

GALLATIN COUNTY SCHOOL DISTRICT
Warsaw, Kentucky

FINANCIAL STATEMENTS
June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the State Committee for School District Audits and
Members of the Board of Education
Gallatin County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gallatin County School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Gallatin County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gallatin County School District, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB schedules on pages 3-8 and 48-59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gallatin County School District's basic financial statements. The combining and individual nonmajor fund financial statements, the combining student group fiduciary fund financial statements, and the high school fiduciary financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* 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, the combining student group fiduciary fund financial statements, the high school fiduciary financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the combining student group fiduciary fund financial statements, the high school fiduciary financial statements and the schedule of expenditures of federal awards, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019, on our consideration of the Gallatin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Gallatin County School District's 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 the Gallatin County School District's internal control over financial reporting and compliance.

RFH

RFH, PLLC
Lexington, Kentucky
November 13, 2019

**GALLATIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

As management of Gallatin County Board of Education (Board), the governing body for the Gallatin County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

FINANCIAL HIGHLIGHTS

- The General Fund contingency ended the year at \$1,578,116, a decrease of \$188,892. Revenue exceeded prior year amounts by \$105,417. SEEK revenue decreased \$165,235, while revenues from all local tax sources increased \$357,545. Utility tax increased \$52,635 from the previous year and property tax collections were significantly higher than FY 2018 due to an large increase in tangible property valuations. However, fund transfers from the capital accounts and grants needed to be increased \$72,000 to a total of \$255,802.
- Enrollment has been on a downward trend for 5 consecutive years but has recently stabilized. This has created a significant loss of state aid from not only the SEEK program but also negatively impacts revenue in our Capital and Grant Funding. At the same time, local revenue has increased to almost offset the loss in state assistance. Numerous steps have been taken to mitigate these revenue losses. Staffing has and will continue to be analyzed, departmental budgets have been adjusted, and several cost cutting measures have been employed. Even so, the General Fund balance remain at approximately 10% of annual expenditures. Beginning in FY 2021, a PILOT agreement will take affect due to a large expansion of a local manufacturer. The district anticipates an annual increase of nearly \$900,000 in local tax revenue. FY 2020-21 will mark the beginning of a new funding cycle and the district will be proactive in addressing funding increases or decreases.
- In the special revenue fund, all prior year grants have been closed out. Total grant expenditures from local, state and federal grants were \$1,589,122.
- The Capital Outlay Fund allotment of \$141,000 was transferred to the General Fund for current operating expense. The Capital Outlay Fund is at a zero fund balance.
- The Building Fund is at a fund balance of \$1,503. Local revenue of \$941,445 and state revenue of \$822,462 was received. \$1,660,102 was employed to retire debt and the remaining balance of \$102,302 was transferred to General Fund for current operating expense.
- The ending fund balance in the Construction Fund is \$(43,383).
- The district made debt service payments of \$2,727,731 during the 18-19 year.
- Food Service revenue increased \$135,711 compared to FY 18.

**GALLATIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019
(Continued)**

FINANCIAL HIGHLIGHTS (CONTINUED)

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

The government-wide financial statements can be found on pages 9 and 10 of this report.

**GALLATIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019
(Continued)**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

The basic governmental fund financial statements can be found on pages 11 through 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 47 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$1,382,375 as of June 30, 2019.

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

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

**GALLATIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net Position for the periods ending June 30, 2019 and 2018

The following is a summary of net position for the fiscal years ended June 30, 2019 and 2018.

	2019	2018
Current assets	\$ 2,298,585	\$ 2,260,599
Noncurrent assets	<u>33,149,869</u>	<u>33,602,443</u>
Total assets	<u>35,448,454</u>	<u>35,863,042</u>
Total deferred outflows	<u>2,577,668</u>	<u>4,381,072</u>
Current liabilities	2,816,938	2,482,323
Noncurrent liabilities	<u>32,998,423</u>	<u>35,571,629</u>
Total liabilities	<u>35,815,361</u>	<u>38,053,952</u>
Total deferred inflows	<u>828,386</u>	<u>772,876</u>
Net position		
Net Investment in capital assets	10,529,609	9,526,950
Restricted	(757,125)	(8,737,693)
Unrestricted	<u>(8,390,109)</u>	<u>628,029</u>
Total net position	<u>\$ 1,382,375</u>	<u>\$ 1,417,286</u>

**GALLATIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2019 and 2018.

	2019	2018
Revenues		
Program revenues		
Charges for services	\$ 60,892	\$ 53,187
Operating grants	2,676,615	2,663,571
Capital grants	<u>201,480</u>	<u>1,808,695</u>
Total grant revenues	<u>2,938,987</u>	<u>4,525,453</u>
General Revenues		
Taxes	\$ 5,491,070	\$ 5,188,507
Grants and entitlements	12,093,391	12,740,669
Earnings on investments	75,641	50,133
Miscellaneous	<u>48,413</u>	<u>2,279,620</u>
Total general revenues	<u>17,708,515</u>	<u>20,258,929</u>
Total revenues	<u>20,647,502</u>	<u>24,784,382</u>
Expenses		
Instructional	10,500,544	14,386,922
Student support services	766,198	779,751
Staff support services	607,991	596,226
District administration	705,208	750,044
School administration	1,281,571	1,034,466
Business support services	904,325	728,667
Plant operation and maintenance	1,791,065	1,576,066
Student transportation	1,896,550	1,511,720
Food service operation	1,352,833	1,123,223
Facility acquisition and construction	-	650,970
Community service operations	177,212	153,045
Interest on long-term debt	<u>704,576</u>	<u>681,394</u>
Total expenses	<u>20,688,073</u>	<u>23,972,494</u>
Gain on sale of assets	<u>5,660</u>	<u>-</u>
Change in net position	<u>\$ (34,911)</u>	<u>\$ 811,888</u>

Comments on General Fund Budget Comparisons

- The District's total revenues (General Fund) for the fiscal year ended June 30, 2019, net of Inter-fund transfers and proceeds from the sale of assets, were \$15,325,737.
- General fund budget compared to actual revenue varied slightly from line item to line item. Actual ending balance was \$53,772, net of inter-fund transfers and proceeds from the sale of assets, less than budget.
- The District's total cost of all programs and services (General Fund) for the fiscal year ended June 30, 2019, net of inter-fund transfers and debt service payments, were \$16,055,983.

**GALLATIN COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019
(Continued)**

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Comments on General Fund Budget Comparisons (Continued)

- General fund budgeted expenditures were more than actual by around \$907,163, net of inter-fund transfers.

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

CAPITAL ASSETS AND LONG-TERM DEBT

	Beginning	Additions	Deductions	Ending
Governmental:				
Capital Assets	\$ 51,409,477	\$ 815,480	\$ 292,388	\$ 51,932,569
Accumulated Depreciation	\$ 17,860,926	\$ 1,339,789	292,388	18,908,327
Business-type:				
Capital Assets	\$ 976,521	\$ 14,705	\$ -	\$ 991,226
Accumulated Depreciation	\$ 809,999	\$ 55,600	\$ -	\$ 865,599
Governmental:				
Bonds Payable	\$ 23,905,000	\$ -	\$ 1,880,000	\$ 22,025,000
Capital Lease Payable	\$ 683,220	\$ 541,354	\$ 180,678	\$ 1,043,896
Compensated Absences	\$ 210,917	\$ -	\$ 4,076	\$ 206,841
KSBIT	\$ 34,544	\$ -	\$ 17,272	\$ 17,272

GENERAL FUND BUDGETARY HIGHLIGHTS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some Federal programs operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district ended 2018-2019 with a general fund contingency of \$1,578,116, equivalent to approximately 10% of annual General Fund expenditures.. The beginning cash balance for the General Fund for the fiscal year was \$1,803,106 and ending cash balance was \$1,708,226.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,716,091	\$ 116,624	\$ 1,832,715
Accounts receivable	450,558	2,522	453,080
Inventory	-	12,790	12,790
Total current assets	<u>2,166,649</u>	<u>131,936</u>	<u>2,298,585</u>
Noncurrent assets			
Land	1,439,393	-	1,439,393
Construction in progress	154,115	-	154,115
Other capital assets, net of depreciation	31,430,734	125,627	31,556,361
Total noncurrent assets	<u>33,024,242</u>	<u>125,627</u>	<u>33,149,869</u>
Total assets	<u>35,190,891</u>	<u>257,563</u>	<u>35,448,454</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension - CERS	1,146,760	211,486	1,358,246
Deferred outflows - OPEB - CERS	435,138	80,248	515,386
Deferred outflows - OPEB - KTRS	255,400	-	255,400
Defeasance on refunding	448,636	-	448,636
Total deferred outflows of resources	<u>2,285,934</u>	<u>291,734</u>	<u>2,577,668</u>
Total assets and deferred outflows of resources	<u>\$ 37,476,825</u>	<u>\$ 549,297</u>	<u>\$ 38,026,122</u>
LIABILITIES			
Current liabilities			
Accounts payable	\$ 339,998	\$ 2,795	\$ 342,793
Accrued payroll and related expense	156,380	-	156,380
Unearned revenues	116,722	1,594	118,316
Interest payable	113,845	-	113,845
KSBIT assessment - current	17,272	-	17,272
KISTA lease - current	168,332	-	168,332
Bond obligations - current	1,900,000	-	1,900,000
Total current liabilities	<u>2,812,549</u>	<u>4,389</u>	<u>2,816,938</u>
Noncurrent liabilities			
Compensated absences	206,841	-	206,841
Capital lease - noncurrent	875,564	-	875,564
Bond obligations - noncurrent	20,125,000	-	20,125,000
Net pension liability - CERS	5,127,028	945,493	6,072,521
Net OPEB liability - CERS	1,494,576	275,631	1,770,207
Net OPEB liability - KTRS	3,948,290	-	3,948,290
Total noncurrent liabilities	<u>31,777,299</u>	<u>1,221,124</u>	<u>32,998,423</u>
Total liabilities	<u>34,589,848</u>	<u>1,225,513</u>	<u>35,815,361</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension - CERS	139,610	25,747	165,357
Deferred inflows - OPEB - CERS	291,047	53,675	344,722
Deferred inflows - OPEB - KTRS	318,307	-	318,307
Total deferred inflows of resources	<u>748,964</u>	<u>79,422</u>	<u>828,386</u>
NET POSITION			
Net investment in capital assets	10,403,982	125,627	10,529,609
Restricted for			
Compensated absences	105,324	-	105,324
Food service	-	(881,265)	(881,265)
Other	18,816	-	18,816
Unrestricted	<u>(8,390,109)</u>	<u>-</u>	<u>(8,390,109)</u>
Total net position	<u>2,138,013</u>	<u>(755,638)</u>	<u>1,382,375</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 37,476,825</u>	<u>\$ 549,297</u>	<u>\$ 38,026,122</u>

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

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
for the year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
Instruction	\$ 10,500,544	\$ -	\$ 1,131,886	\$ 57,290	\$ (9,311,368)	\$ -	\$ (9,311,368)
Support Services:							
Student	766,198	-	-	-	(766,198)	-	(766,198)
Instruction staff	605,111	-	43,923	-	(561,188)	-	(561,188)
Student support services	2,880	-	-	-	(2,880)	-	-
District administrative	705,208	-	-	-	(705,208)	-	(705,208)
School administrative	1,281,571	-	658	-	(1,280,913)	-	(1,280,913)
Business	904,325	-	84,439	-	(819,886)	-	(819,886)
Plant operation and maintenance	1,791,065	-	-	-	(1,791,065)	-	(1,791,065)
Student transportation	1,896,550	-	86,954	-	(1,809,596)	-	(1,809,596)
Community service activities	177,212	-	166,860	-	(10,352)	-	(10,352)
Interest on long-term debt	704,576	-	-	144,190	(560,386)	-	(560,386)
Total governmental activities	19,335,240	-	1,514,720	201,480	(17,619,040)	-	(17,619,040)
Business-type activities							
Food service	1,352,833	60,892	1,161,895	-	-	(130,046)	(130,046)
Total business-type activities	1,352,833	60,892	1,161,895	-	-	(130,046)	(130,046)
Total school district	\$ 20,688,073	\$ 60,892	\$ 2,676,615	\$ 201,480	(17,619,040)	(130,046)	(17,749,086)

General revenues

Taxes:			
Property taxes	3,886,248	-	3,886,248
Motor vehicle taxes	344,439	-	344,439
Utility taxes	1,260,383	-	1,260,383
State aid-formula grants	12,093,391	-	12,093,391
Investment earnings	74,039	1,602	75,641
Miscellaneous	48,413	-	48,413
Total general revenues	17,706,913	1,602	17,708,515
Gain on sale of assets	2,717	2,943	5,660
Change in Net Position	90,590	(125,501)	(34,911)
Net position-beginning, as restated	2,047,423	(630,137)	1,417,286
NET POSITION-ENDING	\$ 2,138,013	\$ (755,638)	\$ 1,382,375

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

**GALLATIN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,708,226	\$ -	\$ -	\$ 29,932	1,738,158
Accounts receivable	283,624	166,904	-	30	450,558
Prepaid expenses	-	-	-	-	-
Total assets	<u>\$ 1,991,850</u>	<u>\$ 166,904</u>	<u>\$ -</u>	<u>\$ 29,962</u>	<u>\$ 2,188,716</u>
LIABILITIES					
Cash deficit	\$ -	\$ 22,067	\$ -	\$ -	\$ 22,067
Accounts payable	257,354	28,115	-	54,529	339,998
Accrued payroll and related expenses	156,380	-	-	-	156,380
Unearned revenues	-	116,722	-	-	116,722
Total liabilities	<u>413,734</u>	<u>166,904</u>	<u>-</u>	<u>54,529</u>	<u>635,167</u>
FUND BALANCES					
Restricted					
Compensated absences	105,324	-	-	-	105,324
Other	-	-	-	18,816	18,816
Unassigned	<u>1,472,792</u>	<u>-</u>	<u>-</u>	<u>(43,383)</u>	<u>1,429,409</u>
Total fund balances	<u>1,578,116</u>	<u>-</u>	<u>-</u>	<u>(24,567)</u>	<u>1,553,549</u>
Total liabilities and fund balances	<u>\$ 1,991,850</u>	<u>\$ 166,904</u>	<u>\$ -</u>	<u>\$ 29,962</u>	<u>\$ 2,188,716</u>

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

Fund balances reported above	\$ 1,553,549
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	33,024,242
Interest accrued on general long term debt is not a current expenditure and is not reported in the funds.	(113,845)
Net deferred inflows/outflows related to the long-term net pension and OPEB liabilities are not reported in the funds.	1,088,334
Long-term liabilities, including bond obligations, KSBIT assessment, net pension liability, net OPEB liability, capital leases and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(33,414,267)</u>
Net position of governmental activities	<u>\$ 2,138,013</u>

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

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2019

	<u>General</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
From local sources					
Property taxes	\$ 2,944,803	\$ -	\$ -	\$ 941,445	\$ 3,886,248
Motor vehicle taxes	344,439	-	-	-	344,439
Utility taxes	1,260,383	-	-	-	1,260,383
Earnings on investments	71,764	-	-	2,275	74,039
Other local revenues	40,422	67,936	-	7,992	116,350
Intergovernmental - State	10,297,959	718,218	839,102	963,462	12,818,741
Intergovernmental - Federal	137,058	785,858	-	-	922,916
Total revenues	<u>15,096,828</u>	<u>1,572,012</u>	<u>839,102</u>	<u>1,915,174</u>	<u>19,423,116</u>
EXPENDITURES					
Instruction	8,120,430	1,148,998	-	226	9,269,654
Support services			-		
Student	753,457	-	-	-	753,457
Instructional staff	552,896	43,923	-	6,385	603,204
Student support services	-	-	-	2,880	2,880
District administration	702,720	-	-	-	702,720
School administration	1,237,038	658	-	-	1,237,696
Business	776,835	84,439	-	-	861,274
Plant operation and maintenance	1,650,014	-	-	11,372	1,661,386
Student transportation	1,439,461	86,954	-	-	1,526,415
Community service activities	-	166,860	-	-	166,860
Capital outlay	594,605	57,290	-	163,582	815,477
Debt service	228,527	-	2,499,204	-	2,727,731
Total expenditures	<u>16,055,983</u>	<u>1,589,122</u>	<u>2,499,204</u>	<u>184,445</u>	<u>20,328,754</u>
Excess (deficiency) of revenues over expenditures	<u>(959,155)</u>	<u>(17,110)</u>	<u>(1,660,102)</u>	<u>1,730,729</u>	<u>(905,638)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from capital lease	541,354	-	-	-	541,354
Proceeds from sale of assets	2,717	-	-	-	2,717
Bond issue discount	-	-	-	-	-
Operating transfers in	255,802	29,610	1,660,102	-	1,945,514
Operating transfers out	<u>(29,610)</u>	<u>(12,500)</u>	<u>-</u>	<u>(1,903,404)</u>	<u>(1,945,514)</u>
Total other financing sources and uses	<u>770,263</u>	<u>17,110</u>	<u>1,660,102</u>	<u>(1,903,404)</u>	<u>544,071</u>
Net change in fund balances	(188,892)	-	-	(172,675)	(361,567)
Fund balances-beginning	<u>1,767,008</u>	<u>-</u>	<u>-</u>	<u>148,108</u>	<u>1,915,116</u>
Fund balances-ending	\$ 1,578,116	\$ -	\$ -	\$ (24,567)	\$ 1,553,549
Reconciliation to government-wide change in net position:					
Net change in fund balances					\$ (361,567)
add: capital outlay expenditures capitalized					815,477
add: debt service expenditures					2,727,731
add: gain on disposal of capital assets					2,717
add: change in long term compensated absences					4,076
less: proceeds from sale of capital assets					(2,717)
less: change in net pension liability					(481,102)
less: change in net OPEB liability					(28,307)
less: proceeds from capital lease					(541,354)
less: depreciation on governmental activities assets					(1,339,788)
less: interest on long term debt					(704,576)
Change in net position Governmental Activities					<u>\$ 90,590</u>

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

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2019

	Food Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 116,624
Accounts receivable	2,522
Inventory	<u>12,790</u>
Total current assets	<u>131,936</u>
Noncurrent assets	
Capital assets, net of depreciation	<u>125,627</u>
Total assets	<u>257,563</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - pension - CERS	211,486
Deferred outflows - OPEB - CERS	<u>80,248</u>
Total deferred outflows of resources	<u>291,734</u>
Total assets and deferred outflows of resources	<u><u>\$ 549,297</u></u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 2,795
Unearned revenue	<u>1,594</u>
Total current liabilities	<u>4,389</u>
Noncurrent liabilities	
Net pension liability - CERS	945,493
Net OPEB liability - CERS	<u>275,631</u>
Total noncurrent liabilities	<u>1,221,124</u>
Total liabilities	<u>1,225,513</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pension - CERS	25,747
Deferred inflows - OPEB - CERS	<u>53,675</u>
Total deferred inflows of resources	<u>79,422</u>
NET POSITION	
Net investment in capital assets	125,627
Restricted net position	<u>(881,265)</u>
Total net position	<u>(755,638)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 549,297</u></u>

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

**GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2019**

	Food Service Fund
Operating revenues	
Lunchroom sales	\$ 56,892
Other revenues	4,000
	<hr/>
Total operating revenues	60,892
	<hr/>
Operating expenses	
Salaries and wages	695,064
Contract services	20,422
Materials and supplies	581,611
Other expenses	136
Depreciation	55,600
	<hr/>
Total operating expenses	1,352,833
	<hr/>
Operating (loss)	(1,291,941)
	<hr/>
Nonoperating revenues	
Federal grants	1,087,063
Commodities received	65,796
State grants	9,036
Gain on sale of assets	2,943
Interest income	1,602
	<hr/>
Total nonoperating revenue	1,166,440
	<hr/>
Change in net position	(125,501)
	<hr/>
Total net position-beginning of year, as restated	(630,137)
	<hr/>
TOTAL NET POSITION-ENDING	\$ (755,638)
	<hr/>

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

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2019

	Food Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 58,820
Cash paid to employees, including benefits	(526,937)
Cash paid to suppliers	<u>(534,694)</u>
Net cash (used) by operating activities	<u>(1,002,811)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from government funding	<u>1,096,099</u>
Net cash provided by noncapital financing activities	<u>1,096,099</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from sale of capital assets	2,943
Purchase of capital assets	<u>(14,705)</u>
Net cash (used) by capital and related financing activities	<u>(11,762)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>1,602</u>
Net cash provided by investing activities	<u>1,602</u>
Net (decrease) in cash and cash equivalents	83,128
Balances-beginning of the year	<u>33,496</u>
BALANCES-END OF THE YEAR	<u><u>\$ 116,624</u></u>
Reconciliation of operating (loss) to net cash (used) by operating activities:	
Operating (loss)	\$ (1,291,941)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities:	
Depreciation expense	55,600
Net change in pension liability	171,273
Net change in OPEB liability	(3,146)
Donated commodities	65,796
Change in assets and liabilities	
Increase in inventory	(973)
(Increase) decrease in accounts receivable	(2,522)
Increase (decrease) in accounts payable	2,652
Increase (decrease) in unearned revenue	<u>450</u>
Net cash (used) by operating activities	<u><u>\$ (1,002,811)</u></u>
Schedule of non-cash activities	
Donated commodities received from federal government	<u><u>\$ 65,796</u></u>

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

**GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019**

	<u>SCHOOL ACTIVITY FUNDS</u>
ASSETS	
Cash and cash equivalents	\$ 126,047
Total assets	<u>\$ 126,047</u>
LIABILITIES	
Due to student groups	<u>\$ 126,047</u>
NET POSITION	
Restricted	<u>-</u>
Total liabilities and net position	<u>\$ 126,047</u>

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

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

Basis of Presentation

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

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

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

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total net position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 71. This is a major fund of the District.
- (C) The District Activity Fund is a special revenue fund used to support co-curricular activities, and are not raised and expended by student groups. District activity funds accounted for in the District bank account are not subject to the Redbook and may be expended with more flexibility than school activity funds but must meet the "educational purpose" standard for all District expenditures.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

I. Governmental Fund Types (continued)

- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
- 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.
 - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (E) Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund (Enterprise Fund)

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

III. Fiduciary Fund Type (Agency and Trust Funds)

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

Basis of Accounting

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

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

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

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

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Taxes

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Process

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

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

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

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

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

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

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accumulated Unpaid Sick Leave Benefits

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

Interfund Balances

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Reserves

The following fund balance categories are utilized to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

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

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Reserves (Continued)

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

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the General fund.

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

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Position

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

Operating Revenues and Expenses

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

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Pensions

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the District's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. 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, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Estimates

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

Management's Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through November 13, 2019, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2019, have not been evaluated by the District.

NOTE 2 CASH AND CASH EQUIVALENTS

Interest rate risk – In accordance with the District's investment policy, interest rate risk is limited by investing in public funds with the highest rate of return and the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio.

Credit risk – The District's investment policy limits the types of authorized investment instruments to obligations of the United States, its agencies, and instrumentalities. In addition, certificates of deposit or bonds of a bank or the Commonwealth of Kentucky, securities issued by a state or local government or shares of mutual funds are acceptable investments.

Concentration of credit risk – The District may invest, at any one time, funds in any one of the above listed categories with no limitation of the total amount of funds invested on behalf of the District.

Custodial credit risk – For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

At year end, the bank balances of the District's total cash and investments was \$2,360,028. Of the total cash balance, \$250,000 was covered by Federal Depository insurance and the remainder was covered by a combination of collateral agreements and collateral and a letter of credit held by the pledging banks' trust department in the District's name. The balance pledged at June 30, 2019 was \$4,007,371.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 3 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

Governmental Activities

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
Land	\$ 1,439,393	\$ -	\$ -	\$ 1,439,393
Land improvements	2,306,070	-	-	2,306,070
Building and improvements	41,494,154	83,517	-	41,577,671
Technology equipment	1,780,001	-	-	1,780,001
Vehicles	2,478,138	551,777	(292,388)	2,737,527
General equipment	1,911,721	26,068	-	1,937,789
Construction in progress	-	154,118	-	154,118
Total historical cost	<u>51,409,477</u>	<u>815,480</u>	<u>(292,388)</u>	<u>51,932,569</u>
Less: accumulated depreciation				
Land improvements	1,365,984	105,101	-	1,471,085
Building and improvements	11,462,892	987,882	-	12,450,774
Technology equipment	1,751,464	10,431	-	1,761,895
Vehicles	1,854,337	156,770	(292,388)	1,718,719
General equipment	<u>1,426,249</u>	<u>79,605</u>	<u>-</u>	<u>1,505,854</u>
Total accumulated depreciation	<u>17,860,926</u>	<u>1,339,789</u>	<u>(292,388)</u>	<u>18,908,327</u>
Governmental activities				
Capital assets – net	<u>\$ 33,548,551</u>	<u>\$ (524,309)</u>	<u>\$ -</u>	<u>\$ 33,024,242</u>

Business-type Activities

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
General equipment	\$ 929,554	\$ 14,705	\$ -	\$ 944,259
Technology equipment	<u>46,967</u>	<u>-</u>	<u>-</u>	<u>46,967</u>
Total historical cost	<u>976,521</u>	<u>14,705</u>	<u>-</u>	<u>991,226</u>
Less: accumulated depreciation				
General equipment	46,624	-	-	46,624
Technology equipment	<u>763,375</u>	<u>55,600</u>	<u>-</u>	<u>818,975</u>
Total accumulated depreciation	<u>809,999</u>	<u>55,600</u>	<u>-</u>	<u>865,599</u>
Business-type activities				
Capital assets – net	<u>\$ 166,522</u>	<u>\$ (40,895)</u>	<u>\$ -</u>	<u>\$ 125,627</u>

Depreciation expense by function for the fiscal year ended June 30, 2019 was as follows:

	Governmental	Business-Type
Instructional	\$ 1,126,011	\$ -
District administration	2,826	-
Business support services	597	-
Plant operation and maintenance	8,698	-
Student transportation	201,656	-
Food service	<u>-</u>	<u>55,600</u>
Total	<u>\$ 1,339,788</u>	<u>\$ 55,600</u>

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 4 ACCOUNTS RECEIVABLE

There was no allowance for uncollectible accounts at June 30, 2019. Receivables at year end for the District's major individual funds and nonmajor funds in the aggregate are as follows:

Governmental activities

	General Fund	Special Revenue	Other	Total
Taxes	\$ 268,998	\$ -	\$ -	\$ 268,998
Intergovernmental	-	166,904	30	166,934
Other	<u>14,626</u>	<u>-</u>	<u>-</u>	<u>14,626</u>
Total	<u>\$ 283,624</u>	<u>\$ 166,904</u>	<u>\$ 30</u>	<u>\$ 450,558</u>

Business-type activities:

	Food Service
Other	<u>\$ 2,522</u>

NOTE 5 ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2019, this amount totaled approximately \$206,841 for those employees with twenty-seven or more years of experience.

NOTE 6 CONTINGENCIES

Grant Fund Approval

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

NOTE 7 INSURANCE AND RELATED ACTIVITIES

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

NOTE 8 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 workers' compensation, errors and omissions, and general liability coverage, the District purchases various insurance policies.

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 9 NONMAJOR FUND BALANCE DEFICIT

As of June 30, 2019, the following nonmajor fund reported a deficit in fund balance:

Construction Fund \$ (43,383)

NOTE 10 COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. The District notifies the Department of Employee Insurance (DEI) when an employee is no longer employed. DEI sends the employee the COBRA requirements.

NOTE 11 CONTINGENT LIABILITY

The District is a participant in the Kentucky School Board Insurance Trust in which the District purchases general liability and workers' compensation insurance. As of June 30, 2019, the District has been notified of a deficit in the trust and has been given a preliminary assessment of its portion of the deficit of \$17,272. This contingent liability has been recorded in the District-wide financial statements but not included in the Governmental Financial Statements.

NOTE 12 TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	Operating	\$ 29,610
Building Fund	General Fund	Capital Funds	\$ 102,302
Capital Outlay Fund	General Fund	Capital Funds	\$ 141,000
Building Fund	Debt Service Fund	Debt Service	\$ 1,660,101
Special Revenue Fund	General Fund	Indirect costs	\$ 12,500

NOTE 13 ON-BEHALF PAYMENTS

For the year ended June 30, 2019 total payments of \$4,854,382 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

General Fund	\$ 4,015,280
Debt Service Fund	<u>839,102</u>
Total on-behalf	<u>\$ 4,854,382</u>

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 14 LONG-TERM DEBT

KSBIT

During a prior fiscal year, the District was notified that the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self-insurance provider for school districts in Kentucky. On June 4, 2014, the Franklin Circuit Court issued an order informing the former members of the Kentucky School Board Insurance Trust Workers' Compensation Fund that they would be assessed a portion of the fund's unfunded liability. The court approved assessment requires the District to pay the following future amount that is included in current portion of long-term debt:

FY 2020 \$ 17,272

KISTA Lease

The School District participates in the Kentucky Inter-Local School Transportation Association (KISTA) equipment lease revenue bonds program for the purpose of acquiring replacement buses.

The issue date, balance at June 30, 2019 and interest rates are summarized below:

2020	\$ 168,332	\$ 27,547	\$ 195,879
2021	150,607	23,718	174,325
2022	142,101	19,813	161,914
2023	133,264	16,171	149,435
2024	123,391	12,672	136,063
2025-2028	<u>326,201</u>	<u>20,529</u>	<u>346,730</u>
	<u>\$ 1,043,896</u>	<u>\$ 120,450</u>	<u>\$ 1,164,346</u>

Bond Obligations

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

Issue Date	Proceeds	Rates
April 8, 2008	\$ 1,240,000	2.450% - 3.300%
September 16, 2010	\$ 3,010,000	.400% - 2.400%
December 19, 2012	\$ 4,040,000	1.400% - 2.625%
November 27, 2013	\$ 385,000	2.300%
April 30, 2014	\$ 6,495,000	1.100% - 3.150%
March 30, 2015	\$ 13,070,000	2.000% - 3.000%
September 22, 2016	\$ 1,635,000	2.000% - 3.000%

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 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.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 14 LONG-TERM DEBT (CONTINUED)

Bond Obligations, continued

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, 2019 for debt service (principal and interest) are as follows:

Fiscal Year	Gallatin County School District		KY School Facilities Construction Commission		Total Requirements
2020	\$ 1,221,150	\$ 455,244	\$ 678,850	\$ 129,136	\$ 2,484,380
2021	1,248,880	426,162	606,120	115,658	2,396,820
2022	1,942,579	394,074	617,421	103,551	3,057,625
2023	1,320,661	364,714	634,339	85,828	2,405,542
2024	1,363,179	327,069	656,821	67,544	2,414,613
2025-2029	5,496,339	1,082,542	1,483,661	87,900	8,150,442
2030-2034	3,974,650	321,828	180,350	13,856	4,490,684
2035-2037	569,640	25,916	30,360	1,384	627,300
Totals	\$ 17,137,078	\$ 3,397,549	\$ 4,887,922	\$ 604,857	\$ 26,027,406

The following is a summary of changes in long-term debt of the District for the year ended June 30, 2019:

Governmental Activities:

	July 1, 2018	Additions	Payments	June 30, 2019
Bond obligations	\$ 23,905,000	\$ -	\$ 1,880,000	\$ 22,025,000
KISTA leases	683,220	541,354	180,678	1,043,896
Compensated absences	210,917	-	4,076	206,841
Net pension liability – CERS	4,933,645	193,383	-	5,127,028
Net OPEB liability – OPEB	1,761,000	-	266,424	1,494,576
Net OPEB liability – KTRS	4,175,000	-	226,710	3,948,290
KSBIT	34,544	-	17,272	17,272
Total governmental activities	\$ 35,703,326	\$ 734,737	\$ 2,575,160	\$ 33,862,903

Business-type activities:

Net pension liability – CERS	\$ 909,829	\$ 35,664	\$ -	\$ 945,493
Net OPEB liability – CERS	245,876	29,755	-	275,631
Total business-type activities	\$ 1,155,705	\$ 65,419	\$ -	\$ 1,221,124

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS

The School District is a participating employer of the County Employees' Retirement System (CERS) and the Kentucky Teachers' Retirement System (KTRS). KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS. CERS covers employees whose position does not require a college degree or teaching certificate.

KTRS

Plan description – Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the 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 <https://trs.ky.gov/financial-reports-information>.

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

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

Non-university members receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS

KTRS, Continued

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. 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.

Benefits provided - For members who have established an account in a retirement system by the Commonwealth on or after July 1, 2008:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete 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 credited service greater than 30 years.

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

Other benefits - TRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members, and TRS also provides post-employment healthcare benefits to eligible members and dependents.

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

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

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

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS (CONTINUED)

CERS

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues publicly available financial statements which may be downloaded from the Kentucky Retirement Systems website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2019, plan members were required to contribute 5.00% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are 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 proceeding the 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 contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2019, participating employers contributed 21.48% of each employee's wages, for non-hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 16. Plan members contributed 16.22% to the pension trust for non-hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5.00% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

The District contributed \$544,317 for the year ended June 30, 2019, or 100% of the required contribution. The contribution was allocated \$411,025 to the CERS pension fund and \$133,292 to the CERS insurance fund.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS (CONTINUED)

CERS, continued

Benefits – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

For retirement purposes, employees are grouped into three tiers based on hire date:

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

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

CERS and KTRS:

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At June 30, 2019, the District reported a liability of \$6,072,521 for its proportionate share of the net pension liability for CERS. The net pension liability was measured as of June 30, 2018, 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 entities, actuarially determined. At June 30, 2018, the District's proportion was .100 percent. The District's proportion at June 30, 2017 was .100 percent as well.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS (CONTINUED)

The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The Commonwealth of Kentucky recognized \$29,151,371 as its proportionate share of the net pension liability for KTRS. The net pension liability was measured as of June 30, 2018, 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 the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the State's proportion was .2180 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$1,063,486 related to CERS and \$2,112,241 related to KTRS. The District also recognized revenue of \$2,112,241 for KTRS support provided by the Commonwealth of Kentucky. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ 198,069	\$ 88,889
Changes of assumptions	593,463	-
Net difference between projected and actual earnings on Plan investments	-	72,813
Changes in proportion and differences between District contributions and proportionate share of contributions	155,689	3,655
District contributions subsequent to the measurement date	<u>411,025</u>	<u>-</u>
Total	<u>\$ 1,358,246</u>	<u>\$ 165,357</u>

The \$411,025 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2019 will be recognized in pension expense as follows:

Year ending June 30,

2020	\$ 592,153
2021	\$ 293,481
2022	\$ (71,178)
2023	\$ (32,592)

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:

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS (CONTINUED)

CERS:

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of return	6.25%, net of Plan investment expense, including inflation

Mortality rates were based on the 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.

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.

KTRS:

Valuation date	6/30/17
Actuarial cost method	Entry age
	7.50%, net of plan investment expense, including
Investment rate of return	inflation
Projected salary increases	3.50 – 7.30%
Inflation rate	3.00%
Municipal Bond Index Rate	3.89%
Single Equivalent Interest	
Rate	7.50%

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015.

Target Allocations

CERS

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS (CONTINUED)

The target allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

KTRS

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

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

Asset Class	Target Allocation	Long-term Nominal Real Rate of Return
U.S. Equity	40%	4.20%
International Equity	22%	5.20%
Fixed Income	15%	1.20%
Additional Categories	8%	3.30%
Real Estate	6%	3.80%
Private Equity	7%	6.30%
Cash	2%	0.90%
Total	100%	

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 15 RETIREMENT PLANS (CONTINUED)

Discount Rate

CERS

The discount rate used to measure the total pension liability was 6.25 percent. 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 25-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

KTRS

The discount rate used to measure the total pension liability was 7.50 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 the employer contributions will be made at the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. 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. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 current discount rate, 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:

	CERS	CERS
	Discount rate	District's proportionate share of net pension liability
1% decrease	5.25%	\$ 7,644,675
Current discount rate	6.25%	\$ 6,072,521
1% increase	7.25%	\$ 4,755,331

NOTE 16 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - CERS

Plan Description – As more fully described in Note 15, the District participates in the County Employees' Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 16 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

Contributions – As more fully described in Note 15, plan members contribute to CERS for non-hazardous job classifications. For the year ending June 30, 2019, the employer's contribution was 5.26% to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. 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 proceeding the 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 basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2019, the District contributed \$133,292, or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1	Participation date Insurance eligibility Benefit	Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement
Tier 1	Participation date Insurance eligibility Benefit	Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 2	Participation date Insurance eligibility Benefit	After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually
Tier 3	Participation date Insurance eligibility Benefit	After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$1,770,207.

The net OPEB liability was measured as of June 30, 2018, 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 entities, actuarially determined. The District's proportionate share at June 30, 2018 was .100 percent. The District's proportion at June 30, 2017 was .100 percent as well.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 16 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

For the year ended June 30, 2019, the District recognized OPEB expense of \$223,327. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual results	\$ -	\$ 206,294
Changes of assumptions	353,537	4,090
Net difference between projected and actual earnings on Plan investments	-	121,933
Changes in proportion and differences between District contributions and proportionate share of contributions	-	12,405
District contributions subsequent to the measurement date	<u>161,849</u>	<u>-</u>
Total	<u>\$ 515,386</u>	<u>\$ 344,722</u>

The \$161,849 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. This includes an adjustment of \$28,557 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,

2020	\$ 3,790
2021	\$ 3,790
2022	\$ 3,790
2023	\$ 27,472
2024	\$ (17,894)
2025	\$ (12,133)

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation
Investment rate of Return	6.25%, net of Plan investment expense, including inflation
Healthcare trend	

Pre – 65: Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.

Post – 65: Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 16 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

Mortality rates were based on the 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.

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. The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2018 was based on an actuarial valuation date of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date (June 30, 2017) to the plan's fiscal year ending June 30, 2018.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

The target allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	17.50%	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
Non US Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	100.00%	6.09%

Discount Rate – The discount rate used to measure the total OPEB liability was 5.85 percent for non-hazardous classifications. 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 25-year 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 3.62%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2018. 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.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 16 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Discount rate	District's proportionate share of net OPEB liability
1% decrease	4.85%	\$ 2,299,215
Current discount rate	5.85%	\$ 1,770,207
1% increase	6.85%	\$ 1,319,589

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate – The following presents the District's proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	District's proportionate share of net OPEB liability
1% decrease	\$ 1,317,937
Current trend rate	\$ 1,770,207
1% increase	\$ 2,303,303

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

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS

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 <https://trs.ky.gov/financial-reports-information>.

The District 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:

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

Medical Insurance Plan

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 (3.00%) 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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs – At June 30, 2019, the District reported a liability of \$3,948,290 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, 2018, 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, 2018, the District's proportion was .113 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	\$ 3,948,290
State's proportionate share of the net OPEB liability associated with the District	<u>3,402,603</u>
Total	<u>\$ 7,350,893</u>

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

For the year ended June 30, 2019, the District recognized OPEB expense of \$187,000 and revenue of \$174,686 for support provided by the State. At June 30, 2019, 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
Differences between expected and actual results	\$ -	\$ 202,234
Changes of assumptions	54,278	-
Net difference between projected and actual earnings on Plan investments	-	16,073
Changes in proportion and differences between District contributions and proportionate share of contributions	-	100,000
District contributions subsequent to the measurement date	<u>201,122</u>	<u>-</u>
Total	<u>\$ 255,400</u>	<u>\$ 318,307</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$201,122 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, 2020. 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,

2020	\$ (51,000)
2021	\$ (51,000)
2022	\$ (51,000)
2023	\$ (44,000)
2024	\$ (45,000)
2025	\$ (22,029)

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 2018 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	0.00% for FY 2018 with an ultimate rate of 5.00% by 2030
Municipal Bond Index Rate	3.89%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

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 demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2017 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation. The health care cost trend rate assumption was updated for the June 30, 2017 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Other Additional Categories	20.0%	3.3%
Cash	<u>1.0%</u>	.9%
Total	100%	

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 was performed in accordance with GASB 74.

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

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 (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's net OPEB liability	\$ 4,630,000	\$ 3,948,290	\$ 3,380,000

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 net OPEB liability	\$ 3,273,951	\$ 3,948,290	\$ 4,780,253

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 Plan

Plan description – Life Insurance Plan – TRS administers the life insurance plan 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 state.

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

At June 30, 2019, 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, 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	\$ -
States proportionate share of the net OPEB liability associated with the District	<u>58,000</u>
Total	<u>\$ 58,000</u>

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

For the year ended June 30, 2019, the District recognized revenue of \$2,027 for support provided by the State.

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	4.000 – 8.10%, including inflation
Inflation rate	3.50%
Real Wage Growth	0.50%
Wage Inflation	4.00%
Municipal Bond Index Rate	3.89%
Discount Rate	7.50%
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. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015.

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Additional Categories	6.0%	3.3%
Cash	<u>2.0%</u>	.9%
Total	100%	

GALLATIN COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2019

NOTE 17 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

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 was performed in accordance with GASB 74.

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

NOTE 18 RESTATEMENT OF NET POSITION

In the previous year the District recorded excess deferred outflows and inflows related to CERS. In addition, the allocation of the net pension liability between the governmental activities and business-type activities did not correspond with each activities respective contributions to CERS. The District also identified capital assets that were previously not recorded on the District's statement of net position. The District is restating beginning net position to account for prior year errors in the recording of the CERS net pension liability and the related CERS deferred outflows/inflows as well as for capital assets as follows:

Governmental Activities

Net position-beginning	\$ 2,353,851
Net pension liability overstatement	677,416
CERS deferred outflows overstatement	(1,543,571)
CERS deferred inflows overstatement	468,798
Unrecorded capital assets	<u>90,929</u>
Net-position-beginning, as restated	<u>\$ 2,047,423</u>

Business-type Activities

<u>Food Service Fund</u>	
Net position-beginning	\$ (166,186)
Net pension liability understatement	(677,416)
CERS deferred outflows understatement	209,109
CERS deferred inflows understatement	(17,203)
Unrecorded capital assets	<u>21,559</u>
Net-position-beginning, as restated	<u>\$ (630,137)</u>

SUPPLEMENTARY INFORMATION

GALLATIN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
for the year ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes	\$ 4,232,156	\$ 4,413,506	\$ 4,549,625	\$ 136,119
Other local sources	110,195	251,429	112,186	(139,243)
State sources	9,193,595	10,323,825	10,297,959	(25,866)
Federal sources	140,068	140,068	137,058	(3,010)
TOTAL REVENUES	<u>13,676,014</u>	<u>15,128,828</u>	<u>15,096,828</u>	<u>(32,000)</u>
EXPENDITURES				
Instruction	7,557,270	8,380,680	8,120,430	260,250
Support services				
Student	727,334	710,687	753,457	(42,770)
Instructional staff	493,689	571,416	552,896	18,520
District administration	714,534	737,557	702,720	34,837
School administration	990,177	1,172,420	1,237,038	(64,618)
Business	638,890	695,290	776,835	(81,545)
Plant operation and maintenance	1,548,253	1,652,267	1,650,014	2,253
Student transportation	1,244,158	1,343,991	1,439,461	(95,470)
Community services activities	-	-	-	-
Contingency	1,454,467	1,487,583	-	1,487,583
Capital outlay (Note 1)	-	139,828	594,605	(454,777)
Debt service	211,255	211,255	228,527	(17,272)
TOTAL EXPENDITURES	<u>15,580,027</u>	<u>17,102,974</u>	<u>16,055,983</u>	<u>1,046,991</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,904,013)</u>	<u>(1,974,146)</u>	<u>(959,155)</u>	<u>(1,014,991)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from capital lease	-	-	541,354	(541,354)
Operating transfers in	219,802	236,088	255,802	(19,714)
Operating transfers out	(30,789)	(31,451)	(29,610)	(1,841)
Proceeds from sale of assets	-	2,500	2,717	(217)
TOTAL OTHER FINANCING SOURCES (USES)	<u>189,013</u>	<u>207,137</u>	<u>770,263</u>	<u>(563,126)</u>
NET CHANGE IN FUND BALANCE	<u>(1,715,000)</u>	<u>(1,767,009)</u>	<u>(188,892)</u>	<u>1,578,117</u>
Fund balances-beginning	<u>1,715,000</u>	<u>1,767,009</u>	<u>1,767,008</u>	<u>(1)</u>
Fund balances-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,578,116</u>	<u>\$ 1,578,116</u>

Note 1: Capital outlay expenditures were budgeted with their respective function.

GALLATIN COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
for the year ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Local sources	\$ -	\$ 59,000	\$ 67,936	\$ 8,936
State sources	690,454	2,859,890	718,218	(2,141,672)
Federal sources	810,680	4,039,619	785,858	(3,253,761)
TOTAL REVENUES	<u>1,501,134</u>	<u>6,958,509</u>	<u>1,572,012</u>	<u>(5,386,497)</u>
EXPENDITURES				
Instruction	1,212,105	5,683,063	1,148,998	4,534,065
Support services				
Student	-	1,758	-	1,758
Instructional staff	17,993	131,263	43,923	87,340
School administration	2,493	11,466	658	10,808
Business	61,578	256,088	84,439	171,649
Plant operation and maintenance	-	-	-	-
Student transportation	48,821	291,049	86,954	204,095
Community services activities	164,250	638,299	166,860	471,439
Capital outlay (Note 1)	-	-	57,290	(57,290)
TOTAL EXPENDITURES	<u>1,507,240</u>	<u>7,012,986</u>	<u>1,589,122</u>	<u>5,423,864</u>
Excess (Deficit) of Revenues Over Expenditures	(6,106)	(54,477)	(17,110)	37,367
OTHER FINANCING SOURCES (USES)				
Operating transfers in	30,789	128,044	29,610	(98,434)
Operating transfers out	(24,683)	(73,567)	(12,500)	61,067
TOTAL OTHER FINANCING SOURCES (USES)	<u>6,106</u>	<u>54,477</u>	<u>17,110</u>	<u>(37,367)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
Fund balances-beginning	-	-	-	-
Fund balances-ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Note 1: Capital outlay expenditures were budgeted with their respective function.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Five Fiscal Years**

	2015	2016	2017	2018	2019
District's proportion of the net pension liability	0.094%	0.091%	0.091%	0.100%	0.100%
District's proportionate share of the net pension liability (asset)	\$ 3,037,000	\$ 3,911,343	\$ 4,499,699	\$ 5,843,474	\$ 6,072,521
District's covered employee payroll	\$ 2,147,844	\$ 2,123,425	\$ 2,178,162	\$ 2,429,605	\$ 2,473,021
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	141.40%	184.20%	206.58%	240.51%	245.55%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	59.97%	55.50%	53.32%	53.54%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net pension liability is one year preceding the fiscal year of the District.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Four Fiscal Years**

	2016	2017	2018	2019
District's proportion of the net pension liability	0.0000%	0.0000%	0.0000%	0.0000%
District's proportionate share of the net pension liability (asset)	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability (asset)	<u>51,287,512</u>	<u>66,727,769</u>	<u>60,302,386</u>	<u>29,151,371</u>
Total	<u>\$ 51,287,512</u>	<u>\$ 66,727,769</u>	<u>\$ 60,302,386</u>	<u>\$ 29,151,371</u>
District's covered employee payroll	\$ 6,843,201	\$ 6,919,897	\$ 7,179,610	\$ 6,965,546
District's share of the net pension liability (asset) as a percentage of its covered employee payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	42.49%	35.22%	39.83%	59.28%

Notes:

Changes of benefit terms – None.

Changes of assumptions – The discount rate used to measure the total net pension liability was increased from 4.49% to 7.50% in the current year.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net pension liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Three Fiscal Years**

	2017	2018	2019
District's proportion of the net OPEB liability	0.091%	0.100%	0.100%
District's proportionate share of the net OPEB liability (asset)	\$ 1,574,203	\$ 2,006,965	\$ 1,770,207
District's covered employee payroll	\$ 2,178,162	\$ 2,429,605	\$ 2,473,021
District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll	72.27%	82.60%	71.58%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	52.39%	57.62%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

The measurement date of the net OPEB liability is one year preceding the fiscal year of the District.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Three Fiscal Years**

	2017	2018	2019
District's proportion of the collective net OPEB liability	0.117%	0.117%	0.114%
District's proportionate share of the collective net OPEB liability (asset)	\$ 4,134,000	\$ 4,175,000	\$ 3,948,290
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>3,376,000</u>	<u>3,410,000</u>	<u>3,402,603</u>
Total	<u>\$ 7,510,000</u>	<u>\$ 7,585,000</u>	<u>\$ 7,350,893</u>
District's covered employee payroll	\$ 7,179,610	\$ 6,965,546	\$ 7,011,316
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered employee payroll	62.36%	62.44%	58.40%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	21.20%	25.50%

Notes:

Changes of benefit terms – 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.

Changes of assumptions – Updated health care trend rates were implemented.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Three Fiscal Years**

	2017	2018	2019
District's proportion of the collective net OPEB liability	0.0000%	0.0000%	0.0000%
District's proportionate share of the collective net OPEB liability (asset)	\$ -	\$ -	\$ -
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>32,000</u>	<u>46,000</u>	<u>58,000</u>
Total	<u>\$ 32,000</u>	<u>\$ 46,000</u>	<u>\$ 58,000</u>
District's covered employee payroll	unavailable	unavailable	\$ 6,484,337
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	unavailable	80.00%	74.97%

Notes:

Changes of benefit terms – None.

Changes of assumptions – None.

The District's covered payroll reported above is payroll for the corresponding measurement date of the net OPEB liability and differs from the District's fiscal year payroll, reported on the Schedule of Contributions.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Five Fiscal Years**

	2015	2016	2017	2018	2019
Contractually required employer contribution	\$ 271,017	\$ 270,527	\$ 339,016	\$ 357,770	\$ 411,025
Contributions relative to contractually required employer contribution	<u>271,017</u>	<u>270,527</u>	<u>339,016</u>	<u>357,770</u>	<u>411,025</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 2,123,425	\$ 2,178,162	\$ 2,429,605	\$ 2,473,021	\$ 2,531,513
Employer contributions as a percentage of covered-employee payroll	12.76%	12.42%	13.95%	14.47%	16.24%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The above contributions only include those contributions allocated directly to the CERS pension fund.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Five Fiscal Years**

	2015	2016	2017	2018	2019
Contractually required employer contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions relative to contractually required employer contribution	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 6,843,201	\$ 6,919,897	\$ 7,179,610	\$ 6,965,546	\$ 6,935,739
Employer contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

The required employer contributions and percent of those contributions actually made are presented in the schedule.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net Pension Liability.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Five Fiscal Years**

	2015	2016	2017	2018	2019
Contractually required employer contribution	\$ 104,580	\$ 101,067	\$ 114,950	\$ 116,127	\$ 133,292
Contributions relative to contractually required employer contribution	<u>104,580</u>	<u>101,067</u>	<u>114,950</u>	<u>116,127</u>	<u>133,292</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 2,123,425	\$ 2,178,162	\$ 2,429,605	\$ 2,473,021	\$ 2,531,513
Employer contributions as a percentage of covered-employee payroll	4.93%	4.64%	4.73%	4.70%	5.27%

Notes:

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or the assumptions used in the current fiscal year.

Contractually required employer contributions exclude the portion of contributions paid to CERS but allocated to the pension fund of the CERS. The above contributions only include those contributions allocated directly to the CERS OPEB fund.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - MEDICAL INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Four Fiscal Years**

	2016	2017	2018	2019
Contractually required employer contribution	\$ 273,986	\$ 256,680	\$ 243,149	\$ 201,122
Contributions relative to contractually required employer contribution	<u>273,986</u>	<u>256,680</u>	<u>243,149</u>	<u>201,122</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 7,179,610	\$ 6,965,546	\$ 7,011,316	\$ 6,719,852
Employer contributions as a percentage of covered-employee payroll	3.82%	3.68%	3.47%	2.99%

Notes:

Changes of benefit terms – 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.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability - medical insurance plan.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - LIFE INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Five Fiscal Years**

	2015	2016	2017	2018	2019
Contractually required employer contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions relative to contractually required employer contribution	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	unavailable	unavailable	unavailable	\$ 6,484,337	\$ 6,935,739
Employer contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

Notes:

Changes of benefit terms – None.

The District's covered payroll reported above is payroll for the District's corresponding fiscal year and differs from the covered payroll reported on the Schedule of Proportionate Share of the Net OPEB Liability - life insurance plan.

The above schedule will present 10 years of historical data, once available.

**GALLATIN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2019**

	Capital Outlay Fund	Building Fund	Construction Fund	District Activity Fund	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ 1,503	11,146	17,283	\$ 29,932
Accounts receivable	-	-	-	30	30
	<u>-</u>	<u>-</u>	<u>-</u>	<u>30</u>	<u>30</u>
Total assets	<u>\$ -</u>	<u>\$ 1,503</u>	<u>\$ 11,146</u>	<u>\$ 17,313</u>	<u>\$ 29,962</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 54,529	\$ -	\$ 54,529
	<u>-</u>	<u>-</u>	<u>54,529</u>	<u>-</u>	<u>54,529</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>54,529</u>	<u>-</u>	<u>54,529</u>
FUND BALANCE					
Restricted					
Other	-	1,503	-	17,313	18,816
Unassigned	-	-	(43,383)	-	(43,383)
	<u>-</u>	<u>-</u>	<u>(43,383)</u>	<u>-</u>	<u>(43,383)</u>
Total fund balance	<u>-</u>	<u>1,503</u>	<u>(43,383)</u>	<u>17,313</u>	<u>(24,567)</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 1,503</u>	<u>\$ 11,146</u>	<u>\$ 17,313</u>	<u>\$ 29,962</u>

**GALLATIN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BLANACES
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2019**

	Capital Outlay Fund	Building Fund	Construction Fund	District Activity Fund	Total
REVENUES					
Taxes	\$ -	\$ 941,445	\$ -	\$ -	\$ 941,445
Earnings on investments	-	-	2,275	-	2,275
Other local sources	-	-	-	7,992	7,992
Intergovernmental-State	<u>141,000</u>	<u>822,462</u>	<u>-</u>	<u>-</u>	<u>963,462</u>
Total revenues	<u>141,000</u>	<u>1,763,907</u>	<u>2,275</u>	<u>7,992</u>	<u>1,915,174</u>
EXPENDITURES					
Instruction	-	-	-	226	226
Instructional staff support services	-	-	-	6,385	6,385
Student support services	-	-	-	2,880	2,880
Plant operation and maintenance	-	-	11,372	-	11,372
Capital outlay	-	-	163,582	-	163,582
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>174,954</u>	<u>9,491</u>	<u>184,445</u>
Excess (deficit) revenues over expenditures	<u>141,000</u>	<u>1,763,907</u>	<u>(172,679)</u>	<u>(1,499)</u>	<u>1,730,729</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	-	-
Operating transfers out	<u>(141,000)</u>	<u>(1,762,404)</u>	<u>-</u>	<u>-</u>	<u>(1,903,404)</u>
Total other financing sources (uses)	<u>(141,000)</u>	<u>(1,762,404)</u>	<u>-</u>	<u>-</u>	<u>(1,903,404)</u>
Excess (deficit) revenues and other financing sources over expenditures and other financing uses	-	1,503	(172,679)	(1,499)	(172,675)
Fund balances-beginning	<u>-</u>	<u>-</u>	<u>129,296</u>	<u>18,812</u>	<u>148,108</u>
Fund balances-ending	<u>\$ -</u>	<u>\$ 1,503</u>	<u>\$ (43,383)</u>	<u>\$ 17,313</u>	<u>\$ (24,567)</u>

GALLATIN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
SCHOOL ACTIVITY FUNDS
for the year ended June 30, 2019

	Gallatin County High School	Gallatin County Middle School	Gallatin County Upper Elementary	Gallatin County Lower Elementary	Total
ASSETS					
Cash and equivalents	<u>\$ 91,761</u>	<u>\$ 14,165</u>	<u>\$ 8,833</u>	<u>\$ 11,288</u>	<u>\$ 126,047</u>
Total assets	<u>\$ 91,761</u>	<u>\$ 14,165</u>	<u>\$ 8,833</u>	<u>\$ 11,288</u>	<u>\$ 126,047</u>
LIABILITIES					
Due to student groups	<u>\$ 91,761</u>	<u>\$ 14,165</u>	<u>\$ 8,833</u>	<u>\$ 11,288</u>	<u>\$ 126,047</u>
Total liabilities	<u>\$ 91,761</u>	<u>\$ 14,165</u>	<u>\$ 8,833</u>	<u>\$ 11,288</u>	<u>\$ 126,047</u>

GALLATIN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
SCHOOL ACTIVITY FUNDS
for the year ended June 30, 2019

	Cash Balances			Cash Balances	Accounts	Accounts	Fund Balances
	July 01, 2018	Receipts	Disbursements	June 30, 2019	Receivable	Payable	June 30, 2019
					June 30, 2019	June 30, 2019	June 30, 2019
Gallatin County High School	\$ 64,961	\$ 210,371	\$ (183,571)	\$ 91,761	\$ -	\$ -	\$ 91,761
Gallatin County Middle School	4,062	22,548	(12,445)	14,165	-	-	14,165
Gallatin County Upper Elementary	10,354	4,801	(6,322)	8,833	-	-	8,833
Gallatin County Lower Elementary	<u>5,446</u>	<u>15,927</u>	<u>(10,085)</u>	<u>11,288</u>	<u>-</u>	<u>-</u>	<u>11,288</u>
TOTAL ACTIVITY FUNDS	<u>\$ 84,823</u>	<u>\$ 253,647</u>	<u>\$ (212,423)</u>	<u>\$ 126,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 126,047</u>

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
GALLATIN COUNTY HIGH SCHOOL
for the year ended June 30, 2019

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Year End	Accounts Receivable Year End	Accounts Payable Year End	Fund Balances Year End
Academic team	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Art club	170	60	(182)	-	48	-	-	48
Athletic speedway	2,226	-	(11,682)	11,184	1,728	-	-	1,728
Athletics	4,172	22,646	(16,836)	(2,015)	7,967	-	-	7,967
Band	164	10,683	(8,927)	-	1,920	-	-	1,920
Baseball fundraiser	1,039	2,403	(2,420)	-	1,022	-	-	1,022
Beta club	370	692	(230)	-	832	-	-	832
Boys baseball	1,081	2,962	(3,022)	-	1,021	-	-	1,021
Boys basketball	5,212	14,494	(9,564)	(195)	9,947	-	-	9,947
Boys basketball fundraiser	289	15,522	(8,284)	-	7,527	-	-	7,527
Boys golf	1	-	(274)	275	2	-	-	2
Boys middle basketball	1,137	2,002	(840)	-	2,299	-	-	2,299
Boys MS football	610	842	(875)	-	577	-	-	577
Boys soccer	-	979	(1,499)	535	15	-	-	15
Boys tennis	-	-	(192)	195	3	-	-	3
Boys track and field	1	730	(360)	-	371	-	-	371
Bus garage	186	257	-	-	443	-	-	443
Central office	556	1,035	(700)	-	891	-	-	891
Cheerleaders	5,377	10,315	(9,414)	-	6,278	-	-	6,278
Coaches	193	12,189	(702)	(11,184)	496	-	-	496
Drama club	1,293	317	(531)	-	1,079	-	-	1,079
Subtotal	<u>\$ 24,077</u>	<u>\$ 98,128</u>	<u>\$ (76,534)</u>	<u>\$ (1,205)</u>	<u>\$ 44,466</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,466</u>

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
GALLATIN COUNTY HIGH SCHOOL
for the year ended June 30, 2019

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Year End	Accounts Receivable Year End	Accounts Payable Year End	Fund Balances Year End
FLBA	\$ -	\$ 12,277	\$ (10,488)	\$ (707)	\$ 1,082	\$ -	\$ -	\$ 1,082
FFA	4,929	8,086	(7,410)	-	5,605	-	-	5,605
Fishing	17	-	-	-	17	-	-	17
FMD class	459	-	(153)	(68)	238	-	-	238
Football	4,235	7,043	(10,764)	-	514	-	-	514
Freshman mentors	420	1,095	(450)	-	1,065	-	-	1,065
Future educators	37	4,138	(3,770)	-	405	-	-	405
GC high school	2,459	4,570	(4,084)	-	2,945	-	-	2,945
Gifts for education	805	-	-	-	805	-	-	805
Girls basketball	3,375	9,185	(7,586)	(875)	4,099	-	-	4,099
Girls basketball fundraiser	334	5,272	(6,476)	875	5	-	-	5
Girls golf	-	600	(715)	125	10	-	-	10
Girls MS basketball	1,230	1,376	(840)	-	1,766	-	-	1,766
Girls MS volleyball	1,210	1,624	(1,025)	-	1,809	-	-	1,809
Girls soccer	3	902	(1,629)	725	1	-	-	1
Girls soccer fundraiser	-	93	-	-	93	-	-	93
Girls softball	1,350	1,618	(3,471)	505	2	-	-	2
Girls tennis	2	-	-	-	2	-	-	2
Girls tennis fundraiser	206	-	(192)	-	14	-	-	14
Girls volleyball	224	1,792	(1,640)	-	376	-	-	376
High school football fundraiser	1,909	3,079	(3,260)	-	1,728	-	-	1,728
High school general	-	3,253	(1,365)	480	2,368	-	-	2,368
Subtotal	<u>\$ 23,204</u>	<u>\$ 66,003</u>	<u>\$ (65,318)</u>	<u>\$ 1,060</u>	<u>\$ 24,949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,949</u>

GALLATIN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
GALLATIN COUNTY HIGH SCHOOL
for the year ended June 30, 2019

	Cash Balances Beginning	Receipts	Disbursements	Transfers	Cash Balances Year End	Accounts Receivable Year End	Accounts Payable Year End	Fund Balances Year End
High school teachers	\$ 66	\$ 700	\$ (659)	\$ 227	\$ 334	\$ -	\$ -	\$ 334
High school trip	-	-	-	-	-	-	-	-
HS volleyball fundraiser	299	-	-	-	299	-	-	299
Interest account	2,696	2,738	(820)	-	4,614	-	-	4,614
Junior class	1,216	7,787	(8,038)	-	965	-	-	965
Junior leage	1,686	1,200	(1,363)	-	1,523	-	-	1,523
MS football fundraiser	205	60	-	-	265	-	-	265
Principals scholarship fundraiser	-	5,815	(156)	-	5,659	-	-	5,659
Seniors	2,548	9,508	(8,625)	-	3,431	-	-	3,431
Sophomore class	1,469	630	(800)	-	1,299	-	-	1,299
Special olympics	-	1,145	(1,213)	68	-	-	-	-
Spirit club	-	-	-	-	-	-	-	-
Tournaments	-	3,575	(3,184)	(300)	91	-	-	91
Track	29	-	(175)	150	4	-	-	4
Vo Ag	4,578	449	(2,324)	-	2,703	-	-	2,703
Wildcat Emporium	2,482	6,609	(8,090)	-	1,001	-	-	1,001
Winter Guard	324	-	(324)	-	-	-	-	-
Yearbook	82	6,024	(5,948)	-	158	-	-	158
Totals	<u>\$ 64,961</u>	<u>\$ 210,371</u>	<u>\$ (183,571)</u>	<u>\$ -</u>	<u>\$ 91,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,761</u>



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

To the State Committee for School District Audits and
Members of the Board of Education
Gallatin County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Gallatin County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Gallatin County School District's basic financial statements, and have issued our report thereon dated November 13, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Gallatin County School District, in a separate letter dated November 13, 2019.

Purpose of this Report

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

RFH

RFH, PLLC
Lexington, Kentucky
November 13, 2019



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

To the State Committee for School District Audits and
Members of the Board of Education
Gallatin County School District

Report on Compliance for Each Major Federal Program

We have audited the Gallatin County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Gallatin County School District's major federal programs for the year ended June 30, 2019. Gallatin County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Gallatin County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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.

RFH

RFH, PLLC
Lexington, Kentucky
November 13, 2019

**GALLATIN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2019**

GRANTOR/PROGRAM TITLE	Federal CFDA Number	Pass Through Grantor's Number	Expenditures
U.S. Department of Agriculture (USDA)			
Passed through Kentucky Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002	\$ 697,808
National School Breakfast Program	10.553	7760005	332,984
Passed through Kentucky Department of Agriculture			
Commodities (Note 2)	10.555	Note 6	<u>65,796</u>
Total Child Nutrition Cluster			<u>1,096,588</u>
Passed through Kentucky Department of Education			
		7790021/ 7800016/ 7840027	
Child and Adult Care Food Program	10.558		<u>38,151</u>
Child Nutrition Discretionary Grants	10.579	7840027	<u>18,120</u>
Total U.S. Department of Agriculture			<u>\$ 1,152,859</u>
U.S. Department of Education			
Passed through Kentucky Department of Education			
Title I, Part A Cluster	84.010	3100002	<u>\$ 276,470</u>
Special Education Cluster (IDEA)			
Special Education - Grants to States (IDEA, Part B)	84.027	3810002	302,851
Special Education - Preschool Grants (IDEA, Preschool)	84.173	3800002	<u>11,344</u>
Total Special Education Cluster (IDEA)			<u>314,195</u>
		3710002/ 3710006	
Career and Technical Education - Basic Grants to States	84.048		<u>6,162</u>
School Safety National Activities	84.184	Note 6	<u>67,151</u>
Rural Education	84.358B	3140002	<u>29,350</u>
Title III: Limited English Proficiency	84.365	S365A150017	<u>25,882</u>
Student Support and Academic Enrichment Grant	84.424	3420002	<u>24,620</u>
Improving Teacher Quality State Grants	84.367	3230002	<u>42,028</u>
Total U.S. Department of Education			<u>\$ 785,858</u>
Total expenditures of federal awards			<u>\$ 1,938,717</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Gallatin County School District and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used, in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - Nonmonetary assistance is reported in the schedule at the fair market value of the commodities disbursed.

Note 3 - The District did not pass through any funds to subrecipients.

Note 4 - Indirect Cost Rates

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Note 5 - Passthrough entity numbers are presented when available.

Note 6 - Passthrough grantor's number not available.

**GALLATIN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2019**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ None reported

Non-compliance material to financial statements noted ☐ Yes ☒ No

Federal Awards:

Internal control over major programs:

Material weaknesses identified ☐ Yes ☒ No

Significant deficiencies identified that are not
considered to be material weaknesses ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

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

Major Programs:

CFDA Number

84.027 & 84.173

84.010

Name of Federal Program or Cluster

Special Education Cluster (IDEA)

Title I, Part A Cluster

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

\$ 750,000

Auditee qualified as a low-risk auditee? ☒ Yes ☐ No

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

NONE

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

NONE

IV. PRIOR AUDIT FINDINGS

NONE



Members American Institute of Certified Public Accountants
and Kentucky Society of Certified Public Accountants

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

In planning and performing our audit of the financial statements of the Gallatin County School District for the year ended June 30, 2019, 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 13, 2019 on the financial statements of the Gallatin County Board of Education. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A stylized, handwritten-style signature of the letters "RFH" in black ink.

RFH, PLLC
November 13, 2019

**Gallatin County School District
Management Letter Comments
June 30, 2019**

DISTRICT

Current Year Comments

None.

Status of Prior Year Comments

There were no management letter comments at the District level in the prior year.

**Gallatin County School District
Management Letter Comments
June 30, 2019**

SCHOOL ACTIVITY FUNDS

GALLATIN COUNTY HIGH SCHOOL

2019-01: Purchase Orders

Condition:

During testing, multiple instances of a purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that purchases made without prior approval will be subject to non-payment by the district.

2019-02: Deposits

Condition:

All monies collected shall be deposited on a daily basis when over \$100. During testing, multiple instances of receipts not being deposited on the date of collection, or the following business day were noted.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that continuing this practice can result in an employee reprimand.

2019-03: Ticket Sales

Condition:

Two people are required to work the gate for ticket sales, the ticket seller and the ticket taker. The number of tickets collected is to be reconciled with the number of tickets sold on requisition and Report of Ticket Sales (Form F-SA-1). The amount of cash collected and the total sales amount is compared to the amount to be deposited. Testing disclosed instances where this process was not followed.

Response: Administrators and Athletic Directors will be trained on the preparation of Ticket Sales documentation and will be checked on intervals for compliance.

Status of Prior Year Comments

There were no reportable findings in the prior year.

**Gallatin County School District
Management Letter Comments
June 30, 2019**

GALLATIN MIDDLE SCHOOL

2019-01: Purchase Orders

Condition:

During testing, multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that purchases made without prior approval will be subject to non-payment by the district.

2019-02: Invoices

Condition:

The local board shall approve all school-wide fundraisers, including the proposed use of Funds. The Fundraiser Approval (Form F-SA-2A) shall be completed before the fundraiser begins. During testing we noted one instance where this process was not followed.

Response: It is Board policy that all school-wide fundraisers have to be Board-approved. This will be reiterated to school employees as well as the seriousness of non-compliance with Board policy.

2019-03: Ticket Sales

Condition:

Two people are required to work the gate for ticket sales, the ticket seller and the ticket taker. The number of tickets collected is to be reconciled with the number of tickets sold on requisition and Report of Ticket Sales (Form F-SA-1). The amount of cash collected and the total sales amount is compared to the amount to be deposited. Testing disclosed instances where this process was not followed.

Response: Administrators and Athletic Directors will be trained on the preparation of Ticket Sales documentation and will be checked on intervals for compliance.

2019-04: Deposits

Condition:

All monies collected shall be deposited on a daily basis when over \$100. During testing multiple instances of receipts not being deposited on the date of collection, or the following business day were noted.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that continuing this practice can result in an employee reprimand.

Status of Prior Year Comments

There were no reportable findings in the prior year.

**Gallatin County School District
Management Letter Comments
June 30, 2019**

GALLATIN LOWER ELEMENTARY SCHOOL

2019-01: Purchase Orders

Condition:

During testing, multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that purchases made without prior approval will be subject to non-payment by the district

2019-02: Deposits

Condition:

All monies collected shall be deposited on a daily basis when over \$100. During testing multiple instances of receipts not being deposited on the date of collection, or the following business day were noted.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that continuing this practice can result in an employee reprimand.

Status of Prior Year Comments

There were no reportable findings in the prior year.

GALLATIN UPPER ELEMENTARY SCHOOL

2019-01: Operating Expenditures

Condition:

Operating costs should not be made out of school activity funds. Testing disclosed four instances of payments made for operational costs.

Response: This will be reinforced in Redbook training and clarification will be made to school employees regarding what costs are operational and what type of expenditures should be the district's responsibility.

2019-02: Deposits

Condition:

All monies collected shall be deposited on a daily basis when over \$100. During testing multiple instances of receipts not being deposited on the date of collection, or the following business day were noted.

Response: The district will continue training in Activity Fund purchasing compliance and will inform employees that continuing this practice can result in an employee reprimand.

Status of Prior Year Comments

There were no reportable findings in the prior year.