

SPENCER COUNTY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2018

SPENCER COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Spencer County School District, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2018, the District adopted Governmental Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, Statement 85, *Omnibus 2017*, and Statement 86, *Certain Debt Extinguishment Issues*. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules and OPEB schedules on pages 4 – 9 and 55 – 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2018, on our consideration of Spencer County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spencer County School District's internal control over financial reporting and compliance.

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Bardstown, Kentucky
October 29, 2018

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2018

As management of the Spencer County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash and cash equivalents balance for the District for the year ended June 30, 2018 (FY18) was \$11.3 million, including a construction fund cash balance of \$1.8 million, and a building fund cash balance of \$4.9 million.
- The District has no industrial tax base. The District’s property tax base is derived from residential growth and assessments. Property assessment values grew 3.4%. The District levied FY18 property tax rates of 65.2 cents per \$100 for real estate and tangible property. This rate reflects an increase of 1.5 cents above the FY17 rate of 63.7 cents. The motor vehicle rate of 56 cents per \$100 of assessed value and the 3% utility tax rate remained unchanged from FY17.
- The District ended FY17 with an unassigned fund balance in the general fund of approximately \$3.6 million, similar to the previous year. The unassigned fund balance approximates a 14.1% contingency.
- Bonds are issued as the District constructs and/or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education’s stringent compliance regulations. The District’s bond debt was reduced \$1.91 million in FY18.
- The District’s major construction projects for FY18 included the construction of the new Taylorsville Elementary School that opened in August 2017. The District received approval from the Kentucky Department of Education to build a new Academic/Athletics Building at the Spencer County High School with a projected cost of \$7.0 million and a Bus/Maintenance Garage with a projected cost of \$2.4 million. In addition, the District received approval of a Capital Funds Request in the amount of \$1.2 million for the purchase of 5.4 acres adjoining the Spencer County High School property and for the expansion of and improvements to the athletic fields, tracks and courts.
- Employees received a 1.0% pay increase in addition to normal step and rank increases.
- The District purchased two new buses in FY18 utilizing general fund cash, resulting in future interest expense savings of approximately \$34,000. The District has \$888,604 in KISTA school bus debt scheduled to expire in FY26.
- During FY18, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement and reduction to beginning net position of \$9.2 million. At the end of FY18, the District reported a net post employment benefit obligation (OPEB) of \$7.0 million related to the Teacher’s Retirement System OPEB and \$3.3 million related to the County Employees Retirement System.
- As the District enters into FY19, budget concerns are focused on Kentucky’s pension crisis and the financial impact legislative actions will have on K-12 funding.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2018

Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service and child care operations. All other activities of the district are included in the governmental funds. The basic governmental fund financial statements can be found on pages 12 through 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by approximately \$4.5 million as of June 30, 2018.

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

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

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2018

Net Position

The 2018 Government-wide net position compared to 2017 is as follows:

**Net Position
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 11,792,576	\$ 15,021,418	\$ 285,371	\$ 321,409	\$ 12,077,947	\$ 15,342,827
Capital assets	47,170,345	46,119,903	308,853	101,630	47,479,198	46,221,533
Total assets	58,962,921	61,141,321	594,224	423,039	59,557,145	61,564,360
Deferred outflows of resources	4,357,678	2,175,281	650,107	297,996	5,007,785	2,473,277
Long-term obligations	53,989,679	45,005,374	2,017,749	1,237,115	56,007,428	46,242,489
Other liabilities	2,859,242	3,685,019	35,897	39,417	2,895,139	3,724,436
Total liabilities	56,848,921	48,690,393	2,053,646	1,276,532	58,902,567	49,966,925
Deferred inflows of resources	996,982	-	172,780	-	1,169,762	-
Net position:						
Net investment in capital assets	9,796,300	6,692,803	308,853	101,630	10,105,153	6,794,433
Restricted	6,966,714	9,078,959	-	-	6,966,714	9,078,959
Unrestricted	(11,288,318)	(1,145,553)	(1,290,948)	(657,127)	(12,579,266)	(1,802,680)
Total net position	\$ 5,474,696	\$ 14,626,209	\$ (982,095)	\$ (555,497)	\$ 4,492,601	\$ 14,070,712

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

- Capital assets increased approximately \$1.26 million due to current year depreciation of \$1.53 million offset by FY2018 additions of approximately \$2.78 million primarily as a result of construction costs related to the new Taylorsville Elementary School, buses, land and land improvements for the new sports complex..
- Total long-term obligations for bonds decreased approximately \$1.91 million as a result of regularly scheduled principal payments. Also, the District paid \$38,718 toward a claim related to outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT). The District's proportionate share of CERS reported net pension liability increased approximately \$1.46 million during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the CERS net pension liability was \$9.74 million (as actuarially determined by CERS). The District's proportionate share of CERS reported net OPEB liability increased approximately \$721 thousand during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the CERS net OPEB liability was \$3.34 million (as actuarially determined by CERS). The District's proportionate share of TRS reported net OPEB liability decreased approximately \$135 thousand during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the TRS net OPEB liability was \$7.02 million (as actuarially determined by TRS).

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2018

Change in Net Position

The following Table 2 presents the summary of changes in net position for the fiscal years ending June 30, 2018 and 2017.

Changes in Net Position (Table 2)						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program Revenues						
Charges for services	\$ 197,135	\$ 233,330	\$ 833,629	\$ 815,506	\$ 1,030,764	\$ 1,048,836
Operating grants and contributions	13,030,650	14,311,992	985,155	996,113	14,015,805	15,308,105
Capital grants and contributions	1,490,204	1,523,647	-	-	1,490,204	1,523,647
General Revenues						
Property taxes	7,108,793	6,782,395	-	-	7,108,793	6,782,395
Motor vehicle taxes	938,229	870,884	-	-	938,229	870,884
Utility taxes	735,720	705,892	-	-	735,720	705,892
Franchise taxes	185,026	133,216	-	-	185,026	133,216
Investment earnings	197,666	139,900	3,775	2,590	201,441	142,490
State aid formula grants	11,140,257	11,151,314	-	-	11,140,257	11,151,314
Gain (loss) on sale of equipment	28,796	4,137	-	-	28,796	4,137
Miscellaneous	310,891	275,984	11,977	11,226	322,868	287,210
Total revenues	35,363,367	36,132,691	1,834,536	1,825,435	37,197,903	37,958,126
EXPENSES						
Program Activities						
Instruction	20,988,167	22,326,614	-	-	20,988,167	22,326,614
Student support	1,492,152	1,384,081	-	-	1,492,152	1,384,081
Instruction staff support	2,034,106	1,653,633	-	-	2,034,106	1,653,633
District administration support	858,738	762,490	-	-	858,738	762,490
School administrative support	1,926,331	1,629,849	-	-	1,926,331	1,629,849
Business support	859,593	765,428	-	-	859,593	765,428
Plant operation and maintenance	3,006,262	2,362,303	-	-	3,006,262	2,362,303
Student transportation	2,589,055	2,163,267	-	-	2,589,055	2,163,267
Community service activities	212,303	177,498	-	-	212,303	177,498
Other	66,738	-	-	-	66,738	-
Facilities acquisition and construction	240,708	-	-	-	240,708	-
Interest on long-term debt	1,139,085	1,174,116	-	-	1,139,085	1,174,116
Business-type Activities						
Food service	-	-	1,601,431	1,511,569	1,601,431	1,511,569
Child care	-	-	522,185	400,416	522,185	400,416
Total expenses	35,413,238	34,399,279	2,123,616	1,911,985	37,536,854	36,311,264
Transfers	(225,766)	56,322	225,766	(56,322)	-	-
CHANGE IN NET POSITION	\$ (275,637)	\$ 1,789,734	\$ (63,314)	\$ (142,872)	\$ (338,951)	\$ 1,646,862

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

- Total revenues decreased approximately \$1.1 million primarily due to decreases in on-behalf revenues of \$1.6 million related to the decrease in the TRS net pension liability offset by additional increases in property tax revenues, motor vehicle tax revenues and utility tax revenues of approximately \$424,000.
- Total expenses increased approximately \$984 thousand as a result of increases in Plant Operations and Maintenance (\$644,000 increase); increases in student transportation (\$426 thousand increase); increases in Instruction staff support (\$380 thousand increase); increases in school administrative support (\$296 thousand increase); and increases in Food Service and Child Care of approximately \$212 thousand. The increases are primarily the result of increases in the CERS net pension liability of \$1.46 million offset by a decrease of \$1.6 million related to the decrease in the TRS net pension expense for Instruction activities.

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2018

Capital Assets

At the end of fiscal year 2018, the School District had approximately \$46.2 million invested in land, building and improvements, vehicles, equipment, and construction in process. Table 3 shows fiscal year 2018 and 2017 balances.

Capital Assets, Net of Depreciation
(Table 3)

	2018	2017	2018	2017	2018	2017
Land	\$ 764,213	\$ 677,346	\$ -	\$ -	\$ 764,213	\$ 677,346
Buildings and improvements	44,484,217	27,597,990	-	-	44,484,217	27,597,990
Technology Equipment	90,569	23,459	-	-	90,569	23,459
Vehicles	1,390,350	1,417,706	-	-	1,390,350	1,417,706
General equipment	210,676	206,843	308,853	101,630	519,529	308,473
Total	46,940,025	29,923,344	308,853	101,630	47,248,878	30,024,974
Construction in process	230,320	16,196,559	-	-	230,320	16,196,559
Total	\$ 47,170,345	\$ 46,119,903	\$ 308,853	\$ 101,630	\$ 47,479,198	\$ 46,221,533

The following were major additions and capital assets placed in service during fiscal year 2018:

Taylorsville Elementary School	\$ 17,687,788
Taylorsville Elementary School Kitchen Equipment	\$ 259,433
Athletic site improvements	\$ 428,867
Buses	\$ 179,810

The District also spent \$230,320 for construction and related costs for the athletic site improvements project for improvements that were ongoing at June 30, 2018. The amounts were added to construction in process as of June 30, 2018.

Debt

At June 30, 2018, the School District had \$37,240,000 in bonds outstanding. Of this amount, \$2,841,471 is to be paid by the Kentucky School Facility Construction Commission. A total of \$1,970,000 is due within one year.

General Fund – Budget Highlights

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

The most significant fluctuation in revenues is in state on-behalf revenue by approximately \$2,000,000. Budgeted expenditures of approximately \$27.0 million compare with actual expenditures of approximately \$25.4 million. The most significant fluctuation is in the other category for \$3.0 million budget for contingency that was not needed. Additional significant variances from budgeted amounts include: (1) state on-behalf expenditures being over budget by \$2,000,000 (2) school administrative expenditures were over budget by \$42,200 (3) plant operation and maintenance expenditures fell below budget by approximately \$118,216 and (4) student transportation where expenditures fell below budget by approximately \$149,611.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 20 – 54 of this report.

SPENCER COUNTY SCHOOL DISTRICT – TAYLORSVILLE, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2018

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal, operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget for 2017-2018 with a contingency that exceeded the 2% minimum. The District has adopted a budget for 2018-2019 with a contingency that exceeds the 2% requirement.

ADDITIONAL CONTACT INFORMATION

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

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities	Business- Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 11,034,761	\$ 228,751	\$ 11,263,512
Investments	-	-	-
Inventory	-	28,333	28,333
Receivables:			
Taxes-current	163,519	-	163,519
Taxes-delinquent	4,726	-	4,726
Other receivables	39,998	19,086	59,084
Intergovernmental-State	30,231	-	30,231
Intergovernmental-Indirect Federal	225,758	9,201	234,959
Prepays	293,583	-	293,583
Total Current Assets	11,792,576	285,371	12,077,947
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	994,533	-	994,533
Depreciable capital assets, net of accumulated depreciation	46,175,812	308,853	46,484,665
Total Noncurrent Assets	47,170,345	308,853	47,479,198
Total Assets	\$ 58,962,921	\$ 594,224	\$ 59,557,145
Deferred Outflows of Resources			
Deferred amount on debt refundings	\$ 431,226	\$ -	\$ 431,226
Pension and OPEB related	3,926,452	650,107	4,576,559
Total Deferred Outflows of Resources	\$ 4,357,678	\$ 650,107	\$ 5,007,785
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 117,043	\$ 3,639	\$ 120,682
Accrued liabilities	64,987	16,469	81,456
Unearned revenue	180,927	15,789	196,716
Bond obligations	1,970,000	-	1,970,000
Capital leases payable	189,336	-	189,336
Claims payable - KSBIT	38,718	-	38,718
Compensated absences	85,480	-	85,480
Interest payable	212,751	-	212,751
Total Current Liabilities	2,859,242	35,897	2,895,139
<u>Noncurrent Liabilities</u>			
Bond obligations	34,946,667	-	34,946,667
Capital leases payable	699,268	-	699,268
Claims payable - KSBIT	77,435	-	77,435
Compensated absences	181,156	-	181,156
Net OPEB liability - TRS	7,020,850	-	7,020,850
Net OPEB liability - CERS	2,828,590	515,838	3,344,428
Net pension liability - CERS	8,235,713	1,501,911	9,737,624
Total Noncurrent Liabilities	53,989,679	2,017,749	56,007,428
Total Liabilities	\$ 56,848,921	\$ 2,053,646	\$ 58,902,567
Deferred Inflows of Resources			
Pension and OPEB related	\$ 996,982	\$ 172,780	\$ 1,169,762
Total Deferred Inflows of Resources	\$ 996,982	\$ 172,780	\$ 1,169,762
Net Position			
Net investment in capital assets	\$ 9,796,300	\$ 308,853	\$ 10,105,153
Restricted	6,966,714	-	6,966,714
Unrestricted	(11,288,318)	(1,290,948)	(12,579,266)
Total Net Position	\$ 5,474,696	\$ (982,095)	\$ 4,492,601

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

SPENCER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 20,988,167	\$ 152,937	\$ 9,932,332	\$ -	\$ (10,902,898)	\$ -	\$ (10,902,898)
Support services:							
Student	1,492,152	-	591,855	-	(900,297)	-	(900,297)
Instruction staff	2,034,106	-	629,453	-	(1,404,653)	-	(1,404,653)
District administrative	858,738	-	383,529	-	(475,209)	-	(475,209)
School administrative	1,926,331	-	838,416	-	(1,087,915)	-	(1,087,915)
Business	859,593	-	267,007	-	(592,586)	-	(592,586)
Plant operation and maintenance	3,006,262	-	135,661	-	(2,870,601)	-	(2,870,601)
Student transportation	2,589,055	11,743	252,397	-	(2,324,915)	-	(2,324,915)
Community service activities	212,303	-	-	-	(212,303)	-	(212,303)
Other	66,738	32,455	-	-	(34,283)	-	(34,283)
Facilities acquisition and construction	240,708	-	-	1,039,632	798,924	-	798,924
Interest on long-term debt	1,139,085	-	-	450,572	(688,513)	-	(688,513)
Total Governmental Activities	35,413,238	197,135	13,030,650	1,490,204	(20,695,249)	-	(20,695,249)
Business-Type Activities:							
Food service	1,601,431	504,224	926,233	-	-	(170,974)	(170,974)
Daycare	522,185	329,405	58,922	-	-	(133,858)	(133,858)
Total Business-Type Activities	2,123,616	833,629	985,155	-	-	(304,832)	(304,832)
Total Primary Government	\$ 37,536,854	\$ 1,030,764	\$ 14,015,805	\$ 1,490,204	(20,695,249)	(304,832)	(21,000,081)
General Revenues:							
Taxes:							
Property taxes					7,108,793	-	7,108,793
Motor vehicle taxes					938,229	-	938,229
Utility taxes					735,720	-	735,720
Other taxes					185,026	-	185,026
Investment earnings					197,666	3,775	201,441
Gain on disposal of capital assets					28,796	-	28,796
State and formula grants					11,140,257	-	11,140,257
Miscellaneous					310,891	11,977	322,868
Total general revenues					20,645,378	15,752	20,661,130
Transfers					(225,766)	225,766	-
Change in net position					(275,637)	(63,314)	(338,951)
Net position - beginning					14,626,209	(555,497)	14,070,712
Restatement for adoption of GASB 75					(8,875,876)	(363,284)	(9,239,160)
Net position - beginning, as restated					5,750,333	(918,781)	4,831,552
Net position - ending					\$ 5,474,696	\$ (982,095)	\$ 4,492,601

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

SPENCER COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

JUNE 30, 2018

	General Fund	Special Revenue	Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 4,079,316	\$ -	1,845,860	\$ 4,894,149	\$ 215,435	\$ 11,034,760
Due from other funds	7,657	-	-	-	-	7,657
Receivables:						
Taxes - current	163,520	-	-	-	-	163,520
Taxes - delinquent	4,726	-	-	-	-	4,726
Other receivables	38,629	323	-	-	1,046	39,998
Intergovernmental - State	-	30,231	-	-	-	30,231
Intergovernmental - Indirect Federal	6,530	219,228	-	-	-	225,758
Prepays	293,583	-	-	-	-	293,583
Total Assets	<u>\$ 4,593,961</u>	<u>\$ 249,782</u>	<u>\$ 1,845,860</u>	<u>\$ 4,894,149</u>	<u>\$ 216,481</u>	<u>\$ 11,800,233</u>
Liabilities and Fund Balances:						
Liabilities						
Due to other funds	\$ -	\$ 7,657	\$ -	\$ -	\$ -	\$ 7,657
Accounts payable	90,160	12,196	11,615	-	3,072	117,043
Accrued liabilities	40,895	24,091	-	-	-	64,986
Claims payable	38,718	-	-	-	-	38,718
Compensated absences	15,493	-	-	-	-	15,493
Unearned revenue	-	180,927	-	-	-	180,927
Total Liabilities	<u>185,266</u>	<u>224,871</u>	<u>11,615</u>	<u>-</u>	<u>3,072</u>	<u>424,824</u>
Fund Balances						
Nonspendable	293,583	-	-	-	-	293,583
Restricted	-	24,911	1,834,245	4,894,149	213,409	6,966,714
Committed	363,618	-	-	-	-	363,618
Assigned	163,355	-	-	-	-	163,355
Unassigned	3,588,139	-	-	-	-	3,588,139
Total Fund Balances	<u>4,408,695</u>	<u>24,911</u>	<u>1,834,245</u>	<u>4,894,149</u>	<u>213,409</u>	<u>11,375,409</u>
Total Liabilities and Fund Balances	<u>\$ 4,593,961</u>	<u>\$ 249,782</u>	<u>\$ 1,845,860</u>	<u>\$ 4,894,149</u>	<u>\$ 216,481</u>	<u>\$ 11,800,233</u>

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

SPENCER COUNTY SCHOOL DISTRICT

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

JUNE 30, 2018

Total fund balance per fund financial statements	\$ 11,375,409
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	47,170,345
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Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	431,226
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Governmental funds do not record deferred outflows of resources for pensions but those are reported on the statement of net position as deferred outflows of resources.	3,926,452
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Governmental funds do not record deferred inflows of resources for pensions but those are reported on the statement of net position as deferred inflows of resources.	(996,982)
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Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:

Bonds payable (net of discounts/premiums)	(36,916,668)
Interest payable	(212,751)
Capital lease obligations	(888,604)
Long-term portion of claims payable KSBIT	(77,435)
Compensated absences	(251,143)
Net OPEB - TRS	(7,020,850)
Net OPEB - CERS	(2,828,590)
Net pension liability - CERS	<u>(8,235,713)</u>

Net position for governmental activities	<u>\$ 5,474,696</u>
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The notes to financial statements are an integral part of the statements.

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Special Revenue	Construction Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Taxes:						
Property	\$ 5,174,184	\$ -	\$ -	\$ 1,934,609	\$ -	\$ 7,108,793
Motor vehicle	938,229	-	-	-	-	938,229
Utilities	735,720	-	-	-	-	735,720
Other taxes	185,026	-	-	-	-	185,026
Earnings on investments	103,183	441	22,122	71,920	-	197,666
Other local revenues	229,084	69,075	36,514	-	336,920	671,593
Intergovernmental - State	17,683,467	1,179,832	-	775,830	714,373	20,353,502
Intergovernmental - Indirect Federal	56,519	1,383,576	-	-	-	1,440,095
Total Revenues	<u>25,105,412</u>	<u>2,632,924</u>	<u>58,636</u>	<u>2,782,359</u>	<u>1,051,293</u>	<u>31,630,624</u>
Expenditures:						
Instruction	14,702,121	2,005,840	-	-	296,296	17,004,257
Support services:						
Student	1,361,478	90,046	-	-	1,743	1,453,267
Instruction staff	1,568,371	375,036	-	-	20,131	1,963,538
District administrative	835,923	286	-	-	-	836,209
School administrative	1,793,368	-	-	-	-	1,793,368
Business	782,480	-	-	-	-	782,480
Plant operation and maintenance	1,886,483	-	-	-	746	1,887,229
Student transportation	2,226,526	27,157	-	-	760	2,254,443
Facilities acquisition and construction	-	-	2,421,077	-	-	2,421,077
Community service activities	19,303	170,208	-	-	-	189,511
Other	934	65,806	-	-	-	66,740
Debt service:						
Principal	210,712	-	-	-	1,910,000	2,120,712
Interest	26,263	-	-	-	1,052,826	1,079,089
Total Expenditures	<u>25,413,962</u>	<u>2,734,379</u>	<u>2,421,077</u>	<u>-</u>	<u>3,282,502</u>	<u>33,851,920</u>
Excess (Deficit) of Revenues over Expenditures	(308,550)	(101,455)	(2,362,441)	2,782,359	(2,231,209)	(2,221,296)
Other Financing Sources (Uses):						
Proceeds from disposal of capital assets	28,796	-	-	-	-	28,796
Transfers in	36,260	62,526	8,454	-	2,512,255	2,619,495
Transfers out	(62,526)	(2,592)	(259,433)	(2,248,453)	(272,256)	(2,845,260)
Total Other Financing Sources (Uses)	<u>2,530</u>	<u>59,934</u>	<u>(250,979)</u>	<u>(2,248,453)</u>	<u>2,239,999</u>	<u>(196,969)</u>
Net Change in Fund Balances	<u>(306,020)</u>	<u>(41,521)</u>	<u>(2,613,420)</u>	<u>533,906</u>	<u>8,790</u>	<u>(2,418,265)</u>
Fund Balance, July 1, 2017	<u>4,714,715</u>	<u>66,432</u>	<u>4,447,665</u>	<u>4,360,243</u>	<u>204,619</u>	<u>13,793,674</u>
Fund Balance, June 30, 2018	<u>\$ 4,408,695</u>	<u>\$ 24,911</u>	<u>\$ 1,834,245</u>	<u>\$ 4,894,149</u>	<u>\$ 213,409</u>	<u>\$ 11,375,409</u>

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

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2018

Net change in total fund balances per fund financial statements \$ (2,418,265)

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

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

Capital expenditures	\$ 2,525,505	
Depreciation	<u>(1,475,062)</u>	1,050,443

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

Principal payments on bonds	1,910,000	
Principal payments on capital leases	<u>210,712</u>	2,120,712

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

Compensated absences - long-term	(74,409)	
Changes in interest payable, discounts, and deferred amounts on refunding	(59,996)	
Claims payable - KSBIT (noncurrent)	38,718	
Pension and OPEB expenses related to changes in the net pension/OPEB liabilities and the net changes in deferred outflows and inflows	<u>(932,840)</u>	<u>(1,028,527)</u>

Change in net position of governmental activities \$ (275,637)

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

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2018

	Food Service Fund	Child Care Fund	Total Enterprise Funds
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 210,262	\$ 18,489	\$ 228,751
Inventory	28,333	-	28,333
Other receivables	1,979	17,107	19,086
Intergovernmental receivable - Indirect Federal	8,089	1,112	9,201
Total Current Assets	248,663	36,708	285,371
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	308,853	-	308,853
Total Noncurrent Assets	308,853	-	308,853
Total Assets	\$ 557,516	\$ 36,708	\$ 594,224
Deferred Outflows of Resources			
CERS - OPEB	\$ 88,628	\$ 54,043	\$ 142,671
CERS - Pension	315,221	192,215	507,436
Total Deferred Outflows of Resources	\$ 403,849	\$ 246,258	\$ 650,107
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 1,145	\$ 2,494	\$ 3,639
Accrued expenses	1,885	14,584	16,469
Unearned revenues	15,789	-	15,789
Total Current Liabilities	18,819	17,078	35,897
<u>Noncurrent Liabilities</u>			
Net OPEB liability - CERS	320,441	195,397	515,838
Net pension liability - CERS	932,995	568,916	1,501,911
Total Noncurrent Liabilities	1,253,436	764,313	2,017,749
Total Liabilities	\$ 1,272,255	\$ 781,391	\$ 2,053,646
Deferred Inflows of Resources			
CERS - OPEB	\$ 16,777	\$ 10,230	\$ 27,007
CERS - Pension	90,555	55,218	145,773
Total Deferred Inflows of Resources	\$ 107,332	\$ 65,448	\$ 172,780
<u>Net Position</u>			
Net investment in capital assets	\$ 308,853	\$ -	\$ 308,853
Unrestricted	(727,075)	(563,873)	(1,290,948)
Total Net Position	\$ (418,222)	\$ (563,873)	\$ (982,095)

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

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Child Care Fund	Total Enterprise Funds
Operating Revenues			
Lunchroom sales	\$ 504,224	\$ -	\$ 504,224
Other revenue	2,148	9,829	11,977
Tuition and fees	-	329,405	329,405
Total Operating Revenues	506,372	339,234	845,606
Operating Expenses			
Salaries and wages	712,842	494,898	1,207,740
Materials and supplies	834,770	25,453	860,223
Depreciation	52,210	-	52,210
Other operating expenses	1,609	1,834	3,443
Total Operating Expenses	1,601,431	522,185	2,123,616
Operating loss	(1,095,059)	(182,951)	(1,278,010)
Non-Operating Revenues (Expenses)			
Federal grants	741,693	11,318	753,011
Donated commodities	101,113	-	101,113
State grants	11,743	5,380	17,123
State on-behalf payments	71,684	42,224	113,908
Interest income	3,584	191	3,775
Total Non-Operating Revenues (Expenses)	929,817	59,113	988,930
Transfers in	259,433	-	259,433
Transfers out	(31,461)	(2,206)	(33,667)
Changes in net position	62,730	(126,044)	(63,314)
Net Position, July 1, 2017	(245,372)	(310,125)	(555,497)
Restatement for adoption of GASB 75	(235,580)	(127,704)	(363,284)
Net Position, July 1, 2017, as restated	(480,952)	(437,829)	(918,781)
Net Position, June 30, 2018	\$ (418,222)	\$ (563,873)	\$ (982,095)

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

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Child Care Fund	Total Enterprise Funds
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 504,911	\$ -	\$ 504,911
Tuition and fees	-	323,010	323,010
Other revenue	2,148	9,829	11,977
Cash paid to / for:			
Employees	(528,720)	(327,935)	(856,655)
Supplies	(727,824)	(26,433)	(754,257)
Other activities	(1,609)	(1,834)	(3,443)
Net Cash Provided (Used) by Operating Activities	(751,094)	(23,363)	(774,457)
Cash flows from Non-Capital			
Financing Activities			
Federal grants	745,482	11,022	756,504
State grants	11,743	5,380	17,123
Transfers from other funds	-	-	-
Transfers to other funds	(31,461)	(2,206)	(33,667)
Net Cash Provided by Non-Capital	725,764	14,196	739,960
Cash Flows from Investing Activities			
Receipt of interest income	3,584	191	3,775
Net Cash Provided by Investing Activities	3,584	191	3,775
Net change in cash and cash equivalents	(21,746)	(8,976)	(30,722)
Balances, beginning of year	232,008	27,465	259,473
Balances, end of year	\$ 210,262	\$ 18,489	\$ 228,751
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (1,095,059)	\$ (182,951)	\$ (1,278,010)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation	52,210	-	52,210
Donated commodities	101,113	-	101,113
State on-behalf payments	71,684	42,224	113,908
GASB 68 / 75 pension / OPEB expense	112,345	125,674	238,019
Change in assets and liabilities:			
Other receivables	(1,868)	(6,395)	(8,263)
Inventory	10,086	-	10,086
Accounts payable	(4,253)	(980)	(5,233)
Accrued expenses	93	(935)	(842)
Unearned revenues	2,555	-	2,555
Net Cash Provided (Used) by Operating Activities	\$ (751,094)	\$ (23,363)	\$ (774,457)
Schedule of Non-cash Transactions			
Donated commodities received from federal government	\$ 101,113	\$ -	\$ 101,113
Capital asset transferred in	\$ 259,433	\$ -	\$ 259,433
State on-behalf payments	\$ 71,684	\$ 42,224	\$ 113,908
CERS Pension and OPEB	\$ 112,345	\$ 125,674	\$ 238,019

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

SPENCER COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2018

	Agency Fund
Assets	
Cash and cash equivalents	\$ 167,454
Receivables	-
Total Assets	\$ 167,454
Liabilities	
Accounts payable	\$ -
Due to student groups	167,454
Total Liabilities	\$ 167,454

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 73 – 74. This is a major fund of the District.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Accounting

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

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

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

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

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

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

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

Property Taxes

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$0.652 per \$100 valuation for real property, \$0.652 per \$100 valuation for business personal property and \$0.560 per \$100 valuation for motor vehicles.

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

Capital Assets

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

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

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

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

Interfund Balances

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Budgetary Process

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

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

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

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

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

Encumbrances

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

Cash and Cash Equivalents

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

Inventories

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

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

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

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2018 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrued Liabilities and Long-Term Obligations

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

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

Compensated Absences

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

Pension and OPEB Plans

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

Fund Balances

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Net Position

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

Operating Revenues

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

Contributions of Capital

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

Interfund Activity

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued And Adopted Accounting Principles

In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and required a restatement of the District's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. This statement is effective for periods beginning after June 15, 2017. The statement was adopted during the fiscal year and did not have an effect on the District's financial statements.

Recently Issued Accounting Principles

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

In April 2018, the GASB issued Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This statement is effective for periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2018, \$8,465,663 of the District's bank balance of \$12,587,940 was exposed to custodial credit risk. The \$8,465,663 of the bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE D – TRANSFER OF FUNDS

The following transfers were made during the year ending June 30, 2018:

Fund Financial Statements:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 62,526
General	Special Revenue	Grant Match	7,516
Capital Outlay	Debt Service	Debt Service	263,802
Non-major fund	Non-major fund	Capital Outlay	8,454
Building Fund	Non-major fund	Debt Service	2,248,453
Special Revenue	General	Indirect Costs	2,593
Construction Fund	Food Service Fund	Equipment	259,433

Government-wide Financial Statements:

From Fund	To Fund	Purpose	Amount
Food Service Fund	General Fund	Indirect Costs	\$ 31,461
Construction Fund	Food Service Fund	Equipment	259,433
Childcare Fund	General Fund	Operating	2,206

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

Governmental Activities	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 677,346	\$ 86,867	\$ -	\$ 764,213
Construction in progress	16,196,559	2,409,849	(18,376,088)	230,320
Total Capital Assets Not Being Depreciated	16,873,905	2,496,716	(18,376,088)	994,533
Capital Assets Being Depreciated:				
Land improvements	537,827	404,696	-	942,523
Buildings and improvements	39,560,991	17,639,101	(2,000)	57,198,092
Technology equipment	1,988,855	77,907	(80,225)	1,986,537
Vehicles	3,324,066	238,489	(8,975)	3,553,580
General equipment	595,526	44,683	(6,885)	633,324
Total Capital Assets Being Depreciated at Historical Cost	46,007,265	18,404,876	(98,085)	64,314,056
Accumulated depreciation:				
Land improvements	514,335	15,791	-	530,126
Buildings and improvements	11,986,493	1,141,779	(2,000)	13,126,272
Technology equipment	1,965,396	10,797	(80,225)	1,895,968
Vehicles	1,906,360	265,845	(8,975)	2,163,230
General equipment	388,683	40,850	(6,885)	422,648
Total accumulated depreciation	16,761,267	1,475,062	(98,085)	18,138,244
Total Other Capital Assets, net	29,245,998	16,929,814	-	46,175,812
Governmental Activities Capital Assets - Net	\$ 46,119,903	\$ 19,426,530	\$ (18,376,088)	\$ 47,170,345
Depreciation was charged to governmental functions as follows:				
Instruction	\$ 276,693			
District administration	5,153			
School administration	7,840			
Plant	931,326			
Transportation	254,050			
	<u>\$ 1,475,062</u>			
Business-Type Activities	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Non-Depreciable Assets:				
Land	\$ -	\$ -	\$ -	\$ -
Capital Assets Being Depreciated:				
Technology equipment	23,583	-	-	23,583
General equipment	891,449	259,433	(2,023)	1,148,859
Totals at historical cost	915,032	259,433	(2,023)	1,172,442
Accumulated depreciation:				
Technology equipment	23,583	-	-	23,583
General equipment	789,819	52,210	(2,023)	840,006
Total accumulated depreciation	813,402	52,210	(2,023)	863,589
Business-type Activities Capital Assets - Net	\$ 101,630	\$ 207,223	\$ -	\$ 308,853

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE F – LONG-TERM OBLIGATIONS

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

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Interest Rates</u>
2005	\$ 755,000	4.00%
2009 Ref	5,940,000	2.00% - 3.375%
2011	9,740,000	1.00% - 2.50%
2017 Ref	10,055,000	2.00% - 3.8%
2017	18,235,000	2.00% - 2.625%

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

The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2018 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>SFCC Participation</u>	<u>District's Portion</u>
2019	\$ 1,970,000	\$ 1,016,397	\$ 453,668	\$ 2,532,729
2020	1,845,000	961,926	284,250	2,522,676
2021	1,895,000	916,198	284,250	2,526,948
2022	1,965,000	860,069	284,250	2,540,819
2023	2,005,000	806,906	284,252	2,527,654
2024 - 2028	10,590,000	3,195,137	1,151,526	12,633,611
2029 - 2033	10,510,000	1,903,198	376,555	12,036,643
2034 - 2038	6,460,000	388,200	225,932	6,622,268
	<u>\$ 37,240,000</u>	<u>\$ 10,048,031</u>	<u>\$ 3,344,683</u>	<u>\$ 43,943,348</u>

Capital Lease Obligations

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

The net book value of the buses under capital lease at June 30, 2018 is \$826,255.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Year Ending June 30:	
2019	210,408
2020	178,490
2021	174,871
2022	142,110
2023	117,508
2024 - 2026	135,454
	<u>958,841</u>
Less: amount representing interest	<u>(70,237)</u>
Present value of minimum lease payments	<u>\$ 888,604</u>
Current maturities	189,336
Non-current maturities	699,268
	<u>\$ 888,604</u>

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

Changes in Long-term Obligations

Long-term liability activity for the year ended June 30, 2018, was as follows:

	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018	Amounts Due Within One Year
Governmental Activities:					
Bonds Payable:					
Revenue bonds	\$ 39,150,000	\$ -	\$ 1,910,000	\$ 37,240,000	\$ 1,970,000
Less Premium (Discount)	<u>(343,601)</u>	<u>-</u>	<u>20,268</u>	<u>(323,333)</u>	<u>(20,268)</u>
Total Bonds Payable	<u>38,806,399</u>	<u>-</u>	<u>1,930,268</u>	<u>36,916,667</u>	<u>1,949,732</u>
Other Liabilities:					
KISTA capital lease obligation	1,099,316	-	210,712	888,604	189,336
Claims payable - KSBIT	154,872	-	38,718	116,154	38,718
Compensated absences	<u>178,973</u>	<u>259,177</u>	<u>171,514</u>	<u>266,636</u>	<u>85,480</u>
Total Other Liabilities	<u>1,433,161</u>	<u>259,177</u>	<u>420,944</u>	<u>1,271,394</u>	<u>313,534</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 40,239,560</u>	<u>\$ 259,177</u>	<u>\$ 2,351,212</u>	<u>\$ 38,188,061</u>	<u>\$ 2,263,266</u>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE F – LONG-TERM OBLIGATIONS – CONTINUED

Accumulated Unpaid Sick Leave Benefits

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

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

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

NOTE G – OPERATING LEASES

The District has three operating leases for copiers. The leases terms range from 36 to 48 months and monthly payments for the combined leases total \$5,084. The total amount paid in fiscal year 2018 was \$61,968.

NOTE H – PENSION PLANS

Plan Descriptions

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

TRS

Retirement Plan

Benefits Provided

For Members Before July 1, 2008:

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

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

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

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

For Members On or After July 1, 2008:

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

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

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

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

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

Contributions

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.855 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2018. The District reimburses the State for retirement benefits paid on all federally funded employees.

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

At June 30, 2018, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$100,935,430.

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2017, the District's proportion was 0 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$7,185,055 and revenue of \$7,185,055 (\$3,586,178 in the governmental funds and an additional \$3,598,877 in government-wide activities) for support provided by the State. At June 30, 2018, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.50 – 7.30 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study prepared for the period July 1, 2010 – June 30, 2015, submitted to and adopted by the Board on September 19, 2016.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

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.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Equity	42%	4.4%
International Equity	20%	5.3%
Fixed Income	16%	1.2%
Other	9%	3.6%
Real Estate	5%	4.4%
Alternatives	6%	6.7%
Cash	2%	0.8%
	<u>100%</u>	

Discount Rate

Discount rate. The discount rate used to measure the total pension liability was 4.49 percent. 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 that Employer contributions will be made at statutorily required rates, and the additional amount appropriated for fiscal year 2018. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56 percent was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 4.49 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.49 percent) or 1-percentage-point higher (5.49 percent) than the current rate:

	1 % Decrease (3.49%)	Current Discount Rate (4.49%)	1% Increase (5.49)
System's net pension liability (in thousands)	\$ 35,029,551	\$ 28,259,123	\$ 22,702,413

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

Pension Plan Fiduciary Net Position

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

CERS

Benefits Provided

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

Contributions

For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 14.48 percent of annual creditable compensation. Contributions to the pension plan from the District were \$607,786.

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

At June 30, 2018, the District reported a liability of \$9,737,621 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.166361 percent, which was a decrease of .001823 percent from its proportion measured as of June 30, 2016.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

For the year ended June 30, 2017, the District recognized pension expense of \$1,106,700. At June 30, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 12,078	\$ 247,183
Changes in actuarial assumptions	1,796,855	-
Difference between projected and actual investment earnings	771,208	650,765
Changes in proportion and differences between employer contributions and proportionate share of contributions	102,028	47,173
Contributions paid to CERS subsequent to the measurement date	607,786	-
	<u>\$ 3,289,955</u>	<u>\$ 945,121</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$607,786 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 800,917
2020	743,941
2021	317,226
2022	(125,036)
	<u>\$ 1,737,048</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30 percent
Salary increases	3.05 percent, average, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

Actuarial Assumptions

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013 and adopted by the Board on December 4, 2014.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	18%	5.97%
International Equity	18%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
	<u>100%</u>	

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE H – PENSION PLANS – CONTINUED

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

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

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 6.25 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	1 % Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 12,281,245	\$ 9,737,624	\$ 7,609,899

Pension Plan Fiduciary Net Position

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

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Descriptions

The Simpson County School District participates in the Teachers' Retirement System of the State of Kentucky (TRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. TRS, which qualifies as a special funding situation for the Life Insurance Fund under GASB 75, and CERS provide other post-employment benefits to plan members and beneficiaries. TRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The TRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. TRS' report may be obtained at www.trs.ky.gov. CERS' report may be obtained at www.kyret.ky.gov.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

TRS

General Information about the OPEB Plan

Plan description – Teaching-certified employees of the Kentucky School District are provided OPEBs through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit OPEB plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at www.trs.ky.gov.

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS plans:

Medical Insurance Fund

Plan description – In addition to the OPEB benefits described above, Kentucky Revised Statute 161.675 requires TRS to provide post-employment healthcare benefits to eligible members and dependents. The TRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Benefits provided – To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$7,020,850 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.196895 percent.

The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 7,020,850
State proportionate share of the net OPEB liability associated with the District	5,735,000
	<u>\$ 12,755,850</u>

For the year ended June 30, 2018, the District recognized OPEB revenue and expense of \$278,929 in the governmental funds and revenues and expenses of \$384,000 (\$278,929 in the governmental funds and an additional \$105,071 in government-wide activities) for support provided by the Commonwealth. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 49,537
Contributions paid to CERS subsequent to the measurement date	361,596	-
	<u>\$ 361,596</u>	<u>\$ 49,537</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$361,596 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Year Ending June 30	Pension Expense Amount
2019	\$ 12,659
2020	12,659
2021	12,659
2022	11,560
	<u>\$ 49,537</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

Asset Class	Target Allocation	30 Year Expected Geometric Real
		Rate of Return
Global Equity	60%	5.1%
Fixed Income	9%	1.2%
Real Estate	5%	4.0%
Private Equity	5%	6.6%
High Yield	10%	4.3%
Other	10%	3.3%
Cash	1%	0.5%
	<u>100%</u>	

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. 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 OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 8.00%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1 % Decrease <u>(7.0%)</u>	Current Discount Rate <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
District's proportionate share of the net OPEB liability	\$ 8,175,755	\$ 7,020,850	\$ 6,059,438

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1 % Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 5,880,005	\$ 7,020,850	\$ 8,429,493

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

Life Insurance Fund

Plan description – Life Insurance Fund – TRS administers the life insurance fund as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance benefit is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes made to the life insurance plan may be made by the TRS Board of Trustees and the General Assembly.

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

Contributions – In order to fund the post-retirement life insurance benefit, three hundredths of one percent (.03%) of the gross annual payroll of members is contributed by the Commonwealth.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability was \$0 and the Commonwealth's total portion of the net OPEB liability that was associated with the District was \$77,000.

For the year ended June 30, 2018, the District recognized OPEB expense of \$11,000 and revenue of \$11,000 (\$4,621 in the governmental funds and an additional \$6,379 in government-wide activities) for support provided by the Commonwealth. At June 30, 2018, the District reported no deferred outflows of resources and deferred inflows of resources related to the OPEB.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.56%
Discount Rate	7.75%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

The long-term expected rate of return on OPEB 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 OPEB 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 TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Large Cap Equity	38%	4.30%
U.S. Small Cap Equity	3%	4.80%
Developed Int'l Equity	16%	5.20%
Emerging Market Equity	4%	5.40%
Fixed Income - Inv Grade	16%	1.20%
Real Estate	6%	4.00%
Private Equity	7%	6.60%
High Yield	2%	4.30%
Other	7%	3.30%
Cash	1%	0.50%
	<u>100%</u>	

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 7.50 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	<u>1 % Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
System's net OPEB liability	\$ 36,497,000	\$ 21,959,000	\$ 10,055,000

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued TRS financial report.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

CERS

Plan description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits provided – For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

Contributions – For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 4.70 percent of annual creditable compensation. Contributions to the pension plan from the District were \$191,657.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$3,344,428 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.1663610 percent which was a decrease of .001823 percent from its proportion measured at June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$162,846. At June 30, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

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

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 9,289
Changes in actuarial assumptions	727,726	-
Difference between projected and actual investment earnings	-	158,056
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	7,760
Contributions paid to CERS subsequent to the measurement date	197,279	-
	<u>\$ 925,005</u>	<u>\$ 175,105</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$197,279 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30	OPEB Expense Amount
2019	\$ 95,084
2020	95,084
2021	95,084
2022	95,084
2023	134,598
Thereafter	37,687
	<u>\$ 552,621</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.05%, average
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	3.56%
Discount Rate	5.83%

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4.0%	2.63%
Global Credit	2.0%	3.63%
High Yield	7.0%	5.75%
Emerging Market Debt	5.0%	5.50%
Private Credit	10.0%	8.75%
Real Estate	5.0%	7.63%
Absolute Return	10.0%	5.63%
Real Return	10.0%	6.13%
Private Equity	10.0%	8.25%
Cash	2.0%	1.88%
	<u>100%</u>	

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE I – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

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

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.83%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83%) or 1-percentage-point higher (6.83%) than the current rate:

	1 % Decrease (4.83%)	Current Discount Rate (5.83%)	1% Increase (6.83%)
District's proportionate share of the net OPEB liability	\$ 4,255,596	\$ 3,344,428	\$ 2,586,188

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rates – The following presents the District's proportionate share of the collective net OPEB liability, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using healthcare cost trend rates that were 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1 % Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,565,346	\$ 3,344,428	\$ 4,357,182

OPEB plan fiduciary net position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CERS financial report.

DEFERRED COMPENSATION

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE J – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2018, there were \$293,583 of nonspendable fund balances related to prepaid items.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, the District had \$24,911 restricted for grants in the special revenue fund and \$213,409 restricted for future school activities in the District Activity Fund, \$1,834,245 restricted for capital projects in the Construction Fund, and \$4,894,149 restricted for capital projects in the Building Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2018: \$55,300 for site-based carryforward; \$133,318 for sick leave; and \$175,000 for future site costs.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The amount assigned in the general fund was \$163,355 (\$1,292 for open purchase orders, \$84,626 for vacation payable and, \$77,438 for KSBIT obligation assessment).

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

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

NOTE K – COMMITMENTS AND CONTINGENCIES

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE K – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

In August 2014, the District was notified of the final assessment of \$309,745. The claim is to be paid over a seven-year period with two payments due the first year. The balance of the claim payable at June 30, 2018 totals \$154,872 in the statement of net position. Payments due under the claim at June 30, 2018 are as follows:

Year Ending June 30:	
2019	\$ 38,718
2020	38,718
2021	<u>38,717</u>
	<u>\$ 116,153</u>

NOTE L – LITIGATION

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

NOTE M – INSURANCE AND RELATED ACTIVITIES

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE N – RISK MANAGEMENT

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

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

NOTE O – DEFICIT OPERATING BALANCES

The Food Service Fund and Child Care Fund had a deficit net position at June 30, 2018 in the amounts of \$418,222 and \$563,873, respectively. The deficit net position is a result of the recording of the net pension liability and net OPEB liability for CERS.

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

General Fund	\$ 306,020
Special Revenue Fund	41,521
Construction Fund	2,613,420
Child Care Fund	126,044

NOTE P – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2018 were as follows:

Health	\$ 2,602,277
Life	4,621
Admin	38,171
HRA	201,688
TRS - Pension	3,586,178
TRS - OPEB	278,929
Technology	70,848
Debt Service	450,572
Less: Federal Reimbursement	(133,627)
Total on-behalf	<u>\$ 7,099,657</u>

Recorded as follows:

General Fund	\$ 6,535,177
Food Service Fund	71,684
Childcare Fund	42,224
Debt Service Fund	450,572
Total by fund	<u>\$ 7,099,657</u>

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE Q – COBRA

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

NOTE R – PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement to beginning net position as follows:

	Governmental activities	Business-type activities	Total
Net position, as previously reported	\$ 14,626,209	\$ (555,497)	\$ 14,070,712
Net OPEB liability - TRS	(7,155,498)	-	(7,155,498)
Net OPEB liability - CERS	(2,231,361)	(391,907)	(2,623,268)
Deferred outflows OPEB - TRS	348,018	-	348,018
Deferred outflows OPEB - CERS	162,965	28,623	191,588
Net position, as restated	<u>\$ 5,750,333</u>	<u>\$ (918,781)</u>	<u>\$ 4,831,552</u>

	Food Service Fund	Child Care Fund	Total Enterprise Total
Net position, as previously reported	\$ (245,372)	\$ (310,125)	\$ (555,497)
Net OPEB liability - CERS	(254,141)	(137,766)	(391,907)
Deferred outflows OPEB - CERS	18,561	10,062	28,623
Net position, as restated	<u>\$ (480,952)</u>	<u>\$ (437,829)</u>	<u>\$ (918,781)</u>

NOTE S – SUBSEQUENT EVENT

In October 2018, the Spencer County School District Finance Corporation issued \$7,015,000 series 2018 School Building Revenue Bonds to fund the construction of the Spencer County High School Athletic and Academic Facilities Project. The bonds mature November 1, 2038. Interest on the bonds ranges from 3.00% to 3.875%.

REQUIRED SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2018

	Original	Final	Actual
Revenues			
From local sources:			
Taxes:			
Property	\$ 5,077,435	\$ 5,077,435	\$ 5,174,184
Motor vehicle	881,068	881,068	938,229
Utilities	710,000	710,000	735,720
Other	143,179	143,179	185,026
Earnings on investments	75,000	75,000	103,183
Other local revenues	214,301	214,301	229,084
Intergovernmental - State	15,624,514	15,694,830	17,683,467
Intergovernmental - Indirect Federal	38,000	38,000	56,519
Total Revenues	<u>22,763,497</u>	<u>22,833,813</u>	<u>25,105,412</u>
Expenditures			
Instruction	13,215,492	13,303,432	14,702,121
Support services:			
Student	1,238,053	1,238,053	1,361,478
Instruction staff	1,447,474	1,447,474	1,568,371
District administrative	830,083	830,083	835,923
School administrative	1,626,266	1,626,266	1,793,368
Business	811,455	811,455	782,480
Plant operation and maintenance	2,028,737	2,028,737	1,886,483
Student transportation	2,414,612	2,414,612	2,226,526
Community service activities	3,640	3,640	19,303
Other	3,086,091	3,021,366	934
Debt service:			
Principal	236,974	215,295	210,712
Interest	-	68,780	26,263
Total Expenditures	<u>26,938,877</u>	<u>27,009,193</u>	<u>25,413,962</u>
Excess (Deficit) of Revenues over Expenditures	(4,175,380)	(4,175,380)	(308,550)
Other Financing Sources (Uses)			
Proceeds from disposal of capital assets	3,000	3,000	28,796
Transfers in	34,941	34,941	36,260
Transfers out	(64,316)	(64,316)	(62,526)
Total Other Financing Sources (Uses)	<u>(26,375)</u>	<u>(26,375)</u>	<u>2,530</u>
Net Change in Fund Balance	(4,201,755)	(4,201,755)	(306,020)
Fund Balance, July 1, 2017	4,201,755	4,201,755	4,714,715
Fund Balance, June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,408,695</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2018

	Original	Final	Actual
Revenues			
Earnings on investments	\$ 500	500	\$ 441
Other local revenues	67,945	68,196	69,075
Intergovernmental - State	1,253,797	1,202,668	1,179,832
Intergovernmental - Indirect Federal	1,497,403	1,493,959	1,383,576
Total Revenues	<u>2,819,645</u>	<u>2,765,323</u>	<u>2,632,924</u>
Expenditures			
Instruction	2,065,167	2,043,222	2,005,840
Support services:			
Student	105,874	106,374	90,046
Instruction staff	422,838	406,903	375,036
District administrative	-	-	286
School administrative	-	-	-
Business	20,521	5,521	-
Student transportation	29,057	29,057	27,157
Community service activities	171,545	171,545	170,208
Other	66,373	64,423	65,806
Total Expenditures	<u>2,881,375</u>	<u>2,827,045</u>	<u>2,734,379</u>
Excess (Deficit) of Revenues over Other Financing Sources (Uses)			
Transfers in	64,316	64,316	62,526
Transfers out	(2,586)	(2,594)	(2,592)
Total Other Financing Sources (Uses)	<u>61,730</u>	<u>61,722</u>	<u>59,934</u>
Net Change in Fund Balance	-	-	(41,521)
Fund Balance, July 1, 2017	-	-	66,432
Fund Balance, June 30, 2018	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,911</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

FOR THE YEAR ENDED JUNE 30, 2018

CERS	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
				*
Proportion of the net pension liability	0.166361%	0.168184%	0.162360%	0.160306%
Proportionate share of the net pension liability	\$ 9,737,624	\$ 8,280,750	\$ 6,980,906	\$ 5,201,000
Covered - employee payroll	\$ 4,131,311	\$ 3,995,612	\$ 3,802,071	\$ 3,404,100
Proportionate share of the net pension liability as percentage of covered payroll	235.7%	207.2%	183.6%	152.8%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%
 TRS				*
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.0000%	0.0000%	0.0000%	0.0000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State proportionate share of the net pension liability associated with the District	<u>100,935,430</u>	<u>108,746,543</u>	<u>84,411,624</u>	<u>70,702,066</u>
Total	<u>\$ 100,935,430</u>	<u>\$ 108,746,543</u>	<u>\$ 84,411,624</u>	<u>\$ 70,702,066</u>
Covered - employee payroll	\$ 11,569,513	\$ 11,492,723	\$ 11,221,831	\$ 10,780,816
District's proportionate share of the net pension liability as percentage of covered payroll	0.0%	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	39.80%	35.20%	42.50%	45.59%

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

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULES DISTRICT CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2018

CERS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	[*] <u>2015</u>
Contractually required contribution (actuarially determined)	\$ 607,786	\$ 576,318	\$ 496,255	\$ 484,764
Contribution in relation to the actuarially determined contributions	<u>607,786</u>	<u>576,318</u>	<u>496,255</u>	<u>484,764</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 4,197,419	\$ 4,131,311	\$ 3,995,612	\$ 3,802,071
Contributions as a percentage of covered employee payroll	14.48%	13.95%	12.42%	12.75%

TRS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	[*] <u>2015</u>
Contractually required contribution (actuarially determined)	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Covered employee payroll	\$ 11,626,285	\$ 11,569,513	\$ 11,492,723	\$ 11,221,831
Contributions as a percentage of covered employee payroll	0.00%	0.00%	0.00%	0.00%

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

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSIONS

JUNE 30, 2018

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2018.

Changes of assumptions:

2015

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

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

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

2016 and 2017

No changes.

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

TRS PENSION

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2018.

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

Changes of assumptions. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions. Beginning with the 2014 valuation, the interest smoothing methodology is no longer used. There were no changes for 2015 to 2018.

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET OPEB LIABILITY – MEDICAL INSURANCE FUND

JUNE 30, 2018

	<u>2018</u>
Proportion of the net OPEB liability	0.196895%
District's proportionate share of the net OPEB liability	\$ 7,020,850
State proportionate share of the net OPEB liability associated with the District	<u>5,735,000</u>
Total	<u>\$ 12,755,850</u>
Covered - employee payroll	\$ 11,569,513
District's proportionate share of the net OPEB liability as percentage of covered payroll	60.68%
Plan fiduciary net position as a percentage of the total OPEB liability	81.38%

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULE OF THE CONTRIBUTIONS TO TRS MEDICAL INSURANCE FUND**

JUNE 30, 2018

	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 349,000
Contribution in relation to the actuarially determined contributions	<u>349,000</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 11,626,285
Contributions as a percentage of covered employee payroll	3.00%

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET OPEB
LIABILITY – LIFE INSURANCE FUND**

JUNE 30, 2018

	<u>2018</u>
Proportion of the net OPEB liability	0.000000%
District's proportionate share of the net OPEB liability	\$ -
State proportionate share of the net OPEB liability associated with the District	<u>77,000</u>
Total	<u><u>\$ 77,000</u></u>
Covered - employee payroll	\$ 11,569,513
District's proportionate share of the net OPEB liability as percentage of covered payroll	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	80.00%

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULE OF CONTRIBUTIONS TO THE TRS LIFE INSURANCE FUND**

JUNE 30, 2018

	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 11,626,285
Contributions as a percentage of covered employee payroll	0.00%

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

JUNE 30, 2018

	<u>2018</u>
Proportion of the net OPEB liability	0.166361%
Proportionate share of the net OPEB liability	\$ 3,344,428
Covered - employee payroll	\$ 4,131,311
Proportionate share of the net OPEB liability as percentage of covered payroll	81.0%
Plan fiduciary net position as a percentage of the total OPEB liability	59.00%

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT**SCHEDULE OF CONTRIBUTIONS TO CERS OPEB**

JUNE 30, 2018

	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 197,279
Contribution in relation to the actuarially determined contributions	<u>197,279</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 4,197,419
Contributions as a percentage of covered employee payroll	4.70%

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

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB

JUNE 30, 2018

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018.

Changes of assumptions:

2018

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%. For the Hazardous Plan, the single discount rate changed from 7.37% to 5.96%.

TRS OPEB

Changes of benefit terms.

2018

MIF – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the State will only finance, via its KEHP "shared responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

LIF - None

Changes of assumptions. There were no changes in assumptions for 2018.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

SPENCER COUNTY SCHOOL DISTRICT**COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2018

	Capital Outlay Fund	District Activity Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$ -	\$ 215,435	\$ -	\$ 215,435
Receivables	-	1,046	-	1,046
Total Assets	<u>\$ -</u>	<u>\$ 216,481</u>	<u>\$ -</u>	<u>\$ 216,481</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ 3,072	\$ -	3,072
Total Liabilities	<u>-</u>	<u>3,072</u>	<u>-</u>	<u>3,072</u>
Fund Balances				
Restricted	-	213,409	-	213,409
Total Fund Balances	<u>-</u>	<u>213,409</u>	<u>-</u>	<u>213,409</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 216,481</u>	<u>\$ -</u>	<u>\$ 216,481</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

FOR THE YEAR ENDED JUNE 30, 2018

	Capital Outlay Fund	District Activity Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Other local revenue	-	336,920	-	336,920
Intergovernmental - State	263,802	-	450,571	714,373
Total Revenues	<u>263,802</u>	<u>336,920</u>	<u>450,571</u>	<u>1,051,293</u>
Expenditures				
Instruction	-	296,296	-	296,296
Support services:				
Student	-	1,743	-	1,743
Instruction staff	-	20,131	-	20,131
Plant operation and maintenance	-	746	-	746
Student transportation	-	760	-	760
Debt service:				
Principal	-	-	1,910,000	1,910,000
Interest	-	-	1,052,826	1,052,826
Total Expenditures	<u>-</u>	<u>319,676</u>	<u>2,962,826</u>	<u>3,282,502</u>
Excess (Deficit) of Revenues over Expenditures	263,802	17,244	(2,512,255)	(2,231,209)
Other Financing Sources (Uses)				
Transfers in	-	-	2,512,255	2,512,255
Transfers out	(263,802)	(8,454)	-	(272,256)
Total Other Financing Sources (Uses)	<u>(263,802)</u>	<u>(8,454)</u>	<u>2,512,255</u>	<u>2,239,999</u>
Net Change in Fund Balances	-	8,790	-	8,790
Fund balance, July 1, 2017	-	204,619	-	204,619
Fund balance, June 30, 2018	<u>\$ -</u>	<u>\$ 213,409</u>	<u>\$ -</u>	<u>\$ 213,409</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2018

	SPENCER COUNTY HIGH SCHOOL	SPENCER COUNTY MIDDLE SCHOOL	TAYLORSVILLE ELEMENTARY SCHOOL	SPENCER COUNTY ELEMENTARY SCHOOL	TOTAL AGENCY FUND
Assets					
Cash and cash equivalents	\$ 110,923	\$ 41,706	\$ 8,017	\$ 6,808	\$ 167,454
Receivables	-	-	-	-	-
Total Assets	<u>\$ 110,923</u>	<u>\$ 41,706</u>	<u>\$ 8,017</u>	<u>\$ 6,808</u>	<u>\$ 167,454</u>
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	110,923	41,706	8,017	6,808	167,454
Total Liabilities	<u>\$ 110,923</u>	<u>\$ 41,706</u>	<u>\$ 8,017</u>	<u>\$ 6,808</u>	<u>\$ 167,454</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

SCHOOL	CASH BALANCE July 1, 2017	RECEIPTS	DISBURSE- MENTS	CASH BALANCE June 30, 2018	RECEIVABLES June 30, 2018	ACCOUNTS PAYABLE June 30, 2018	DUE TO STUDENT GROUPS June 30, 2018
SPENCER COUNTY HIGH	\$ 104,759	\$ 848,630	\$ 842,466	\$ 110,923	\$ -	\$ -	\$ 110,923
SPENCER COUNTY MIDDLE	38,143	199,165	195,602	41,706	-	-	41,706
TAYLORSVILLE ELEMENTARY	6,791	95,893	94,667	8,017	-	-	8,017
SPENCER COUNTY ELEMENTARY	4,789	99,739	97,720	6,808	-	-	6,808
	<u>\$ 154,482</u>	<u>\$ 1,243,427</u>	<u>\$ 1,230,455</u>	<u>\$ 167,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167,454</u>

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

NAME OF ACTIVITY	CASH BALANCES July 1, 2017	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2018	RECEIVABLES June 30, 2018	ACCOUNTS PAYABLE June 30, 2018	DUE TO STUDENT GROUPS June 30, 2018
Charitable Fundraising	\$ 4	\$ 3,068	\$ 3,072	\$ -	\$ -	\$ -	\$ -
YCLUB/KUNA	441	3,434	3,872	3	-	-	3
World's Travelers	74	-	-	74	-	-	74
Art Club	400	120	293	227	-	-	227
Band Club	80	82,629	82,003	706	-	-	706
FBLA	103	3,825	3,682	246	-	-	246
Chorus Club	2,032	46,607	48,376	263	-	-	263
FCCLA	1,188	960	705	1,443	-	-	1,443
Beta Club	1,030	4,606	2,335	3,301	-	-	3,301
TSA Club	34	550	577	7	-	-	7
Book Club	28	-	-	28	-	-	28
Animal Protection Club	-	2,574	1,830	744	-	-	744
HOSA	296	8,489	7,289	1,496	-	-	1,496
Hosa National	301	5,836	5,618	519	-	-	519
State FFA Dodge Truck	1,421	-	1,421	-	-	-	-
Dairy Team	14,741	153,961	147,387	21,315	-	-	21,315
FFA	16,562	65,473	71,435	10,600	-	-	10,600
Yearbook	5,328	6,508	4,876	6,960	-	-	6,960
Chess	88	245	-	333	-	-	333
Nationa Honor Society	536	1,167	603	1,100	-	-	1,100
National Tech Honor Society	203	47	250	-	-	-	-
Spanish Honor Society	95	-	-	95	-	-	95
Community Service Club	235	630	865	-	-	-	-
Educators Rising	337	2,100	2,009	428	-	-	428
Student Council	3,338	-	-	3,338	-	-	3,338
Military Readiness	85	-	-	85	-	-	85
Academic Team	58	-	34	24	-	-	24
Faculty Vending	-	1,606	-	1,606	-	-	1,606
Public Vending	682	-	170	512	-	-	512
Student Vending	1,490	1,011	1,875	626	-	-	626
General	1,012	4,769	4,781	1,000	-	-	1,000
The Den	-	1,870	1,800	70	-	-	70
Prom	2,445	15,800	14,840	3,405	-	-	3,405
Class of 2018 PRAD	9,476	6,489	15,965	-	-	-	-
Class of 2019 PGRAD	711	1,602	-	2,313	-	-	2,313
Class of 2017	576	-	576	-	-	-	-
Senior Trip	450	33,599	34,049	-	-	-	-
Senior Picnic	515	1,086	810	791	-	-	791
Senior Grad Lunch	64	3	-	67	-	-	67
Class of 2020	-	863	-	863	-	-	863
Project Grad 2021	-	368	-	368	-	-	368
Student Field Trips	-	982	558	424	-	-	424
Fellow of Christ	86	1,436	1,280	242	-	-	242
Athletics	-	34,006	34,006	-	-	-	-
Concessions	-	27,524	26,193	1,331	-	-	1,331
Baseball	6,161	36,393	30,660	11,894	-	-	11,894
Basketball-Boy	8,086	36,702	37,576	7,212	-	-	7,212
Basketball-Girls	3,545	29,225	25,555	7,215	-	-	7,215
Dance team	1,464	20,183	19,526	2,121	-	-	2,121
Cheerleader	2,463	8,379	10,724	118	-	-	118
Cross Country	750	2,402	2,112	1,040	-	-	1,040
Golf-Boys	267	5,616	5,335	548	-	-	548
Golf-Girls	10	468	355	123	-	-	123
Soccer-Boys	1,041	6,592	5,247	2,386	-	-	2,386
Soccer-Girls	1,770	9,418	10,652	536	-	-	536
Softball	4,173	5,433	6,183	3,423	-	-	3,423
Swim	3,109	-	1,476	1,633	-	-	1,633
Tennis-Boys	84	-	-	84	-	-	84
Girls tennis	16	-	-	16	-	-	16
Volleyball	664	6,206	5,530	1,340	-	-	1,340
Track	485	1,000	949	536	-	-	536
Football	3,817	36,075	37,226	2,666	-	-	2,666
Wrestling	96	5,573	5,516	153	-	-	153
Archery	213	4,018	3,305	926	-	-	926
Faculty	-	1,275	1,275	-	-	-	-
Guidance	-	3,735	3,735	-	-	-	-

See accompanying independent auditor's report.

SPENCER COUNTY SCHOOL DISTRICT

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

(Continued)

NAME OF ACTIVITY	CASH BALANCES July 1, 2017	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2018	RECEIVABLES June 30, 2018	ACCOUNTS PAYABLE June 30, 2018	DUE TO STUDENT GROUPS June 30, 2018
Advanced Placement Fee	-	16,906	16,906	-	-	-	-
Parking Fees	-	1,540	1,540	-	-	-	-
Instructional Field Trips	-	860	860	-	-	-	-
ESS Summer School	-	4,050	4,050	-	-	-	-
District - Student Fees	-	552	552	-	-	-	-
District - Instr. Fees	-	15,023	15,023	-	-	-	-
Art	-	2,837	2,837	-	-	-	-
Band	-	7,167	7,167	-	-	-	-
Career AG	-	3,390	3,390	-	-	-	-
Chorus	-	1,375	1,375	-	-	-	-
FCS #1	-	1,565	1,565	-	-	-	-
Health Career	-	11,628	11,628	-	-	-	-
Language	-	5,860	5,860	-	-	-	-
Mathematics	-	725	725	-	-	-	-
Social Studies	-	56	56	-	-	-	-
Spanish	-	80	80	-	-	-	-
Technology Education	-	4,315	4,315	-	-	-	-
FCS #2	-	295	295	-	-	-	-
Latin Exam	-	54	54	-	-	-	-
Media	-	1,043	1,043	-	-	-	-
Greenhouse	-	15,030	15,030	-	-	-	-
Drama	-	55	55	-	-	-	-
Floral Design	-	1,500	1,500	-	-	-	-
Boys BB Sponsorship	-	9,009	9,009	-	-	-	-
Girls BB Sponsorship	-	1,956	1,956	-	-	-	-
Concessions (25%)	-	8,445	8,445	-	-	-	-
Softball Sponsorship	-	2,450	2,450	-	-	-	-
Football Sponsorship	-	8,875	8,875	-	-	-	-
Baseball Sponsorship	-	2,950	2,950	-	-	-	-
Pictures	-	1,921	1,921	-	-	-	-
Pepsi Rebates	-	(2,092)	(2,092)	-	-	-	-
	104,759	873,956	867,792	110,923	-	-	110,923
Transfers	-	(25,326)	(25,326)	-	-	-	-
	<u>\$ 104,759</u>	<u>\$ 848,630</u>	<u>\$ 842,466</u>	<u>\$ 110,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,923</u>

See accompanying independent auditor's report.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster - Cash Assistance			
Passed Through State Department of Education			
National School Lunch Program	10.555	7750002-17	\$ 113,921
		7750002-18	430,919
School Breakfast Program	10.553	7760005-17	37,089
		7760005-18	141,763
Summer Food Service Program for Children	10.559	7740023-17	18,002
Non-Cash Assistance (Commodities)		7740023-18	101,113
TOTAL CHILD NUTRITION CLUSTER			<u>842,807</u>
<u>OTHER U.S. DEPARTMENT OF AGRICULTURE PROGRAMS</u>			
Child and Adult Care Food Program	10.558	7790021	<u>11,318</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>854,125</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster (IDEA) - Passed Through State Department of Education			
Special Education - Grants to States	84.027	337C	167,378
		337D	<u>362,282</u>
			<u>529,660</u>
Special Education - Preschool Grants	84.173	343C	21,142
		343D	22,859
		343DP	522
			<u>44,523</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>574,183</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	310B	5,320
		310C	64,510
		310D	<u>195,124</u>
			<u>264,954</u>
Adult Education - State Grant Program	84.002	365D	7,425
		371C	1,552
		371D	27,036
		373D	<u>20,290</u>
			<u>56,303</u>
Vocational Education (Perkins) - Basic Grants to States	84.048	348DS	968
		358D	204
		348CA	1,139
		348DS	<u>21,686</u>
			<u>23,997</u>
Community Clinical Linkages	84.048A	442D	<u>3,000</u>

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

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

(CONTINUED)

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
Twenty-First Century Community Learning Centers	84.287	550CE 550CM 550BE 550CX 550BM 550BU	116,459 104,905 21,876 44,279 25,088 4,229 <u>316,836</u>
Race to the Top - District	84.416A	436C 436D	683 2,763 <u>3,446</u>
Race to the Top - Early Learning Challenge	84.412A	475C	<u>21,414</u>
Improving Teacher Quality - State Grants	84.367	401C 401D	12,003 28,331 <u>40,334</u>
Supporting Effective Educational Development	84.365D	454D	<u>65,206</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,369,673</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> Head Start	93.600	655D	<u>13,902</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>13,902</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,237,700</u></u>

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

SPENCER COUNTY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Spencer County School District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Spencer County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Spencer County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – FOOD DISTRIBUTION

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

NOTE D – INDIRECT COST RATE

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

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.555 / 10.553 / 10.559

Child Nutrition Cluster

84.027 / 84.173

Special Education Cluster

SPENCER COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

Section I – Summary of Auditor's Results – Continued

Dollar threshold used to distinguish
Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? ___ yes X no

Section II – Financial Statement Findings

No findings to report.

Section III – Federal Award Findings and Questioned Costs

No findings to report.

SPENCER COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 2018

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

Significant Deficiency – Procurement

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

Current Status: The District implemented revised procurement procedures effective July 1, 2017.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Spencer County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Spencer County School District's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

We also noted certain other matters that we reported to management of Spencer County School District in a separate letter dated October 29, 2018.

Purpose of this Report

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

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Bardstown, Kentucky
October 29, 2018



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

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

Report on Compliance for Each Major Federal Program

We have audited the Spencer County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The Spencer County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Spencer County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Bardstown, Kentucky
October 29, 2018



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Taylorsville, Kentucky

In planning and performing our audit of the financial statements of Spencer County School District for the year ended June 30, 2018, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated October 29, 2018 contains our report on the District's internal control structure. This letter does not affect our report dated October 29, 2018 on the financial statements of the Spencer County School District.

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

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

Respectfully,

Stiles, Carter & Associates, CPAs, P.S.C.

Stiles, Carter & Associates, CPAs, P.S.C.
Bardstown, Kentucky
October 29, 2018

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

PRIOR YEAR UNCORRECTED COMMENTS

SPENCER COUNTY ELEMENTARY SCHOOL

FUNDRAISER FORMS

We noted that there were two blanket custom Fundraiser Approval Forms (F-SA-2A) that were submitted for all fundraisers held during the 17-18 school year. However, these forms did not include a signature and date line for the principal to approve and sign the forms, and the forms did not indicate which funds were holding which fundraisers. Therefore we were unable to determine if the fundraisers were held prior to being approved and if the funds were deposited into the correct fund(s).

MANAGEMENT'S RESPONSE

The Fundraiser Approval Form (F-SA-2A) will be used for all fundraisers and completed in entirety. A fundraiser report completion checklist is being utilized that should assist the bookkeeper in reviewing the forms to verify that all required information has been completed.

CURRENT YEAR COMMENTS

SPENCER COUNTY ELEMENTARY SCHOOL

INVENTORY CONTROL WORKSHEETS

We noted that the Inventory Control Worksheets (F-SA-5) that were on file for the bookstore sales were only on file for the months of April and May 2018. The beginning balance of \$812.50 did not match the ending balance of \$244.00 on the last Inventory Control Worksheet on file that was for the month of May 2017. Redbook requires that Inventory Control Worksheets be filed on a monthly basis to show the flow of inventory.

MANAGEMENT'S RESPONSE

It has been determined that the bookstore was not administratively efficient to operate and therefore, no bookstore sales will occur effective July 1, 2018. Inventory worksheets will be prepared monthly per Redbook requirements where applicable.

TAYLORSVILLE ELEMENTARY SCHOOL

FUNDRAISERS

Upon review of the receipts for the 17-18 fiscal year, we noted that the deposit made on 8/23/17, in the amount of \$374.36, contained receipts for spirit wear sales that were deposited into the PTO Fund. However, per the Fundraiser Approval Form (F-SA-2A) that was on file for the spirit wear fundraiser that was held by the PTO Fund, the spirit wear fundraiser was approved on 9/21/17. Redbook requires that fundraisers be approved before they are held

MANAGEMENT'S RESPONSE

This has been stressed to all staff that fundraising cannot begin until the fundraiser has been approved. The bookkeeper will remind staff when they submit a fundraiser request that they cannot begin the fundraising activity until she notifies them that the proper approvals have been received.

SPENCER CO. MIDDLE SCHOOL

INVENTORY CONTROL WORKSHEETS

We noted that the custom Inventory Control Worksheets (F-SA-5) that were on file for the concession sales held by the Concessions Fund were completed for the following event dates: 1/25/18, 1/30/18, and

SPENCER COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

JUNE 30, 2018

2/5/18. We also noted that the custom Inventory Control Worksheets were missing the following fields that are present on the F-SA-5 Redbook Form: activity account, type of inventory, vendors, deliveries, collections, and signature of person completing inventory. Redbook requires that an Inventor Control Worksheet be completed to its entirety on a monthly basis to show the flow of inventory until ending inventory is zero or until the end of the fiscal year.

Upon review of receipts and expenditures for the 17-18 school year, we noted income and expenses for a school bookstore held by the Kid's Club Fund. However, there were zero Inventory Control Worksheets (F-SA-5) on file for the bookstore. Redbook requires that bookstore inventory be documented on a monthly basis.

MANAGEMENT'S RESPONSE

Concession inventory control worksheets will be completed on a monthly basis in entirety.

It has been determined that the bookstore was not administratively efficient to operate and therefore, no bookstore sales will occur effective July 1, 2018.

FUNDRAISER APPROVAL

We noted that the deposit made on 9/20/17 in the amount of \$1,127.00 was for the receipt of Bookfair proceeds. However, there was not a Fundraiser Approval Form (F-SA-2A) on file for this fundraiser. Therefore, we were unable to determine if the funds were deposited into the proper account.

MANAGEMENT'S RESPONSE

The omission of the Fundraiser Approval Form was an oversight of the previous bookkeeper. The present bookkeeper has received Redbook training which included the requirement of fundraiser approval prior to any fundraising activities.

UNALLOWABLE PURCHASE

We noted that check #10442, dated 1/18/18, written to Suburban Septic Services in the amount of \$170.00 from the Admin Athletics Fund was for the rental fees for portable units for the month of October. Redbook disallows the purchase of operational items from student generated funds.

MANAGEMENT'S RESPONSE

This was an oversight of the previous bookkeeper, as this expenditure was to be paid from the school's district activity account. The present bookkeeper has received Redbook training which included a discussion on allowable and unallowable expenses