52,760	980,821	-	-	(100,777)	(100,777)
Total business-type activities	1,134,358	52,760	980,821	-	-	(100,777)	(100,777)
Total school district	<u>\$ 23,372,414</u>	<u>\$ 52,760</u>	<u>\$ 2,550,482</u>	<u>\$ 1,829,817</u>	<u>(18,838,578)</u>	<u>(100,777)</u>	<u>(18,939,355)</u>
General revenues:							
Taxes					4,858,314	-	4,858,314
State and federal sources					13,781,587	-	13,781,587
Investment earnings					30,432	348	30,780
Loss on sale of fixed assets					(7,589)	-	(7,589)
Other sources					686,920	-	686,920
Total general and special revenues					19,349,664	348	19,350,012
Change in net position					511,086	(100,429)	410,657
Net position - beginning					6,480,445	192,878	6,673,323
Net position - ending					<u>\$ 6,991,531</u>	<u>\$ 92,449</u>	<u>\$ 7,083,980</u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Balance Sheet – Governmental Funds
As of June 30, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Current						
Cash (overdraft) and cash equivalents	\$ 1,560,770	\$ (52,457)	\$ -	\$ 1,133,889	\$ 15,984	\$ 2,658,186
Accounts receivable	249,524	143,414	-	-	-	392,938
Total current	<u>\$ 1,810,294</u>	<u>\$ 90,957</u>	<u>\$ -</u>	<u>\$ 1,133,889</u>	<u>\$ 15,984</u>	<u>\$ 3,051,124</u>
Liabilities and Fund Balance						
Current						
Accounts payable	\$ 86,191	\$ 13,270	\$ -	\$ 358,837	\$ -	\$ 458,298
Accrued payroll and related expenses	72,976	-	-	-	-	72,976
Unearned revenues	-	77,687	-	-	-	77,687
Total current	<u>159,167</u>	<u>90,957</u>	<u>-</u>	<u>358,837</u>	<u>-</u>	<u>608,961</u>
Fund Balance						
Restricted:						
Capital projects	-	-	-	775,052	-	775,052
Other	-	-	-	-	15,984	15,984
Committed:						
Other	116,980	-	-	-	-	116,980
Unassigned	1,534,147	-	-	-	-	1,534,147
Total fund balance	<u>1,651,127</u>	<u>-</u>	<u>-</u>	<u>775,052</u>	<u>15,984</u>	<u>2,442,163</u>
Total liabilities and fund balance	<u>\$ 1,810,294</u>	<u>\$ 90,957</u>	<u>\$ -</u>	<u>\$ 1,133,889</u>	<u>\$ 15,984</u>	<u>\$ 3,051,124</u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Reconciliation of the Balance Sheet
Governmental Funds to the Statement of Net Position
As of June 30, 2017**

Total governmental fund balance		\$ 2,442,163
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	50,654,066	
Accumulated depreciation	<u>(16,518,664)</u>	34,135,402
Deferred outflows		
Bond refinancing	576,818	
Related to CERS	1,018,445	
CERS contributions made after the measurement date	<u>435,415</u>	2,030,678
Deferred inflows related to CERS		(286,852)
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds payable		(26,596,892)
Accrued interest on bonds		(131,370)
Net pension liability		(4,315,821)
Assessed KISBIT liability		(51,816)
Accrued sick leave		<u>(233,961)</u>
Total net position - governmental		<u>\$ 6,991,531</u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes	\$ 3,951,585	\$ -	\$ -	\$ -	\$ 906,729	\$ 4,858,314
Earnings on investments	21,782	-	-	8,650	-	30,432
State sources	9,373,971	724,520	867,999	-	961,818	11,928,308
Federal sources	69,458	823,968	-	-	-	893,426
Other sources	75,619	21,173	-	-	23,114	119,906
	<u>13,492,415</u>	<u>1,569,661</u>	<u>867,999</u>	<u>8,650</u>	<u>1,891,661</u>	<u>17,830,386</u>
Total revenues						
Expenditures						
Instructional	7,459,539	1,251,605	-	-	-	8,711,144
Student support services	701,596	-	-	-	3,088	704,684
Staff support services	574,368	53,339	-	-	19,311	647,018
District administration	679,618	-	-	-	-	679,618
School administration	935,426	2,436	-	-	-	937,862
Business support services	636,803	44,172	-	-	-	680,975
Plant operation and maintenance	1,584,158	-	-	-	-	1,584,158
Student transportation	1,438,312	94,846	-	-	-	1,533,158
Community service operations	-	154,052	-	-	-	154,052
Facility acquisition and construction	-	-	-	1,171,126	-	1,171,126
Debt service:						
Principal	124,180	-	1,820,000	-	-	1,944,180
Interest	16,867	-	685,511	-	-	702,378
	<u>14,150,867</u>	<u>1,600,450</u>	<u>2,505,511</u>	<u>1,171,126</u>	<u>22,399</u>	<u>19,450,353</u>
Total expenditures						
Excess (deficit) of revenues over expenditures	<u>(658,452)</u>	<u>(30,789)</u>	<u>(1,637,512)</u>	<u>(1,162,476)</u>	<u>1,869,262</u>	<u>(1,619,967)</u>
Other financing sources (uses)						
Loan and bond proceeds	237,052	-	-	1,635,000	-	1,872,052
Proceeds from sale of assets	2,901	-	-	-	-	2,901
Operating transfers in	231,036	30,789	1,637,512	201,476	-	2,100,813
Operating transfers out	(30,789)	-	-	-	(2,070,024)	(2,100,813)
	<u>440,200</u>	<u>30,789</u>	<u>1,637,512</u>	<u>1,836,476</u>	<u>(2,070,024)</u>	<u>1,874,953</u>
Total other financing sources (uses)						
Net change in fund balance	(218,252)	-	-	674,000	(200,762)	254,986
Fund balance, July 1, 2016	1,869,379	-	-	101,052	216,746	2,187,177
Fund balance, June 30, 2017	<u>\$ 1,651,127</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 775,052</u>	<u>\$ 15,984</u>	<u>\$ 2,442,163</u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

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

Net changes-governmental funds		\$ 254,986
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense for the year.		
Depreciation expense	(1,362,148)	
Capital outlays	1,433,884	
Retirement of capital assets	<u>(10,490)</u>	
		61,246
Bond and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Bond proceeds	(1,872,052)	
Bond principal paid	1,944,180	
Amortization of deferred outflow from bond refinancing	<u>(64,091)</u>	
		8,037
Deferred outflows related to pensions		652,278
Deferred inflows related to pensions		39,579
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
		<u>(505,040)</u>
Changes in net position of governmental activities		<u>\$ 511,086</u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Net Position – Proprietary Fund
As of June 30, 2017**

	<u>Food Service</u>	<u>Total</u>
Assets		
Current		
Cash and cash equivalents	\$ 46,067	\$ 46,067
Inventories for consumption	<u>5,827</u>	<u>5,827</u>
Total current	<u>51,894</u>	<u>51,894</u>
Noncurrent		
Furniture and fixtures	937,286	937,286
Less: accumulated depreciation	<u>(755,373)</u>	<u>(755,373)</u>
Total noncurrent	<u>181,913</u>	<u>181,913</u>
Total assets	<u>233,807</u>	<u>233,807</u>
Deferred outflows	<u>61,943</u>	<u>61,943</u>
Liabilities		
Current		
Accounts payable	5,880	5,880
Unearned revenue	<u>1,322</u>	<u>1,322</u>
Total current	<u>7,202</u>	<u>7,202</u>
Noncurrent		
CERS net pension liability	<u>183,878</u>	<u>183,878</u>
Total noncurrent	<u>183,878</u>	<u>183,878</u>
Total liabilities	<u>191,080</u>	<u>191,080</u>
Deferred inflows	<u>12,221</u>	<u>12,221</u>
Net Position		
Invested in assets, net of debt	181,913	181,913
Restricted	<u>(89,464)</u>	<u>(89,464)</u>
Total net position	<u><u>\$ 92,449</u></u>	<u><u>\$ 92,449</u></u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Revenues, Expenses and Changes in Net Position –
Proprietary Fund
Year Ended June 30, 2017**

	<u>Food Service</u>	<u>Total</u>
Operating revenues		
Lunchroom sales	\$ 50,802	\$ 50,802
Other operating revenues	<u>1,958</u>	<u>1,958.000</u>
Total operating revenues	<u>52,760</u>	<u>52,760</u>
Operating expenses		
Salaries and benefits	494,975	494,975
Contract services	32,550	32,550
Materials and supplies	545,027	545,027
Depreciation	56,270	56,270
Other operating expenses	<u>5,536</u>	<u>5,536</u>
Total operating expenses	<u>1,134,358</u>	<u>1,134,358</u>
Operating loss	<u>(1,081,598)</u>	<u>(1,081,598)</u>
Nonoperating revenues		
Federal grants	899,845	899,845
State grants	9,741	9,741
Donated commodities and other donations	71,235	71,235
Interest income	<u>348</u>	<u>348</u>
Total nonoperating revenues	<u>981,169</u>	<u>981,169</u>
Net loss	(100,429)	(100,429)
Total net position, July 1, 2016	<u>192,878</u>	<u>192,878</u>
Total net position, June 30, 2017	<u><u>\$ 92,449</u></u>	<u><u>\$ 92,449</u></u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2017**

	Food Service Fund	Total
Cash flows from operating activities		
Cash received from lunchroom sales	\$ 50,802	\$ 50,802
Cash received from other activities	1,958	1,958
Cash payments to employees for services	(491,979)	(491,979)
Cash payments to suppliers for goods and services	<u>(567,838)</u>	<u>(567,838)</u>
Net cash used in operating activities	<u>(1,007,057)</u>	<u>(1,007,057)</u>
Cash flows from noncapital financing activities		
Non-operating revenues received	<u>980,821</u>	<u>980,821</u>
Net cash provided by noncapital financing activities	<u>980,821</u>	<u>980,821</u>
Cash flows from investing activities		
Interest on investments	<u>348</u>	<u>348</u>
Net cash flows provided by investing activities	<u>348</u>	<u>348</u>
Net increase in cash and cash equivalents	(25,888)	(25,888)
Cash and cash equivalents - beginning	<u>71,955</u>	<u>71,955</u>
Cash and cash equivalents - ending	<u><u>\$ 46,067</u></u>	<u><u>\$ 46,067</u></u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,081,598)	\$ (1,081,598)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	56,270	56,270
Changes in assets and liabilities:		
(Increase) in deferred outflows	(29,948)	(29,948)
Increase in accounts payable	5,880	5,880
(Decrease) in deferred inflows	(808)	(808)
Increase in CERS net pension liability	33,752	33,752
(Decrease) in unearned revenue	(763)	(763)
Decrease in inventories	<u>10,158</u>	<u>10,158</u>
Net cash used in operating activities	<u><u>\$ (1,007,057)</u></u>	<u><u>\$ (1,007,057)</u></u>
Schedule of non-cash transactions:		
Donated commodities received from federal government	<u><u>\$ 71,235</u></u>	<u><u>\$ 71,235</u></u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Fiduciary Net Position
As of June 30, 2017**

	<u>Fiduciary Fund</u>	<u>School Activity Funds</u>	<u>Total</u>
Assets			
Current			
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 88,183</u>	<u>\$ 88,183</u>
Total current assets	<u>-</u>	<u>88,183</u>	<u>88,183</u>
Total assets	<u>-</u>	<u>88,183</u>	<u>88,183</u>
Liabilities			
Current			
Due to student groups	<u>-</u>	<u>88,183</u>	<u>88,183</u>
Total current	<u>-</u>	<u>88,183</u>	<u>88,183</u>
Net Position			
Restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total net position	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Fiduciary Fund	Total
Additions		
Net interest and investment gains	\$ -	\$ -
Private donations	-	-
Other additions	-	-
	<u>-</u>	<u>-</u>
Total additions	<u>-</u>	<u>-</u>
Deductions		
Instructional	<u>90,000</u>	<u>90,000</u>
	<u>90,000</u>	<u>90,000</u>
Total deductions	<u>90,000</u>	<u>90,000</u>
Other financing sources		
Operating transfers in	<u>-</u>	<u>-</u>
Total other financing sources	<u>-</u>	<u>-</u>
Change in net position	(90,000)	(90,000)
Net position, July 1, 2016	<u>90,000</u>	<u>90,000</u>
Net position, June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Gallatin 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 the Gallatin County School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

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

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

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

Gallatin County School District Finance Corporation - The Board authorized the establishment of the Gallatin County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Gallatin County Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

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

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

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

The district-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, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – 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 net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 57. This is a major fund of the District.
- (C) Special Revenue Activity Fund is used to support co-curricular activities, and are not raised and expended by student groups. District activity funds accounted for in the District bank account are not subject to the Redbook and may be expended with more flexibility than school activity funds but must meet the "educational purpose" standard for all District expenditures.

GALLATIN COUNTY SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

I. Governmental Fund Types (cont'd)

- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
- 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 Fund (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. The District is committed to construction contracts in the amount of \$966,911 for ongoing projects.

II. Debt Service Fund

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. This is a major fund of the District.

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The Food Service fund is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Trust Funds)

The Activity Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

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

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The GASB is responsible for establishing GAAP for state and local government through its pronouncements (Statements and Interpretations).

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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 – 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.

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 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.

Taxes

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

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

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

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

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

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 district-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 district-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 one thousand dollars, with the exception of computers, digital cameras and real property, for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Accumulated Unpaid Sick Leave Benefits

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

Interfund Balances

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

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, 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.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reserves

Beginning with fiscal year 2012 the District implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in 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 are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interfund Activity

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("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.

NOTE 2 ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3 CASH AND CASH EQUIVALENTS

The District maintains its cash in bank deposit accounts which, at times, exceed federally insured limits. The amounts exceeding the federally insured limits are covered by a collateral agreement and the collateral is held by the pledging banks' trust departments in the District's name. The District has not experienced any losses in such accounts and the District believes it is not exposed to any significant credit risk on cash and cash equivalents.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 4 CAPITAL ASSETS

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

<u>Governmental Activities</u>	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Land	\$ 1,439,392	\$ -	\$ -	\$ 1,439,392
Land improvements	2,306,070	-	-	2,306,070
Buildings and improvements	39,680,296	-	-	39,680,296
Technology equipment	1,761,894	-	-	1,761,894
Vehicles	2,421,738	308,756	252,354	2,478,140
General equipment	1,771,018	-	-	1,771,018
Construction work in progress	92,128	1,125,128	-	1,217,256
Totals at historical cost	49,472,536	1,433,884	252,354	50,654,066
Less: accumulated depreciation				
Land improvements	1,154,495	106,392	-	1,260,887
Buildings and improvements	9,531,363	950,612	-	10,481,975
Technology equipment	1,636,441	71,900	-	1,708,341
Vehicles	1,837,633	132,226	241,864	1,727,995
General equipment	1,238,448	101,018	-	1,339,466
Total accumulated depreciation	15,398,380	1,362,148	241,864	16,518,664
Governmental activities capital assets - net	\$ 34,074,156	\$ 71,736	\$ 10,490	\$ 34,135,402
<u>Business - Type Activities</u>				
General equipment	\$ 890,662	\$ -	\$ -	\$ 890,662
Technology equipment	46,624	-	-	46,624
Totals at historical cost	937,286	-	-	937,286
Less: accumulated depreciation				
General equipment	652,335	56,270	-	708,605
Technology equipment	46,768	-	-	46,768
Total accumulated depreciation	699,103	56,270	-	755,373
Business - type activities capital assets - net	\$ 238,183	\$ (56,270)	\$ -	\$ 181,913

GALLATIN COUNTY SCHOOL DISTRICT

**Notes to the Financial Statement
(Continued)**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Depreciation expense by function for the fiscal year ended June 30, 2017 was as follows:

	<u>Governmental</u>	<u>Business-Type</u>
Instructional	\$ 1,174,118	\$ -
Student support services	-	-
Staff support services	23	-
District administration	2,593	-
School administration	80	-
Business support services	41,755	-
Plant operation and maintenance	12,848	-
Student transportation	130,731	-
Food service		56,270
	<u> </u>	<u> </u>
Total	<u>\$ 1,362,148</u>	<u>\$ 56,270</u>

NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2017 this amount totaled approximately \$233,961 for those employees with twenty-seven or more years of experience.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 6 BONDED DEBT

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

Issue Date	Proceeds	Rates
September 30, 2008	\$ 175,000	2.500% - 3.800%
April 8, 2008	1,240,000	2.450% - 3.300%
January 1, 2008	166,094	3.000% - 3.750%
January 1, 2009	86,034	2.000% - 3.900%
September 16, 2010	3,010,000	0.400% - 2.400%
July 1, 2010	109,182	1.000% - 3.390%
January 1, 2011	106,899	1.000% - 4.000%
December 19, 2012	4,040,000	1.400% - 2.625%
May 1, 2012	110,010	2.000%
November 27, 2013	385,000	2.300%
March 7, 2013	106,762	2.000%
March 1, 2014	117,534	2.000% - 3.000%
April 30, 2014	6,495,000	1.100% - 3.150%
March 1, 2015	225,576	1.000% - 2.625%
March 30, 2015	13,070,000	2.000% - 3.000%
March 1, 2016	117,631	2.000% - 2.625%
September 22, 2016	1,635,000	2.000% - 3.000%
February 1, 2017	237,052	2.550%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Gallatin County Fiscal Court and the Gallatin County School District Finance Corporation to construct school facilities.

The District entered into "participation agreements" with the 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. Note 15 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 has been recorded in the financial statements.

All issues 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 reported in Note 15.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 7 CONTINGENCIES

Grant Fund Approval

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 the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE 8 INSURANCE AND RELATED ACTIVITIES

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

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District is self-insured for unemployment insurance benefits. The District reimburses the state for any claims paid. The District purchases workers' compensation insurance through the Kentucky School Boards Insurance Trust. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 10 DEFICIT OPERATING/FUND BALANCES

The District currently no funds with a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures, resulting in a corresponding reduction of fund balance:

General Fund	\$ 218,252
Building Fund	201,477
Fiduciary Fund	90,000
Food Service Fund	100,429
Gallatin County Lower Elementary	546
Gallatin High School	5,758

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 11 COBRA

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

NOTE 12 CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2017, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$51,816. This contingent liability has been recorded in the District Wide Financial Statements but not included in the Governmental Financial Statements.

NOTE 13 TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Operating	\$ 30,789
Building Fund	Debt Service Fund	Debt Service	1,637,512
Capital Outlay Fund	General Fund	Operating	146,610
Building Fund	General Fund	Operating	84,426
Building Fund	Construction Fund	Construction	201,476

NOTE 14 ON-BEHALF PAYMENTS

For the year ended June 30, 2017 total payments of \$3,689,167 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 2,821,183
Debt Service	<u>867,984</u>
Total On-Behalf	<u>\$ 3,689,167</u>

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 15 SCHEDULE OF LONG-TERM OBLIGATIONS

2003, 2008, 2008R, 2010R, 2012, 2013, 2014, 2015R, 2016, 2017 and KISTA Bus Loans

Fiscal Year	Gallatin County School District			KY School Facilities Construction Commission			Total Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2017-2018	\$ 1,297,365	\$ 529,868	\$ 1,827,233	\$ 711,307	\$ 159,791	\$ 871,098	\$ 2,698,330
2018-2019	1,306,636	499,245	1,805,881	695,598	144,190	839,788	2,645,669
2019-2020	1,331,496	469,362	1,800,858	678,850	129,136	807,986	2,608,845
2020-2021	1,349,124	437,133	1,786,257	606,120	115,658	721,778	2,508,034
2021-2022	2,032,873	402,650	2,435,523	617,421	103,551	720,972	3,156,496
2022-2023	1,400,674	371,203	1,771,877	634,339	85,828	720,167	2,492,044
2023-2024	1,432,506	331,656	1,764,162	655,829	67,544	723,373	2,487,535
2024-2025	1,461,791	290,482	1,752,273	634,886	48,579	683,465	2,435,738
2025-2026	1,244,121	247,703	1,491,824	653,563	29,902	683,465	2,175,289
2026-2027	914,025	209,990	1,124,015	63,368	10,674	74,042	1,198,057
2027-2028	979,969	182,846	1,162,815	65,031	9,009	74,040	1,236,855
2028-2029	1,008,187	154,393	1,162,580	66,813	7,228	74,041	1,236,621
2029-2030	1,036,296	123,941	1,160,237	68,704	5,337	74,041	1,234,278
2030-2031	830,577	83,032	913,609	34,423	3,380	37,803	951,413
2031-2032	949,688	60,292	1,009,980	35,312	2,492	37,804	1,047,784
2032-2033	977,629	34,993	1,012,622	32,371	1,604	33,975	1,046,597
2033-2034	180,460	19,571	200,031	9,540	1,042	10,582	210,613
2034-2035	185,182	14,311	199,493	9,818	764	10,582	210,075
2035-2036	189,883	8,686	198,569	10,117	465	10,582	209,150
2036-2037	194,575	2,919	197,494	10,425	156	10,581	208,075
	<u>\$ 20,303,057</u>	<u>\$ 4,474,275</u>	<u>\$ 24,777,332</u>	<u>\$ 6,293,835</u>	<u>\$ 926,329</u>	<u>\$ 7,220,164</u>	<u>\$ 31,997,496</u>

A summary of the changes in the principal of the outstanding bond obligations and the sick leave for the District during the year ended June 30, 2017 is as follows:

Governmental Activities	Balance July 1, 2016	Additions	Payments	Balance June 30, 2017
Bond Obligations	\$ 26,669,020	\$ 1,872,052	\$ 1,944,180	\$ 26,596,892
Sick Leave	\$ 247,917	\$ 64,397	\$ 78,353	\$ 233,961

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS

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

General information about the County Employees Retirement System Non-Hazardous

Plan description

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

Benefits provided

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

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

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

Benefits provided (Continued)

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

Contributions

Required contributions by the employee are based on the following tier:

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

The contribution requirement for CERS for the year ended June 30, 2017, was \$583,147, which consisted of \$453,966 from the District and \$129,181 from the employees. Total contributions for the year ended June 30, 2016 and 2015 were \$486,175 and \$486,594, respectively. The contributions have been contributed in full for fiscal years 2017, 2016 and 2015.

General information about the Teachers' Retirement System of the State of Kentucky

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—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided

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

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

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

Benefits provided (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.

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

Contributions—Contribution rates are established by Kentucky Revised Statutes. Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.400% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to KTRS. The contribution requirement for KTRS for the year ended June 30, 2017, was \$1,152,100, which consisted of \$256,680 from the District and \$895,420 from the employees. Total contributions for the year ended June 30, 2016 and 2015 were \$1,196,926 and \$1,054,310, respectively. The contributions have been contributed in full for fiscal years 2017, 2016 and 2015.

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.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

Benefits provided (Continued)

Medical Insurance Plan

Plan description

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

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

Funding policy

In order to fund the post-retirement healthcare benefit, 6.59% of the gross annual payroll of employees before July 1, 2008 is contributed. 3.75% is paid by member contributions, 0.16% is credited to the Commonwealth, and 3.00% is contributed by the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses for the plan.

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

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

District's proportionate share of the CERS net pension liability	\$ 4,499,699
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	<u>66,727,769</u>
	<u>\$ 71,227,468</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 0.091390%.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

For the year ended June 30, 2017, the District recognized pension expense of \$548,777 related to CERS and \$5,436,104 related to KTRS. The District also recognized revenue of \$5,436,104 for KTRS support provided by the Commonwealth. At June 30, 2016, 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>
Difference between expected and actual performance	\$ 45,649	\$ -
Net difference between projected and actual earnings on pension plan investments	451,068	203,400
Change of Assumptions	553,903	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	11,217	95,673
District contributions subsequent to the measurement date	<u>453,966</u>	<u>-</u>
Total	<u>\$ 1,515,803</u>	<u>\$ 299,073</u>

\$453,966 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:

<u>Year ended June 30:</u>	
2017	\$ 141,182
2018	141,182
2019	141,182
2020	208,982
2021	130,236

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 and inflation	7.50%	7.50%

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

Actuarial assumptions (Continued)

For CERS, mortality rates used for active members was RP-2000 Combined Mortality table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016 and will be reflected in the June 30, 2017 GASB 68 reports.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement (Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

Actuarial assumptions (Continued)

For KTRS and CERS, 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 and CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>KTRS Long-Term Expected Real Rate of Return</u>	<u>CERS Target Allocation</u>	<u>CERS Long-Term Expected Real Rate of Return</u>
US equity	45%	6.40%		
Non-US equity	17%	6.50%		
Combined equity			44%	5.40%
Emerging market equity				
Private equity			10%	8.50%
Core US fixed income				
High yield US fixed income				
Non-US fixed incomes				
Commodities				
TIPS				
Fixed income	24%	1.60%	19%	1.50%
Real return (diversified inflation strategies)			10%	3.50%
High yield bonds	4%	3.10%		
Real estate	4%	5.80%	5%	4.50%
Absolute return (diversified hedge funds)			10%	4.25%
Alternatives	4%	6.80%		
Cash	2%	1.50%	2%	-0.25%
Total	<u>100%</u>		<u>100%</u>	

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 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.

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Financial Statement
(Continued)

NOTE 16 RETIREMENT PLANS (CONTINUED)

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	\$ 5,607,354	4,499,699	\$ 3,550,218
KTRS	3.20%	4.20%	5.20%
District's proportionate share of net pension liability	-	-	-

Pension plan fiduciary net position

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

NOTE 17 SUBSEQUENT EVENTS

Subsequent events were considered through November 14, 2017, which represents the release date of our report.

SUPPLEMENTARY
INFORMATION

GALLATIN COUNTY SCHOOL DISTRICT

**Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2017**

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>District Activity Fund</u>	<u>Total Non-Major Government Funds</u>
Assets				
Current:				
Cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,984</u>	<u>\$ 15,984</u>
Total current	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,984</u></u>	<u><u>\$ 15,984</u></u>
Liabilities and Fund Balances				
Fund Balances:				
Restricted:				
Other	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,984</u>	<u>\$ 15,984</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>15,984</u>	<u>15,984</u>
Total liabilities and fund balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,984</u></u>	<u><u>\$ 15,984</u></u>

GALLATIN COUNTY SCHOOL DISTRICT

**Combining Statement of Revenues, Expenditures and Changes
In Fund Balances – Nonmajor Governmental Funds
As of June 30, 2017**

	Capital Outlay Fund	Building Fund	District Activity Fund	Total Non-Major Government Funds
Revenues:				
Taxes	\$ -	\$ 906,729	\$ -	\$ 906,729
Earnings on investments	-	-	-	-
State sources	146,610	815,208	-	961,818
Federal sources	-	-	-	-
Other sources	-	-	23,114	23,114
	<u>146,610</u>	<u>1,721,937</u>	<u>23,114</u>	<u>1,891,661</u>
Total revenues	<u>146,610</u>	<u>1,721,937</u>	<u>23,114</u>	<u>1,891,661</u>
Expenditures:				
Student support services	-	-	3,088	3,088
Staff support services	-	-	19,311	19,311
	<u>-</u>	<u>-</u>	<u>22,399</u>	<u>22,399</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>22,399</u>	<u>22,399</u>
Excess (deficit) of revenues over expenditures	<u>146,610</u>	<u>1,721,937</u>	<u>715</u>	<u>1,869,262</u>
Other Financing Sources (Uses)				
Operating transfers out	<u>(146,610)</u>	<u>(1,923,414)</u>	<u>-</u>	<u>(2,070,024)</u>
Total other financing sources(uses)	<u>(146,610)</u>	<u>(1,923,414)</u>	<u>-</u>	<u>(2,070,024)</u>
Net change in fund balance	-	(201,477)	715	(200,762)
Fund balance, June 30, 2016	<u>-</u>	<u>201,477</u>	<u>15,269</u>	<u>216,746</u>
Fund balance, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,984</u>	<u>\$ 15,984</u>

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – General Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Taxes	\$ 3,972,449	\$ 3,979,453	\$ 3,951,585	\$ (27,868)
Earnings on investments	14,400	14,400	21,782	7,382
State sources	9,333,139	9,256,777	9,373,971	117,194
Federal sources	116,000	116,000	69,458	(46,542)
Other sources	<u>497,118</u>	<u>497,118</u>	<u>546,608</u>	<u>49,490</u>
Total revenues	<u>13,933,106</u>	<u>13,863,748</u>	<u>13,963,404</u>	<u>99,656</u>
Expenditures				
Instructional	7,424,311	7,414,683	7,459,539	(44,856)
Student support services	693,013	693,013	701,596	(8,583)
Staff support services	576,379	576,379	574,368	2,011
District administration	685,108	685,108	679,618	5,490
School administration	1,231,240	1,230,437	935,426	295,011
Business support services	628,686	630,186	636,803	(6,617)
Plant operation and maintenance	1,471,072	1,471,072	1,584,158	(113,086)
Student transportation	1,398,207	1,398,207	1,438,312	(40,105)
Debt Service	141,046	141,046	141,047	(1)
Other	<u>1,553,423</u>	<u>1,492,996</u>	<u>30,789</u>	<u>1,462,207</u>
Total expenditures	<u>15,802,485</u>	<u>15,733,127</u>	<u>14,181,656</u>	<u>1,551,471</u>
Net change in fund balance	(1,869,379)	(1,869,379)	(218,252)	1,651,127
Fund balance, July 1, 2016	<u>1,869,379</u>	<u>1,869,379</u>	<u>1,869,379</u>	<u>-</u>
Fund balance, June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,651,127</u>	<u>\$ 1,651,127</u>

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Special Revenue Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
State sources	\$ 725,692	\$ 1,409,407	\$ 724,520	\$ (684,887)
Federal sources	938,999	1,712,840	823,968	(888,872)
Other sources	<u>43,207</u>	<u>241,004</u>	<u>51,962</u>	<u>(189,042)</u>
Total revenues	<u>1,707,898</u>	<u>3,363,251</u>	<u>1,600,450</u>	<u>(1,762,801)</u>
Expenditures				
Instructional	1,299,971	2,622,164	1,251,605	1,370,559
Student support services	3	1,758	-	1,758
Staff support services	54,019	99,013	53,339	45,674
School administration	4,312	4,317	2,436	1,881
Business support services	47,570	132,932	44,172	88,760
Student transportation	147,129	193,629	94,846	98,783
Community service operations	<u>154,894</u>	<u>309,438</u>	<u>154,052</u>	<u>155,386</u>
Total expenditures	<u>1,707,898</u>	<u>3,363,251</u>	<u>1,600,450</u>	<u>1,762,801</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Debt Service Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues				
State sources	\$ -	\$ 869,419	\$ 867,999	\$ (1,420)
Other sources	<u>1,641,527</u>	<u>1,641,527</u>	<u>1,637,512</u>	<u>(4,015)</u>
Total revenues	<u>1,641,527</u>	<u>2,510,946</u>	<u>2,505,511</u>	<u>(5,435)</u>
Expenditures				
Debt services	<u>1,641,527</u>	<u>2,510,946</u>	<u>2,505,511</u>	<u>5,435</u>
Total expenditures	<u>1,641,527</u>	<u>2,510,946</u>	<u>2,505,511</u>	<u>5,435</u>
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2016	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2017	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget to Actual – Construction Fund
Year Ended June 30, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
Revenues				
Earnings on investments	\$ 3,140	\$ 3,150	\$ 8,650	\$ 5,500
Total revenues	<u>3,140</u>	<u>3,150</u>	<u>8,650</u>	<u>5,500</u>
Expenditures				
Facility acquisition and construction	2,205,669	2,317,084	1,171,126	1,145,958
Total expenditures	<u>2,205,669</u>	<u>2,317,084</u>	<u>1,171,126</u>	<u>1,145,958</u>
Excess (deficit) of revenues over expenditures	<u>(2,202,529)</u>	<u>(2,313,934)</u>	<u>(1,162,476)</u>	<u>1,151,458</u>
Other Financing Sources (Uses)				
Loan and bond proceeds	1,900,000	1,900,000	1,635,000	(265,000)
Operating transfers in	<u>201,477</u>	<u>201,477</u>	<u>201,476</u>	<u>(1)</u>
Total other financing sources (uses)	<u>2,101,477</u>	<u>2,101,477</u>	<u>1,836,476</u>	<u>(265,001)</u>
Net change in fund balance	(101,052)	(212,457)	674,000	886,457
Fund balance, July 1, 2016	<u>101,052</u>	<u>579,656</u>	<u>101,052</u>	<u>(478,604)</u>
Fund balance, June 30, 2017	<u>\$ -</u>	<u>\$ 367,199</u>	<u>\$ 775,052</u>	<u>\$ 407,853</u>

GALLATIN COUNTY SCHOOL DISTRICT

Statement of Receipts, Disbursements and Fund Balance Bond and Interest Redemption Funds For the Year Ended June 30, 2017

	Issue of 2006 B Kista	Issue of 2008 - Ref	Issue of 2008	Issue of 2008 Kista	Issue of 2009 Kista	Issue of 2010 - Ref	Issue of 2010 Kista	Issue of 2011 Kista	Issue of 2012	Issue of 2012 Kista
Cash at July 1, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:										
Transfers and miscellaneous deposits	8,140	424,946	146,858	16,722	10,170	222,595	12,541	12,533	150,743	12,257
Disbursements:										
Bonds paid	7,836	405,000	110,000	15,542	9,235	175,000	11,236	10,739	65,000	10,823
Interest coupons	304	19,946	36,858	1,180	935	47,595	1,305	1,794	85,743	1,434
Transfers and miscellaneous	-	-	-	-	-	-	-	-	-	-
Call fee	-	-	-	-	-	-	-	-	-	-
Total disbursements	8,140	424,946	146,858	16,722	10,170	222,595	12,541	12,533	150,743	12,257
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-	-
Cash at June 30, 2017	-	-	-	-	-	-	-	-	-	-
Accounts Receivable and Payable										
Matured interest and bonds outstanding	-	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-
Total accounts receivable and payable	-	-	-	-	-	-	-	-	-	-
Fund Balance at June 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

	Issue of 2013	Issue of 2013 Kista	Issue of 2014 Kista	Issue of 2014	Issue of 2015 - Ref	Issue of 2015 Kista	Issue of 2016	Issue of 2016 Kista	Total
Cash at July 1, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:									
Transfers and miscellaneous deposits	36,440	11,799	13,240	397,928	1,106,700	28,503	19,301	15,142	2,646,558
Disbursements:									
Bonds paid	30,000	10,339	11,137	240,000	795,000	24,538	-	12,755	1,944,180
Interest coupons	6,440	1,460	2,103	157,928	311,700	3,965	19,301	2,387	702,378
Transfers and miscellaneous	-	-	-	-	-	-	-	-	-
Call fee	-	-	-	-	-	-	-	-	-
Total disbursements	36,440	11,799	13,240	397,928	1,106,700	28,503	19,301	15,142	2,646,558
Excess of receipts over disbursements	-	-	-	-	-	-	-	-	-
Cash at June 30, 2017	-	-	-	-	-	-	-	-	-
Accounts Receivable and Payable									
Matured interest and bonds outstanding	-	-	-	-	-	-	-	-	-
Due from other funds	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-
Total accounts receivable and payable	-	-	-	-	-	-	-	-	-
Fund Balance at June 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Gallatin County High School Activity Fund
For the Year Ended June 30, 2017**

	Fund Balance July 1, 2016	Receipts	Disbursements	Fund Balance June 30, 2017
Art club	\$ 396	\$ 129	\$ 525	\$ -
Athletic speedway	3,305	17,392	11,392	9,305
Athletics	8,208	11,393	11,955	7,646
Band	1,236	6,120	6,617	739
Baseball fundraiser	618	7,336	7,512	442
Beta club	550	6,429	4,814	2,165
Boys baseball	4	3,215	2,765	454
Boys basketball	1,772	13,132	12,690	2,214
Boys basketball fundraiser	5,683	20,735	24,058	2,360
Boys golf	118	384	500	2
Boys middle basketball	521	1,773	1,741	553
Boys MS football	1,176	3,043	4,219	-
Boys soccer	18	1,774	1,767	25
Boys tennis	334	-	228	106
Boys Track and Field	5	360	364	1
Bus garage	57	395	301	151
Central office	80	474	421	133
Cheerleaders	19	19,825	19,344	500
Coaches	939	1,840	2,138	641
Drama club	1,095	3,074	2,614	1,555
FBLA	6	8,186	8,050	142
Fellow Christian Assoc.	166	206	372	-
FFA	5,797	4,919	8,891	1,825
Fishing	65	-	-	65
FMD class	183	2,035	2,201	17
Football	3	14,213	12,182	2,034
Freshman mentors	1,053	1,617	1,481	1,189
Future educators	326	-	-	326
GC High School	-	1,968	-	1,968
Gifts for Education	1,205	10	410	805
Girls basketball	2,012	6,153	5,851	2,314
Girls basketball fundraiser	1,423	1,246	2,609	60
Girls golf	-	591	590	1
Girls MS basketball	1,517	1,826	2,563	780
Girls MS volleyball	1,257	1,326	1,952	631
Girls soccer	-	1,803	1,777	26
Girls softball	772	3,489	3,691	570
Girls tennis	2	-	-	2
Girls tennis fundraiser	691	-	323	368
Girls volleyball	360	1,480	1,840	-
High school football fundraiser	3,926	6,539	8,964	1,501
High school general	754	6,634	5,907	1,481
High school teachers	379	870	1,110	139
High school trip	3,360	2,305	4,936	729
HS volleyball fundraiser	803	762	1,431	134
Interest account	735	781	168	1,348

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balance
Gallatin County High School Activity Fund (Continued)
For the Year Ended June 30, 2017**

	Fund Balance July 1, 2016	Receipts	Disbursements	Fund Balance June 30, 2017
Junior class	438	10,668	10,094	1,012
Junior league	4,336	420	400	4,356
MS football fundraiser	427		222	205
SADD club	1,415	-	1,415	-
Seniors	77	8,596	8,567	106
Sophomore class	492	1,241	1,733	-
Spanish club	7	-	7	-
Spirit Club	238	336	446	128
Tournaments	-	9,407	9,407	-
Track	7	58	64	1
Vo Ag	5,162	-	876	4,286
Wildcat Emporium	43	6,099	4,256	1,886
Winter Guard	-	1,231	845	386
Yearbook	-	2,883	2,883	-
Total	<u>\$ 65,571</u>	<u>\$ 228,721</u>	<u>\$ 234,479</u>	<u>\$ 59,813</u>

GALLATIN COUNTY SCHOOL DISTRICT

**Statement of Receipts, Disbursements and Fund Balances
School Activity Funds
For the Year Ended June 30, 2017**

	Gallatin Middle School	Gallatin Lower Elementary School	Gallatin Upper Elementary School	Total
Fund balances at July 1, 2016	\$ 5,352	\$ 8,942	\$ 13,254	\$ 27,548
Add: receipts	24,146	16,192	10,232	50,570
Less: disbursements	<u>(23,894)</u>	<u>(16,738)</u>	<u>(9,116)</u>	<u>(49,748)</u>
Fund balance at June 30, 2017	<u>\$ 5,604</u>	<u>\$ 8,396</u>	<u>\$ 14,370</u>	<u>\$ 28,370</u>

GALLATIN COUNTY SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability - KTRS

	Last 10 Fiscal Years*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of the net pension liability	0%	0%	0%	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	*	*	*	*	*	*	*
State's proportionate share of the net pension liability associated with the District	66,727,769	51,287,512	44,782,229	*	*	*	*	*	*	*
Total	<u>\$ 66,727,769</u>	<u>\$ 51,287,512</u>	<u>\$ 44,782,229</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	7,179,610	6,919,897	6,843,201	6,614,396	6,555,287	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	0%	0%	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: None

Changes of assumption: In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Table rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

GALLATIN COUNTY SCHOOL DISTRICT

Schedule of District Contributions - KTRS

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 256,680	\$ 273,986	\$ 217,421	\$ 160,290	\$ 129,239	\$ 112,697	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(256,680)</u>	<u>(273,986)</u>	<u>(217,421)</u>	<u>(160,290)</u>	<u>(129,239)</u>	<u>(112,697)</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 6,965,546	\$ 7,179,610	\$ 6,919,897	\$ 6,843,201	\$ 6,614,396	\$ 6,555,287	*	*	*	*
Contributions as a percentage of of covered-employee payroll	3.68%	3.82%	3.14%	2.34%	1.95%	1.72%	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

GALLATIN COUNTY SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability - CERS

	Last 10 Fiscal Years*									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of net pension liability	0.091390%	0.090972%	0.093618%	*	*	*	*	*	*	*
District's proportionate share of the net pension liability	\$ 4,499,699	\$ 3,911,343	\$ 3,037,000	*	*	*	*	*	*	*
Total net pension liability	\$ 4,923,618,237	\$ 4,299,525,565	\$ 3,244,377,000	*	*	*	*	*	*	*
District's covered-employee payroll	\$ 2,178,162	\$ 2,123,425	\$ 2,147,844	\$ 2,121,742	\$ 2,251,084	*	*	*	*	*
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	206.6%	184.2%	141.4%	*	*	*	*	*	*	*
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%	*	*	*	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Changes of benefit terms: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: As cash balance plan was introduced for member whose participation date is on or after January 1, 2014.

Changes of assumption: The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2015

- The assumed investment rate of return decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- There is some margin in the current mortality tables for possible future improvement in the 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.

GALLATIN COUNTY SCHOOL DISTRICT

Schedule of District Contributions - CERS

	Last 10 Fiscal Years*									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 453,966	\$ 371,594	\$ 375,210	\$ 405,728	\$ 413,978	\$ 426,806	*	*	*	*
Contributions in relation to the contractually required contribution	<u>(453,966)</u>	<u>(371,594)</u>	<u>(375,210)</u>	<u>(405,728)</u>	<u>(413,978)</u>	<u>(426,806)</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
District's covered-employee payroll	\$ 2,429,605	\$ 2,178,162	\$ 2,123,425	\$ 2,147,844	\$ 2,121,742	\$ 2,251,084	*	*	*	*
Contributions as a percentage of of covered-employee payroll	18.68%	17.06%	17.67%	18.89%	19.51%	18.96%	*	*	*	*

* The amounts presented for each fiscal year were determined as of June 30. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available. No changes were made to the assumptions or benefit terms.

GALLATIN COUNTY SCHOOL DISTRICT

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Agreement Number	Federal Expenditures for FYE June 30, 2017
<u>U.S. Department of Education</u>			
<i>Passed through Kentucky Department of Education</i>			
Special Education Cluster			
Special Education Grants to States	84.027	H027A160032	\$ 359,305
Special Education Preschool Grants	84.173	H173A160035	11,227
Total Special Education Cluster			370,532
Title I Grants to Local Educational Agencies	84.010	S010A160017	342,687
Career and technical Education -Basic Grants to States	84.048	V048A160017	9,778
Rural Education	84.358B	S358160017	19,267
English Language Acquisition State Grants	84.365	5365A160017	22,883
Title II Improving Teacher Quality State Grants	84.367	S367A160016	68,720
Total U.S. Department of Education			833,867
<u>U.S. Department of Agriculture</u>			
Child Nutrition Cluster			
<i>Passed through Kentucky Department of Education</i>			
National School Lunch Program	10.555	7750002 16	137,473
National School Lunch Program	10.555	7750002 17	495,827
School Breakfast Program	10.553	7760005 16	46,786
School Breakfast Program	10.553	7760005 17	180,131
<i>Passed through Kentucky Department of Agriculture</i>			
National School Lunch Program - Food Donation	10.555	4000814	71,235
Total Child Nutrition Cluster			931,452
<i>Passed through Kentucky Department of Education</i>			
Child and Adult Care Food Program	10.558	7800016 16	363
Child and Adult Care Food Program	10.558	7800016 17	2,325
Child and Adult Care Food Program	10.558	7790021 16	4,993
Child and Adult Care Food Program	10.558	7790021 17	31,948
Total CFDA #10.558			39,629
Total U.S. Department of Agriculture			971,081
Total Expenditures of Federal Awards			\$ 1,804,948

GALLATIN COUNTY SCHOOL DISTRICT

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Gallatin County School District under programs of the federal government for the year ended June 30, 2017, and is reported 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*. Because the schedule presents only a selected portion of the operations of Gallatin County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. For the year ended June 30, 2017, the District reported food commodities expended in the amount of \$71,235.

NOTE 4 INDIRECT COST RATE

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

NOTE 5 SUBRECIPIENTS

The District did not have any subrecipients during the year ended June 30, 2017.

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

To the Members of the Board of Education
Gallatin County School District
Warsaw, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Gallatin County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Gallatin County School District's basic financial statements, and have issued our report thereon dated November 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Gallatin 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 Gallatin County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Gallatin County School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gallatin 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*.

We noted other matters that we reported to management of the District on pages 65 to 66 of the audited financial statements.

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

(Continued)

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.

A handwritten signature in black ink that reads "Barnes, Dennig & Co., Ltd." in a cursive script.

Crestview Hills, Kentucky
November 14, 2017

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

Members of the Board of Education
Gallatin County School District
Warsaw, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Gallatin County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Gallatin County School District's major federal programs for the year ended June 30, 2017. Gallatin 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Gallatin County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Gallatin 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 Gallatin County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Gallatin 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.

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

(Continued)

Report on Internal Control Over Compliance

Management of Gallatin 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 Gallatin County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Gallatin 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.

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.



Crestview Hills, Kentucky
November 14, 2017

GALLATIN COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

SECTION I -SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None noted

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None noted

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

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR Section 200.516(a)? _____ Yes X No

Identification of major programs

CFDA No.	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X Yes _____ No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

GALLATIN COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

SECTION I -SUMMARY OF PRIOR YEAR AUDITOR'S RESULTS

No matters are reportable

SECTION II – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

No matters are reportable

SECTION III – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COST

No matters are reportable

GALLATIN COUNTY SCHOOL DISTRICT

Management Letter Comments For the Year Ended June 30, 2017

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

This letter summarizes our comments and suggestions regarding those matters. A separate report dated November 14, 2017 contains our report on significant deficiencies and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 14, 2017, on the financial statements of the Gallatin County School District.

CURRENT YEAR RECOMMENDATIONS

CENTRAL OFFICE

No matters are reportable

ACTIVITY FUNDS

Gallatin County High School

No matters are reportable

Gallatin County Middle School

No matters are reportable

Gallatin County Lower Elementary

No matters are reportable

Gallatin County Upper Elementary

No matters are reportable

GALLATIN COUNTY SCHOOL DISTRICT

**Management Letter Comments
(Continued)
For the Year Ended June 30, 2017**

STATUS OF PRIOR YEAR RECOMMENDATIONS

CENTRAL OFFICE

Statement of prior year deficiency:

- During the testing of payroll, it was noted that the retiree report was not filed until August 16, 2016.

Current year follow-up: No such instances were noted in the current year.

ACTIVITY FUNDS

Gallatin County High School

No matters are reportable

Gallatin County Middle School

No matters are reportable

Gallatin County Lower Elementary

No matters are reportable

Gallatin County Upper Elementary

No matters are reportable