

BATH COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 Bath County School District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity 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 information on pages 6 through 9 and the Schedule of District's Proportionate Share of the Net Pension Liability and Schedule of Pension Contributions on pages 42 through 45 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 Bath County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining

and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016, on our consideration of Bath County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Galloway Smith Doolsey, PSC

Ashland, Kentucky
October 20, 2016

**BATH COUNTY SCHOOL DISTRICT
OWINGSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2016**

As management of the Bath County School District (the "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, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District, excluding agency funds, was approximately \$5,248,861 and the ending balance was approximately \$5,423,966, an increase of approximately \$175,105 for the year primarily due to construction funds carried over from the prior year.
- The General Fund had \$15,937,564 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there were \$16,360,436 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$1,094,081 during the current fiscal year.
- Net pension liabilities required to be recorded under GASB No. 68 increased during the year. Non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system, the District's share of the pension liability was \$4,804,458 as of June 30, 2015, which represents an increase of \$1,379,458 from the June 30, 2014 balance of \$3,425,000. The Kentucky Teachers Retirement System covers the District's professional staff members. The District's allocated pension liability as of June 30, 2015 was \$62,972,694, which represents an increase of \$7,661,013 from the June 30, 2014 balance of \$55,311,681. However, this pension liability is the responsibility of the Commonwealth of Kentucky.

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 (government 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 are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 of this report.

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

The basic fund financial statements can be found on pages 12 through 22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 - 41 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by approximately \$9.8 million as of June 30, 2016.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that 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.

Net Position for the period ending June 30, 2016 and 2015

	2016	2015
Current Assets	\$ 5,985,651	\$ 6,113,222
Noncurrent Assets	27,340,971	27,830,986
Total Assets	<u>33,326,622</u>	<u>33,944,208</u>
Deferred Outflows	1,319,584	762,036
Current Liabilities	2,870,045	3,045,995
Noncurrent Liabilities	21,987,684	21,776,078
Total Liabilities	<u>24,857,729</u>	<u>24,822,073</u>
Deferred Inflows	-	382,000
Net Position -		
Net investment in capital assets	9,284,728	8,739,375

Restricted	940,584	370,307
Unrestricted	(436,835)	392,489
Total Net Position	<u>\$ 9,788,477</u>	<u>\$ 9,502,171</u>

Comments on Budget Comparisons

- The District's total governmental funds revenues for the fiscal year ended June 30, 2016, net of interfund transfers and bond proceeds were \$20,649,737, compared with \$19,904,870 in 2015. This increase is primarily a result of an increase in grant funding in the current year.
- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$1.6 million less than budget or approximately 11%.
- The total cost of all programs and services for governmental funds was \$20,847,592, compared with \$22,726,856 in 2015. The decrease is primarily a result of a decrease in spending on construction projects.

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2016, with comparison to 2015.

	<u>2016</u>	<u>2015</u>
Revenues:		
Local Revenue Sources	\$ 3,613,538	\$ 3,256,679
State and Federal Revenue Sources	<u>21,149,073</u>	<u>19,888,138</u>
Total Revenues	<u>24,762,611</u>	<u>23,144,817</u>
Expenses:		
Instruction	13,920,402	12,591,869
Student Support Services	1,398,415	1,327,594
Instructional Support	608,688	579,668
District Administration	1,095,519	1,019,930
School Administration	1,131,431	1,038,454
Business and Other Support Services	420,223	380,398
Plant Operations	1,869,613	1,705,342
Student Transportation	1,307,171	1,472,302
Food Service Operations	1,645,314	1,405,704
Child Care Services	151,805	151,790
Community Services	346,821	362,259
Debt service	<u>580,903</u>	<u>522,808</u>
Total Expenses	<u>24,476,305</u>	<u>22,558,118</u>
Revenues Over (Under) Expenses	<u>\$ 286,306</u>	<u>\$ 586,699</u>

Governmental Funds Revenue

The majority of revenue was derived from state funding making up 76% and federal funding of 9% of total revenue. Local revenues make up 15% of total revenue (14% in 2015).

District-Wide Support Allocation

District-wide support services expenses were Transportation 6%, Maintenance & Operations 9%, and Business Functions 2%.

Capital Assets

At the end of June 30, 2016, the District's investment in capital assets for its governmental and business-type activities was \$27,340,971, representing a decrease of \$490,015, net of depreciation, from the prior year. Renovations at Owingsville Elementary were completed during the fiscal year ended June 30, 2016.

Debt Service

At year-end, the District had approximately \$18.4 million in outstanding debt, compared to \$19.5 million last year. The District continues to maintain favorable debt ratings from Moody's and Standard & Poor's.

Budgetary Implications

In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with approximately \$431,946 in contingency (2.54%). The general fund cash balance for beginning the next fiscal year is \$3,869,030.

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local levels and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent year budgets.

Questions regarding this report should be directed to the Superintendent or to the Finance Officer at (606) 674-6314.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 4,654,412	\$ 769,554	\$ 5,423,966
Receivables (net of allowances for uncollectibles):			
Taxes	175,044	-	175,044
Other	14,993	6,532	21,525
Intergovernmental	327,187	33,370	360,557
Inventories	-	4,559	4,559
Capital assets, not being depreciated	543,637	-	543,637
Capital assets, being depreciated, net	26,370,428	426,906	26,797,334
Total assets	<u>32,085,701</u>	<u>1,240,921</u>	<u>33,326,622</u>
Deferred Outflows of Resources			
Deferred savings from refunding bonds	252,598	-	252,598
Deferred outflows - pension related	886,570	180,416	1,066,986
Total deferred outflows of resources	<u>1,139,168</u>	<u>180,416</u>	<u>1,319,584</u>
Liabilities			
Accounts payable	314,996	11,133	326,129
Deferred revenue	366,130	-	366,130
Accrued salaries and benefits	686,297	-	686,297
Portion due or payable within one year:			
Debt obligations	1,364,387	-	1,364,387
KSBIT payable	15,982	-	15,982
Interest payable	111,120	-	111,120
Noncurrent liabilities:			
Net pension liability	4,111,272	693,186	4,804,458
Portion due or payable after one year:			
Debt obligations	16,944,454	-	16,944,454
KSBIT payable	63,929	-	63,929
Accrued sick leave	174,843	-	174,843
Total liabilities	<u>24,153,410</u>	<u>704,319</u>	<u>24,857,729</u>
Net Position			
Net investment in capital assets	8,857,822	426,906	9,284,728
Restricted for:			
Capital projects	650,472	-	650,472
Other purposes	-	290,112	290,112
Unrestricted	(436,835)	-	(436,835)
Total net position	<u>\$ 9,071,459</u>	<u>\$ 717,018</u>	<u>\$ 9,788,477</u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

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	\$ 13,920,402	\$ 1,950	\$ 3,772,128	\$ -	\$ (10,146,324)	\$ -	\$ (10,146,324)
Support services:							
Students	1,398,415	292,239	118,400	-	(987,776)	-	(987,776)
Instructional staff	608,688	-	411,340	-	(197,348)	-	(197,348)
District administration	1,095,519	-	6,961	-	(1,088,558)	-	(1,088,558)
School administration	1,131,431	-	1,345	-	(1,130,086)	-	(1,130,086)
Business and other support services	420,223	-	-	-	(420,223)	-	(420,223)
Operation and maintenance of plant	1,869,613	-	27,418	-	(1,842,195)	-	(1,842,195)
Student transportation	1,307,171	-	55,014	-	(1,252,157)	-	(1,252,157)
Community services	346,821	-	303,818	-	(43,003)	-	(43,003)
Debt service	580,903	-	-	1,546,312	965,409	-	965,409
Total governmental activities	<u>22,679,186</u>	<u>294,189</u>	<u>4,696,424</u>	<u>1,546,312</u>	<u>(16,142,261)</u>	<u>-</u>	<u>(16,142,261)</u>
Business-type activities:							
Food service	1,645,314	74,112	1,620,160	-	-	48,958	48,958
Child Care	151,805	108,832	37,829	-	-	(5,144)	(5,144)
Total business-type activities	<u>1,797,119</u>	<u>182,944</u>	<u>1,657,989</u>	<u>-</u>	<u>-</u>	<u>43,814</u>	<u>43,814</u>
Total primary government	<u>\$ 24,476,305</u>	<u>\$ 477,133</u>	<u>\$ 6,354,413</u>	<u>\$ 1,546,312</u>	<u>\$ (16,142,261)</u>	<u>\$ 43,814</u>	<u>\$ (16,098,447)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 1,899,158	\$ -	\$ 1,899,158
Motor vehicle					308,205	-	308,205
Utilities					635,501	-	635,501
Intergovernmental revenues:							
State					13,248,348	-	13,248,348
Investment earnings					145,302	297	145,599
Gain on sale of assets					43,401	-	43,401
Other local revenues					104,541	-	104,541
Total general revenues and transfers					<u>16,384,456</u>	<u>297</u>	<u>16,384,753</u>
Change in net position					242,195	44,111	286,306
Net position, June 30, 2015					<u>8,829,264</u>	<u>672,907</u>	<u>9,502,171</u>
Net position, June 30, 2016					<u>\$ 9,071,459</u>	<u>\$ 717,018</u>	<u>\$ 9,788,477</u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,869,030	\$ 39,341	\$ 746,041	\$ 4,654,412
Receivables (net of allowances for uncollectibles):				
Property taxes	175,044	-	-	175,044
Other	14,993	-	-	14,993
Intergovernmental - state	398	326,789	-	327,187
Total assets	\$ 4,059,465	\$ 366,130	\$ 746,041	\$ 5,171,636
 Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 314,996	\$ -	\$ -	\$ 314,996
Accrued salaries and benefits	686,297	-	-	686,297
Deferred revenue	-	366,130	-	366,130
Total liabilities	1,001,293	366,130	-	1,367,423
 Fund balances:				
Restricted	-	-	650,472	650,472
Committed	71,796	-	95,569	167,365
Unassigned	2,986,376	-	-	2,986,376
Total fund balances	3,058,172	-	746,041	3,804,213
Total liabilities and fund balances	\$ 4,059,465	\$ 366,130	\$ 746,041	\$ 5,171,636

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Fund balances—total governmental funds		\$ 3,804,213
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		26,914,065
Certain other assets and liabilities are not available to pay current period expenditures and therefore, not reported in the funds as follows:		
Accrued interest payable	(111,120)	
Net pension liability	<u>(4,111,272)</u>	(4,222,392)
Savings from refunding bonds are not available to pay current period expenditures and therefore, not reported in the funds.		252,598
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred differences in pension experience	33,175	
Deferred pension investment earnings	35,786	
Deferred changes in pension assumptions	402,557	
Deferred changes in proportionate share of liability	132,345	
Deferred pension contributions	<u>282,707</u>	886,570
Some liabilities, including bonds payable, KSBIT payable, and accrued sick leave, are not due and payable in the current period and therefore, are not reported in the funds.		<u>(18,563,595)</u>
Net position of governmental activities		<u>\$ 9,071,459</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes -				
Property	\$ 1,460,798	\$ -	\$ 438,360	\$ 1,899,158
Motor vehicles	308,205	-	-	308,205
Utilities	635,501	-	-	635,501
Interest income	3,342	141,960	-	145,302
Other local revenues	35,753	46,352	70,738	152,843
Intergovernmental - State	13,182,902	931,272	1,546,312	15,660,486
Intergovernmental - Indirect federal	18,824	1,492,229	-	1,511,053
Intergovernmental - Direct federal	292,239	-	270	292,509
Total revenues	<u>15,937,564</u>	<u>2,611,813</u>	<u>2,055,680</u>	<u>20,605,057</u>
Expenditures:				
Current:				
Instruction	9,510,797	1,732,490	37,393	11,280,680
Support services:				
Students	1,194,064	118,400	43	1,312,507
Instructional staff	152,651	411,340	12,168	576,159
District administration	1,062,565	6,961	-	1,069,526
School administration	1,099,331	1,345	-	1,100,676
Business and other support services	408,371	-	-	408,371
Operation and maintenance of plant	1,446,114	27,418	-	1,473,532
Student transportation	1,264,912	55,014	14,110	1,334,036
Community services	41,683	303,818	-	345,501
Facilities acquisition and construction	-	-	145,182	145,182
Debt service	179,948	-	1,621,474	1,801,422
Total expenditures	<u>16,360,436</u>	<u>2,656,786</u>	<u>1,830,370</u>	<u>20,847,592</u>
Excess (deficiency) of revenues over expenditures	<u>(422,872)</u>	<u>(44,973)</u>	<u>225,310</u>	<u>(242,535)</u>
Other financing sources (uses):				
Capital lease proceeds	217,171	-	-	217,171
Proceeds from sale of equipment	44,680	-	-	44,680
Transfers in	-	44,973	861,531	906,504
Transfers out	(44,973)	-	(861,531)	(906,504)
Total other financing sources and uses	<u>216,878</u>	<u>44,973</u>	<u>-</u>	<u>261,851</u>
Net change in fund balances	(205,994)	-	225,310	19,316
Fund balances, June 30, 2015	<u>3,264,166</u>	<u>-</u>	<u>520,731</u>	<u>3,784,897</u>
Fund balances, June 30, 2016	<u>\$ 3,058,172</u>	<u>\$ -</u>	<u>\$ 746,041</u>	<u>\$ 3,804,213</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances—total governmental funds \$ 19,316

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	567,147	
Adjustment to gain on disposal of assets	(1,279)	
Depreciation expense	<u>(1,020,118)</u>	(454,250)

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

Long-term portion of accrued sick leave		6,749
Interest payable		(48,003)
Capitalized savings from bond refundings amortization expense		(42,730)
Amortization of bond discounts		(2,095)

Governmental funds report pension contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

KTRS on-behalf revenues	2,272,923	
KTRS on-behalf contributions	(2,272,923)	
CERS contributions	(121,327)	
Pension expense	<u>(211,641)</u>	(332,968)

Bond and capital lease proceeds are recognized as revenues of current financial resources in the fund financial statements, but are increases in liabilities in the statement of net position. (217,171)

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position. 1,313,347

Change in net position of governmental activities \$ 242,195

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016**

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ 761,964	\$ 7,590	\$ 769,554
Receivables (net of allowances for uncollectibles)			
Intergovernmental - federal	33,370	-	33,370
Other	-	6,532	6,532
Inventories	4,559	-	4,559
Total current assets	799,893	14,122	814,015
Noncurrent assets:			
Capital assets, net of accumulated depreciation	426,906	-	426,906
Total noncurrent assets	426,906	-	426,906
Total assets	1,226,799	14,122	1,240,921
Deferred Outflows of Resources			
Deferred outflows - pension related	145,054	35,362	180,416
Total deferred outflows of resources	145,054	35,362	180,416
Total assets and deferred outflows	\$ 1,371,853	\$ 49,484	\$ 1,421,337
Liabilities			
Current liabilities:			
Accounts payable	\$ 11,133	\$ -	\$ 11,133
Total current liabilities	11,133	-	11,133
Noncurrent liabilities:			
Net pension liability	647,467	45,719	693,186
Total liabilities	658,600	45,719	704,319
Net Position			
Net Investment in capital assets	426,906	-	426,906
Restricted	286,347	3,765	290,112
Total net position	713,253	3,765	717,018
Total liabilities, deferred inflows, and net position	\$ 1,371,853	\$ 49,484	\$ 1,421,337

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
Operating revenues:			
Lunchroom sales	\$ 74,112	\$ -	\$ 74,112
Tuition from individuals	-	108,832	108,832
Revenue from local sources	6,001	16,012	22,013
Total operating revenues	<u>80,113</u>	<u>124,844</u>	<u>204,957</u>
Operating expenses:			
Salaries and wages	386,733	86,151	472,884
Employee benefits	244,081	49,278	293,359
Materials and supplies	971,159	14,792	985,951
Depreciation	35,765	-	35,765
Other operating expenses	7,576	1,584	9,160
Total operating expenses	<u>1,645,314</u>	<u>151,805</u>	<u>1,797,119</u>
Operating income (loss)	<u>(1,565,201)</u>	<u>(26,961)</u>	<u>(1,592,162)</u>
Nonoperating revenues:			
Federal grants	1,424,656	5,240	1,429,896
Investment income	297	-	297
Donated commodities	78,313	-	78,313
Revenue from state sources (on-behalf)	97,914	16,577	114,491
State grants	13,276	-	13,276
Total nonoperating revenue	<u>1,614,456</u>	<u>21,817</u>	<u>1,636,273</u>
Increase (decrease) in net position	49,255	(5,144)	44,111
Net position, June 30, 2015	<u>663,998</u>	<u>8,909</u>	<u>672,907</u>
Net position, June 30, 2016	<u>\$ 713,253</u>	<u>\$ 3,765</u>	<u>\$ 717,018</u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Food Service Fund	Other Proprietary Funds	Total Proprietary Funds
	<u> </u>	<u> </u>	<u> </u>
Cash flows from operating activities:			
Cash received from:			
Lunchroom sales	\$ 74,112	\$ -	\$ 74,112
Tuition	-	106,991	106,991
Other revenues	6,001	16,012	22,013
Cash paid to/for:			
Payments to suppliers and providers of goods and services	(885,526)	(15,048)	(900,574)
Payments to employees	(479,045)	(108,495)	(587,540)
Other payments	(7,576)	(1,584)	(9,160)
Net cash provided by (used for) operating activities	<u>(1,292,034)</u>	<u>(2,124)</u>	<u>(1,294,158)</u>
Cash flows from noncapital financing activities:			
Government grants	<u>1,422,359</u>	<u>5,240</u>	<u>1,427,599</u>
Net cash provided by noncapital and related financing activities	<u>1,422,359</u>	<u>5,240</u>	<u>1,427,599</u>
Cash flows from capital and related financing activities:			
Purchases of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:			
Interest received on investments	<u>297</u>	<u>-</u>	<u>297</u>
Net cash provided by investing activities	<u>297</u>	<u>-</u>	<u>297</u>
Net increase (decrease) in cash and cash equivalents	130,622	3,116	133,738
Cash and cash equivalents, June 30, 2015	<u>631,342</u>	<u>4,474</u>	<u>635,816</u>
Cash and cash equivalents, June 30, 2016	<u>\$ 761,964</u>	<u>\$ 7,590</u>	<u>\$ 769,554</u>
Reconciliation of operating loss to net cash used by operating activities:			
Operating income (loss)	\$ (1,565,201)	\$ (26,961)	\$ (1,592,162)
Adjustments to reconcile operating income (loss) to net cash used for operating activities:			
Depreciation	35,765	-	35,765
Donated commodities	78,313	-	78,313
On-behalf revenues	97,914	16,577	114,491
Net pension adjustment	53,855	10,357	64,212
Change in assets and liabilities:			
Inventory	4,196	-	4,196
Accounts receivable	-	(1,841)	(1,841)
Accounts payable	3,124	(256)	2,868
Net cash provided by (used for) operating activities	<u>\$ (1,292,034)</u>	<u>\$ (2,124)</u>	<u>\$ (1,294,158)</u>
Non-cash items:			
Donated commodities	\$ 78,313	\$ -	\$ 78,313
On-behalf payments	97,914	16,577	114,491

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Trust Funds</u>	<u>Activity Funds</u>
Assets		
Cash and cash equivalents	\$ 24,056	\$ 212,684
Accounts receivable	-	-
Total assets	<u>24,056</u>	<u>212,684</u>
Liabilities		
Accounts payable	-	-
Interfund payable	-	-
Due to students	-	212,684
Total liabilities	<u>-</u>	<u>212,684</u>
Net position held in trust	<u><u>\$ 24,056</u></u>	<u><u>\$ -</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Trust Funds</u>
Additions -	
Interest income	\$ -
Other local revenues	70
	<u>70</u>
Deductions -	
Transfer out	-
Benefits paid	1,000
	<u>1,000</u>
Change in net position	(930)
Net position, June 30, 2015	<u>24,986</u>
Net position, June 30, 2016	<u><u>\$ 24,056</u></u>

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 940,000	\$ 1,040,000	\$ 1,460,798	\$ 420,798
Motor vehicles	225,000	225,000	308,205	83,205
Utilities	575,000	575,000	635,501	60,501
Interest income	4,000	4,000	3,342	(658)
Other local revenues	51,500	51,500	35,753	(15,747)
Intergovernmental - State	9,628,000	9,838,866	9,796,630	(42,236)
Intergovernmental - Indirect federal	-	-	18,824	18,824
Intergovernmental - Direct federal	100,000	100,000	292,239	192,239
Total revenues	<u>11,523,500</u>	<u>11,834,366</u>	<u>12,551,292</u>	<u>716,926</u>
Expenditures:				
Current:				
Instruction	7,722,425	7,691,595	7,130,684	560,911
Support services:				
Students	942,588	933,833	941,513	(7,680)
Instructional staff	327,480	327,661	113,356	214,305
District administration	1,401,723	1,228,773	904,623	324,150
School administration	846,293	832,012	836,463	(4,451)
Business and other support services	275,848	274,367	346,136	(71,769)
Operation and maintenance of plant	1,712,806	1,685,839	1,338,528	347,311
Student transportation	1,350,429	1,356,270	1,148,000	208,270
Community services	27,437	27,437	34,913	(7,476)
Debt service	220,000	220,000	179,948	40,052
Contingency	346,971	410,661	-	410,661
Total expenditures	<u>15,174,000</u>	<u>14,988,448</u>	<u>12,974,164</u>	<u>2,014,284</u>
Excess (deficiency) of revenues over expenditures	<u>(3,650,500)</u>	<u>(3,154,082)</u>	<u>(422,872)</u>	<u>2,731,210</u>
Other financing sources (uses):				
Capital lease proceeds	-	-	217,171	217,171
Proceeds from sale of equipment	500	500	44,680	44,180
Transfers in	-	-	-	-
Transfers out	(50,000)	(50,000)	(44,973)	5,027
Total other financing sources and uses	<u>(49,500)</u>	<u>(49,500)</u>	<u>216,878</u>	<u>266,378</u>
Net change in fund balances	(3,700,000)	(3,203,582)	(205,994)	2,997,588
Fund balances, June 30, 2015	<u>3,700,000</u>	<u>3,203,582</u>	<u>3,264,166</u>	<u>60,584</u>
Fund balances, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,058,172</u>	<u>\$ 3,058,172</u>
Adjustments to Generally Accepted Accounting Principles -				
Intergovernmental State Revenue			\$ 3,386,272	
On-behalf payments:				
Instruction			(2,380,113)	
Support services:				
Student support			(252,551)	
Instructional staff support			(39,295)	
District administration			(157,942)	
School administration			(262,868)	
Business and other support services			(62,235)	
Operation and maintenance of plant			(107,586)	
Student transportation			(116,912)	
Community services			(6,770)	
Fund balance, June 30, 2016 (GAAP basis)			<u>\$ 3,058,172</u>	

The accompanying notes to financial statements are an integral part of this statement.

BATH COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest income	\$ 160,001	\$ 160,001	\$ 141,960	\$ (18,041)
Other local revenues	37,576	39,576	46,352	6,776
Intergovernmental - State	855,979	915,321	931,272	15,951
Intergovernmental - Indirect federal	1,530,688	1,522,548	1,492,229	(30,319)
Total revenues	<u>2,584,244</u>	<u>2,637,446</u>	<u>2,611,813</u>	<u>(25,633)</u>
Expenditures:				
Current:				
Instruction	1,765,466	1,807,899	1,732,490	75,409
Support services:				
Students	115,616	116,031	118,400	(2,369)
Instructional staff	384,204	397,045	411,340	(14,295)
District administration	-	-	6,961	(6,961)
School administration	-	-	1,345	(1,345)
Operation and maintenance of plant	39,307	39,307	27,418	11,889
Student transportation	50,394	49,415	55,014	(5,599)
Community services	279,257	277,749	303,818	(26,069)
Total expenditures	<u>2,634,244</u>	<u>2,687,446</u>	<u>2,656,786</u>	<u>30,660</u>
Excess (deficiency) of revenues over expenditures	<u>(50,000)</u>	<u>(50,000)</u>	<u>(44,973)</u>	<u>5,027</u>
Other financing sources (uses):				
Transfers in	50,000	50,000	44,973	(5,027)
Total other financing sources and uses	<u>50,000</u>	<u>50,000</u>	<u>44,973</u>	<u>(5,027)</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

**BATH COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

(1) REPORTING ENTITY

The Bath County Board of Education (the "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 Bath County School District (the "District"). The District receives funding from local, state and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Bath County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization's financial statements may be obtained from the Superintendent or the District's Finance Officer Jo Brewer at 405 West Main Street, Owingsville, Kentucky 40360.

Bath County Board of Education Finance Corporation - On November 29, 1988, the Bath County, Kentucky, Board of Education resolved to authorize the establishment of the Bath County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Bath County Board of Education also comprise the Corporation's Board of Directors.

The financial statements of the following entity are not included in the accompanying financial statements.

C.C. Chenault Memorial Trust

The Trust was created to establish agricultural programs for the District. The District receives a quarterly payment from the trust for its agricultural programs. The District had a carryover balance to FY 2016 of \$51,569 and received \$164,526 in quarterly payments in the current year and spent \$141,892 and had a carryover balance of \$74,203 to FY 2017. The Trust maintains separate accounting records and is not governed or managed by the District.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Bath County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund

financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

The government-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 government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds, including fiduciary funds. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and 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 net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue 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.

1. The Special Revenue Fund 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. This is a major fund of the District.
 2. The District Activity Fund is a special revenue fund used to account for funds collected at individual schools for operation costs of the school or school district that allows for more flexibility in the expenditure of those funds.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

- (D) Debt Service Funds
 The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.
- (B) The Trust Fund is a scholarship fund. The principal and interest earned may be used for scholarships to Bath County High School students.

Basis of Accounting

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

Revenues are recorded from exchange and non-exchange transactions. Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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.

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

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$.448 per \$100 valuation for real property, \$.448 per \$100 valuation for business personal property and \$.464 per \$100 valuation for motor vehicles.

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position. The District has set aside a reserve in the amount of \$71,796 for accumulated sick leave as permitted by KRS.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. See note (14) for these amounts which were not known by the District at the time the budget was adopted.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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, with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the 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, all 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 classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Non-spendable 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 (the "Board"); to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a 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; unassigned amounts are reported only in the General Fund.

When restricted, committed, assigned and unassigned resources are available for use, it is the District's policy to use restricted, committed and assigned resources first, then unassigned resources as they are needed.

Net Position

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

Interfund Activity

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

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Recent Accounting Pronouncements

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and reduces the GAAP hierarchy to two categories of authoritative GAAP. The adoption of this standard did not have a material effect on the District's financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* (“GASB 75”). GASB 75 replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for other postemployment benefits (“OPEB”). In addition, GASB 75 details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. GASB 75 will be effective for the District beginning with its year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 82, *Pension Issues* (“GASB 82”). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 will be effective for the District beginning with its year ending June 30, 2017.

(3) ESTIMATES

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

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District’s agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$5,660,706 and the related bank balances totaled \$6,353,049. Of the total cash balance, \$486,895 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK) Fund, Education Building Fund, Special Revenue (Grant) Funds, Bond and Interest Redemption Fund, School Food Service Funds, and School Activity Funds.

Breakdown per financial statements:

Governmental funds	\$ 4,654,412
Proprietary funds	769,554
Trust and Agency funds	236,740
	<u>\$ 5,660,706</u>

(5) LONG-TERM DEBT

Bonds

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

Issue Date	Proceeds	Rates
2003-K	\$ 955,000	1.10% - 3.15%
2004-K	123,315	1.00% - 3.15%
2006-K	132,173	3.30% - 4.00%
2005	5,665,000	3.00% - 4.25%
2006-K	208,738	3.50% - 3.875%
2008	705,000	3.30% - 4.30%
2008-K	159,075	2.40% - 4.00%
2008	8,975,000	2.30% - 4.00%
2009-K	120,186	2.00% - 3.90%
2012-K	166,886	2.00% - 2.63%
2012R	1,100,000	1.10% - 2.35%
2013R	4,350,000	1.00% - 2.25%
2013	1,495,000	1.30% - 4.10%
2013QZAB	3,000,000	0.00%
2014E	1,955,000	1.10% - 3.40%
2014K	185,786	2.00% - 3.00%
2014 KSBIT	127,858	0.00%
2015 K	212,062	1.00% - 2.625%
2016 K	217,171	2.00% - 2.625%

The District through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Bath County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 2004, 2005, 2008, 2012, 2013, and 2014, 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 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, 2016, for debt service (principal and interest) are as follows:

Year	Kentucky School Facilities Construction Commission		Bath County School District		Total
	Principal	Interest	Principal	Interest	
2017	\$ 501,626	\$ 240,839	\$ 862,761	\$ 223,854	\$ 1,829,080
2018	518,715	227,570	846,495	213,034	1,805,814
2019	527,074	212,890	840,958	200,614	1,781,536
2020	522,050	196,697	851,072	186,310	1,756,129
2021	543,290	179,585	863,539	170,512	1,756,926
2022-2026	2,838,732	612,179	4,459,828	586,305	8,497,044
2027-2032	1,334,426	143,063	1,930,574	205,655	3,613,718
2032-2035	232,808	13,901	672,192	46,057	964,958
	<u>\$ 7,018,721</u>	<u>\$ 1,826,724</u>	<u>\$ 11,327,419</u>	<u>\$ 1,832,341</u>	<u>\$ 22,005,205</u>

KSBIT Payable

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during fiscal year 2013 that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance (“KEMI”). As a result the District’s portion of the liability was estimated at \$127,858. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest. The following is a schedule by year of payments:

<u>Year Ending</u>	
2017	\$ 15,982
2018	15,982
2019	15,982
2020	15,982
2021	15,983
	<u>\$ 79,911</u>

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at June 30, 2016</u>
General obligation bonds - \$27,245,000 originally issued with interest rates ranging from 0.0% to 4.3%	\$ 18,785,000	\$ -	\$ 1,175,000	\$ 17,610,000
Discount on bonds	(39,394)	-	(2,095)	(37,299)
KISTA Loans with interest rates ranging from 1.0% to 4.0%	641,334	217,171	122,365	736,140
KSBIT Liability	95,893	-	15,982	79,911
Accumulated unpaid sick leave benefits	181,592	-	6,749	174,843
	<u>\$ 19,664,425</u>	<u>\$ 217,171</u>	<u>\$ 1,318,001</u>	<u>\$ 18,563,595</u>

(6) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Non-depreciable:				
Land	\$ 518,317	\$ -	\$ -	\$ 518,317
Construction in progress	5,519,428	145,182	5,639,290	25,320
Depreciable:				
Land improvements	1,066,761	-	-	1,066,761
Buildings and improvements	27,636,061	5,639,290	-	33,275,351
Technology equipment	2,081,418	193,520	224,999	2,049,939
General equipment	852,974	3,950	2,058	854,866

Vehicles	3,276,487	224,495	193,749	3,307,233
Totals	<u>40,951,446</u>	<u>6,206,437</u>	<u>6,060,096</u>	<u>41,097,787</u>
Less: accumulated depreciation				
Land improvements	866,944	27,150	-	894,094
Buildings and improvements	8,165,471	550,885	-	8,716,356
Technology equipment	1,557,116	234,299	224,583	1,566,832
General equipment	621,297	37,882	1,195	657,984
Vehicles	2,372,303	169,902	193,749	2,348,456
Total accumulated depreciation	<u>13,583,131</u>	<u>1,020,118</u>	<u>419,527</u>	<u>14,183,722</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 27,368,315</u>	<u>\$ 5,186,319</u>	<u>\$ 5,640,569</u>	<u>\$ 26,914,065</u>
Business-Type Activities				
Buildings and improvements	\$ 308,000	\$ -	\$ -	\$ 308,000
Food service and equipment	559,429	-	-	559,429
Technology equipment	14,492	-	-	14,492
	<u>881,921</u>	<u>-</u>	<u>-</u>	<u>881,921</u>
Less: accumulated depreciation				
Food service equipment	43,633	6,160	-	49,793
Food service and equipment	369,023	27,121	-	396,144
Technology equipment	6,594	2,484	-	9,078
	<u>419,250</u>	<u>35,765</u>	<u>-</u>	<u>455,015</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 462,671</u>	<u>\$ (35,765)</u>	<u>\$ -</u>	<u>\$ 426,906</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 339,867
Student support services	60,766
Instructional staff support services	28,616
District administration	25,270
School administration	4,586
Business support services	5,656
Plant operation & maintenance	385,370
Student transportation	169,341
Community service activities	646
	<u>\$ 1,020,118</u>

(7) COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of June 30, 2016, as follows:

<u>Year ending</u>	
2017	\$ 62,582
2018	15,646
Total minimum rentals	<u>\$ 78,228</u>

(8) RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description: Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS 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). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided: For 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.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service 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. Effective July 1, 2008, the KTRS has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. 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. KTRS 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.

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 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school districts and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. For local school districts and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

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

Funding policy: In order to fund the post-retirement healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2016, the District did not report a liability for its proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net Pension liability	\$ -
Commonwealth's proportionate share of the Net Pension liability associated with the District	<u>62,972,694</u>
	<u>\$ 62,972,694</u>

The net pension liability was measured as of June 30, 2015, 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 Commonwealth as determined by the actuary. At June 30, 2015, the District's proportion was .2706%.

For the year ended June 30, 2016, the District recognized pension expense of \$3,575,286 and revenue of \$3,575,286 for support provided by the State.

Actuarial Methods and Assumptions: The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	4.88%
Municipal Bond Index Rate	3.82%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 4.88%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2038 and a municipal bond index rate of 3.82% was applied to all periods of projected benefit payments after 2038. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 4.88%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.88%) or 1-percentage-point higher (5.88%) than the current rate:

	<u>1% Decrease (3.88%)</u>	<u>Current discount rate (4.88%)</u>	<u>1% Increase (5.88%)</u>
Commonwealth's proportionate share of the Net Pension liability associated with the District	\$ 82,270,000	\$ 62,972,694	\$ 52,721,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report which is publically available at <http://www.ktrs.ky.gov/>.

County Employees Retirement System

Plan description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System ("CERS"). CERS is a cost-sharing, multiple-employer, defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided: Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2016, employers were required to contribute 17.06% (12.42% - pension, 4.64% insurance) of the member's salary. During the year ending June 30, 2016, the District contributed \$340,237 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS - Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years - 0%, 4-9 years - 25%, 10-14 years - 50%, 15-19 years - 75% and 20 or more years - 100%.

As of June 30, 2015, the date of the latest actuarial valuation, the plan had 82,969 active plan participants.

Contribution requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2015 was as follows:

	<u>000's omitted</u>
Total medical benefit obligation	\$ 2,907,827
Net position available for benefits at actuarial value	<u>(1,997,456)</u>
Unfunded medical benefit obligation	<u>\$ 910,371</u>

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2015. An expected total pension liability as of June 30, 2015 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2015. At June 30, 2015, the District's proportion was 0.11174%.

For the year ended June 30, 2016, the District recognized pension expense of \$397,179. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected actual experience	\$ 39,927	\$ -
Changes of assumptions	484,477	-
Net difference between projected and actual earnings on investments	43,068	-
Changes in proportion and differences between District contributions and proportionate share of contributions	159,277	-
District contributions subsequent to the measurement date	340,237	-
	<u>\$ 1,066,986</u>	<u>\$ -</u>

The \$340,237 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

<u>Year</u>	
2017	\$ 257,857
2018	257,857
2019	124,390
2020	86,645
	<u>\$ 726,749</u>

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2015:

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

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

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	(0.25)%
	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return 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 discount rate of 7.50%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current discount rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
District's proportionate share of the net pension liability	\$ 6,130,000	\$ 4,804,458	\$ 3,670,000

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan: At June 30, 2016, there were no payables to CERS.

(9) INSURANCE AND RELATED ACTIVITIES

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

(10) CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements.

The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

(11) 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 participates in the Kentucky Employer's Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The District purchases 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.

(12) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management's opinion that the District is in compliance with the COBRA requirements.

(13) TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Technology Match	\$ 44,973
Operating	Building (FSPK)	Debt Service	Debt Service	861,531

(14) ON-BEHALF PAYMENTS

For the year ended June 30, 2016, total payments of \$4,260,706 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, and KTRS matching and administrative fees, and SFCC debt service. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance. The On-Behalf payments are not budgeted in the Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual.

On-behalf payments at June 30, 2016 consisted of the following:

Teacher Retirement	\$ 1,302,363
Health Insurance	2,095,679
Life Insurance	3,678
Admin Fee	26,908
HRA/Dental/Vision	142,359
Federal Reimbursement	(128,578)
Technology	58,354
Debt Service	759,943
Total on-behalf	<u>\$ 4,260,706</u>

(15) FUND DEFICIT

As of June 30, 2016, the Child Care Fund had a negative net position of \$10,357. This deficit resulted from the recording of the fund's proportionate share of the net pension liability in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

REQUIRED SUPPLEMENTARY INFORMATION

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Reporting Fiscal Year (Measurement Date)</u>	<u>Reporting Fiscal Year (Measurement Date)</u>
	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
District's proportion of the net pension liability	0.112%	0.106%
District's proportionate share of the net pension liability	\$ 4,804,458	\$ 3,425,000
District's covered-employee payroll	\$ 2,641,239	\$ 2,421,900
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	181.902%	141.418%
Plan fiduciary net position as a percentage of the total pension liability	59.970%	66.800%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
District's proportion of the net pension liability	0.271%	0.269%
District's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	62,972,694	55,311,681
Total	<u>\$ 62,972,694</u>	<u>\$ 55,311,681</u>
District's covered-employee payroll	\$ 8,831,710	\$ 8,435,447
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	42.490%	45.590%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:			
Contractually required contribution	\$ 340,237	\$ 336,776	\$ 332,783
Contributions in relation to the contractually required contribution	<u>340,237</u>	<u>336,776</u>	<u>332,783</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$2,739,498	\$2,641,239	\$2,421,900
District's contributions as a percentage of its covered-employee payroll	12.42%	12.75%	13.74%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:			
Contractually required contribution	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	-	-	-
District's covered-employee payroll	\$9,015,981	\$8,831,710	\$8,435,447
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**BATH COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

(1) CHANGES OF ASSUMPTIONS

KTRS

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

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.5%
Salary Increase	4.0% to 8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CERS

The actuarially determined contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. The amortization period of the

unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.00%, average, including inflation
Investment Rate of Return	7.50%, net of pension plan investment expense, including inflation

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

SUPPLEMENTARY INFORMATION

BATH COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2016

	District Activity Fund	SEEK Funds	FSPK Fund	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 95,569	\$ 190,034	\$ 265,977	\$ 194,461	\$ -	\$ 746,041
Accounts receivable	-	-	-	-	-	-
Total assets	<u>\$ 95,569</u>	<u>\$ 190,034</u>	<u>\$ 265,977</u>	<u>\$ 194,461</u>	<u>\$ -</u>	<u>\$ 746,041</u>
LIABILITIES AND FUND BALANCE:						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:						
Restricted	-	190,034	265,977	194,461	-	650,472
Committed	95,569	-	-	-	-	95,569
Total fund balance	<u>95,569</u>	<u>190,034</u>	<u>265,977</u>	<u>194,461</u>	<u>-</u>	<u>746,041</u>
Total liabilities and fund balances	<u>\$ 95,569</u>	<u>\$ 190,034</u>	<u>\$ 265,977</u>	<u>\$ 194,461</u>	<u>\$ -</u>	<u>\$ 746,041</u>

**BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	District Activity Fund	SEEK Funds	FSPK Fund	Construction Fund	Debt Service Funds	Total Non-Major Governmental Funds
REVENUES:						
From local sources -						
Property taxes	\$ -	\$ -	\$ 438,360	\$ -	\$ -	\$ 438,360
Other local revenues	70,738	-	-	-	-	70,738
Intergovernmental - State	-	187,386	598,983	-	759,943	1,546,312
Intergovernmental - Federal	270	-	-	-	-	270
Total revenues	<u>71,008</u>	<u>187,386</u>	<u>1,037,343</u>	<u>-</u>	<u>759,943</u>	<u>2,055,680</u>
EXPENDITURES:						
Current -						
Instruction	37,393	-	-	-	-	37,393
Student support services	43	-	-	-	-	43
Instructional staff support services	12,168	-	-	-	-	12,168
Student transportation	14,110	-	-	-	-	14,110
Facilities acquisition and construction	-	-	-	145,182	-	145,182
Debt service	-	-	-	-	1,621,474	1,621,474
Total expenditures	<u>63,714</u>	<u>-</u>	<u>-</u>	<u>145,182</u>	<u>1,621,474</u>	<u>1,830,370</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>7,294</u>	<u>187,386</u>	<u>1,037,343</u>	<u>(145,182)</u>	<u>(861,531)</u>	<u>225,310</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	-	-	-	861,531	861,531
Operating transfers out	-	-	(861,531)	-	-	(861,531)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(861,531)</u>	<u>-</u>	<u>861,531</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	7,294	187,386	175,812	(145,182)	-	225,310
FUND BALANCE JUNE 30, 2015	<u>88,275</u>	<u>2,648</u>	<u>90,165</u>	<u>339,643</u>	<u>-</u>	<u>520,731</u>
FUND BALANCE JUNE 30, 2016	<u>\$ 95,569</u>	<u>\$ 190,034</u>	<u>\$ 265,977</u>	<u>\$ 194,461</u>	<u>\$ -</u>	<u>\$ 746,041</u>

**BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION
NON-MAJOR PROPRIETARY FUNDS
JUNE 30, 2016**

	Child Care Fund	Preschool Fund	Total Other Proprietary Funds
ASSETS:			
Cash and cash equivalents	\$ (6,532)	\$ 14,122	\$ 7,590
Accounts receivable	6,532	-	6,532
Total assets	\$ -	\$ 14,122	\$ 14,122
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows - pension related	35,362	-	35,362
Total deferred outflows of resources	35,362	-	35,362
Total assets and deferred outflows of resources	\$ 35,362	\$ 14,122	\$ 49,484
LIABILITIES AND NET POSITION:			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Net pension liability	45,719	-	45,719
Total liabilities	45,719	-	45,719
Net Position:			
Assigned	-	-	-
Restricted	(10,357)	14,122	3,765
Total net position	(10,357)	14,122	3,765
Total liabilities and net position	\$ 35,362	\$ 14,122	\$ 49,484

**BATH COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
NON-MAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Child Care Fund	Preschool Funds	Total Other Proprietary Funds
	<u> </u>	<u> </u>	<u> </u>
Operating revenues:			
Tuition from individuals	\$ 96,827	\$ 12,005	\$ 108,832
Revenue from local sources	16,012	-	16,012
Revenue from state sources	-	-	-
Total operating revenues	<u>112,839</u>	<u>12,005</u>	<u>124,844</u>
 Operating expenses:			
Salaries and wages	86,151	-	86,151
Employee benefits	49,278	-	49,278
Materials and supplies	9,311	5,481	14,792
Other operating expenses	273	1,311	1,584
Total operating expenses	<u>145,013</u>	<u>6,792</u>	<u>151,805</u>
 Operating income	<u>(32,174)</u>	<u>5,213</u>	<u>(26,961)</u>
 Nonoperating revenues :			
Federal grants	5,240	-	5,240
On-behalf payments	16,577	-	16,577
Total nonoperating revenue	<u>21,817</u>	<u>-</u>	<u>21,817</u>
 Increase (decrease) in net position	(10,357)	5,213	(5,144)
 Net position, June 30, 2015	<u>-</u>	<u>8,909</u>	<u>8,909</u>
 Net position, June 30, 2016	<u>\$ (10,357)</u>	<u>\$ 14,122</u>	<u>\$ 3,765</u>

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	Cash Balance June 30, 2015	Receipts	Disbursements	Cash Balance June 30, 2016	Accounts Receivable	Accounts Payable	Deposits Held in Custody for Students June 30, 2016
Bath County High School	\$ 134,372	\$ 296,020	\$ 295,225	\$ 135,167	\$ -	\$ -	\$ 135,167
Bath County Middle School	31,878	117,591	113,369	36,100	-	-	36,100
Owingsville Elementary	15,975	51,862	51,448	16,389	-	-	16,389
Crossroads Elementary	21,042	68,982	64,996	25,028	-	-	25,028
	<u>\$ 203,267</u>	<u>\$ 534,455</u>	<u>\$ 525,038</u>	<u>\$ 212,684</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,684</u>

**BATH COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
BATH COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2016**

	Cash Balance June 30, 2015	Receipts	Disburse- ments	Cash Balance June 30, 2016	Accounts Receivable (Accounts Payable)	Deposits Held in Custody for Students June 30, 2016
General	\$ 9,814	\$ 9,822	\$ 12,399	\$ 7,237	\$ -	\$ 7,237
Academic team	10	-	10	-	-	-
Guidance	2,944	1,326	1,369	2,901	-	2,901
Student Government	-	560	440	120	-	120
Talented and gifted	673	-	-	673	-	673
Senior trip	775	69,814	70,243	346	-	346
After Prom	1,026	5,470	5,704	792	-	792
Faculty	1,524	1,869	1,406	1,987	-	1,987
Beta Club	2,149	2,990	2,737	2,402	-	2,402
FBLA	1,719	9,900	8,351	3,268	-	3,268
FCCLA	2,612	7,401	6,849	3,164	-	3,164
FFA	2,511	2,344	1,906	2,949	-	2,949
FEA	136	192	-	328	-	328
TSA	656	-	295	361	-	361
FCA	130	-	-	130	-	130
AG-Mechanics	38	-	38	-	-	-
AG-Science	11,971	175	8,129	4,017	-	4,017
Art	704	1,822	1,965	561	-	561
Band	8	5,926	5,638	296	-	296
Drama	459	-	-	459	-	459
Strategic Gaming	723	620	1,025	318	-	318
Math Field Trip	23	-	23	-	-	-
Hort	27,605	19,393	16,409	30,589	-	30,589
Journalism	6,939	1,110	-	8,049	-	8,049
Spanish	275	190	465	-	-	-
Health/Science	541	540	666	415	-	415
Humanities	248	-	245	3	-	3
Consumer Science	26	611	592	45	-	45
Language Arts	-	1,520	1,436	84	-	84
Athletics	23,916	71,757	77,914	17,759	-	17,759
Baseball	2,594	1,872	1,637	2,829	-	2,829
Boys basketball	31	1,200	459	772	-	772
Cheerleaders	247	1,672	59	1,860	-	1,860
Boys Cross Country	1,569	1,527	1,766	1,330	-	1,330
Football	973	12,995	11,588	2,380	-	2,380
Girls Cross Country	1,549	1,527	1,766	1,310	-	1,310
Girls Basketball	2,688	1,200	3,458	430	-	430
Girls Softball	600	7,712	4,265	4,047	-	4,047
Girls Track	785	5,816	4,801	1,800	-	1,800
Boys Golf	169	500	494	175	-	175
Girls Golf	1,033	500	424	1,109	-	1,109
Boys Soccer	130	500	496	134	-	134
Girls Soccer	358	500	381	477	-	477
Boys Track	-	651	532	119	-	119
Girls Volleyball	1,358	500	960	898	-	898
Junior Class	7,483	14,047	17,091	4,439	-	4,439
Sophomore Class	1,638	5,804	6,015	1,427	-	1,427
Senior Class	7,260	14,640	8,995	12,905	-	12,905
Freshman Class	-	3,354	3,354	-	-	-
Youth Service Center	3,269	3,751	334	6,686	-	6,686
Backpack	483	400	96	787	-	787
	<u>\$ 134,372</u>	<u>\$ 296,020</u>	<u>\$ 295,225</u>	<u>\$ 135,167</u>	<u>\$ -</u>	<u>\$ 135,167</u>

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Passed through to Subrecipients	Expenditures
<u>U.S. Department of Education</u>					
Passed through State Department of Education:					
Title I Grants to Local Educational Agencies	84.010	310002-13	\$ 908,777	\$ -	\$ 3,587
Title I Grants to Local Educational Agencies	84.010	310002-14	881,472	-	291,851
Title I Grants, School Improvement (Part A)	84.010	310002-15	872,706	-	582,397
				-	877,835
Special Education Cluster (IDEA):					
Special Education Grants to States - IDEA, Part B	84.027	3810002-14	425,050	-	50,381
Special Education Grants to States - IDEA, Part B	84.027	3810002-15	431,034	-	370,839
Special Education Preschool Grants	84.173	3800002-15	29,619	-	23,697
				-	444,917
Title VI - Rural & Low Income	84.358	3140002-14	40,841	-	3,286
Title VI - Rural & Low Income	84.358	3140002-15	42,844	-	37,255
				-	40,541
Improving Teacher Quality State Grants	84.367	3230002-14	123,309	-	31,800
Improving Teacher Quality State Grants	84.367	3230002-15	123,759	-	66,564
				-	98,364
Vocational Education Basic Grants to States	84.048	3710002-14	29,722	-	851
Vocational Education Basic Grants to States	84.048	3710002-15	29,722	-	29,722
				-	30,573
Total U.S. Department of Education				-	1,492,230
<u>U.S. Department of Agriculture</u>					
Pass-through State Department of Education:					
Cash Assistance:					
State Administrative Expense	10.560	7700001-15	-	-	2,733
Child and Adult Care Food Program	10.558	7800016-15	-	-	143
Child and Adult Care Food Program	10.558	7800016-16	-	-	159
Child and Adult Care Food Program	10.558	7790021-15	-	-	2,032
Child and Adult Care Food Program	10.558	7790021-16	-	-	2,906
				-	7,973
Child Nutrition Cluster:					
National School Lunch Program	10.555	7750002-15	-	-	209,197 *
National School Lunch Program	10.555	7750002-16	-	-	693,925 *
Summer Food Service Program for Children	10.559	7690024-15	-	-	1,038 *
Summer Food Service Program for Children	10.559	7740023-15	-	-	10,012 *
Summer Food Service Program for Children	10.559	7690024-16	-	-	3,137 *
Summer Food Service Program for Children	10.559	7740023-16	-	-	30,233 *
School Breakfast Program	10.553	7760005-15	-	-	106,610 *
School Breakfast Program	10.553	7760005-16	-	-	367,771 *
Cash Assistance Subtotal				-	1,421,923
Non-Cash Assistance (Food Distribution):					
National School Lunch Program	10.555	011-0100	-	-	78,313 *
Total Child Nutrition Cluster				-	1,500,236
Pass-through Bath County Fiscal Court:					
Schools and Roads Grants to States	10.665	FUND 1-4700	-	-	18,824
Total U.S. Department of Agriculture				-	1,527,033
Total Federal Assistance				\$ -	\$ 3,019,263

* Denotes major program.

The accompanying notes are an integral part of this schedule.

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2016**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Bath County School District under the programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Bath County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State and Local Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, the organization had total inventory of \$4,559.

NOTE D - INDIRECT COST RATES

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



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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Bath County School District (the "District") as of and for the year ended June 30, 2016, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

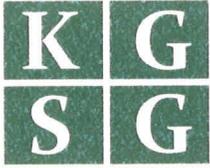
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 District in a separate letter dated October 20, 2016.

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.


Ashland, Kentucky
October 20, 2016



Kelley **G**alloway
Smith **G**oolsby, PSC

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Bath County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. Bath County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Bath 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; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bath 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 Bath County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the 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, 2016.

Report on Internal Control Over Compliance

Management of Bath 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 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 OMB Circular A-133, 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 Bath County School District's internal control over compliance.

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

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

Purpose of this Report

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

Kelley Dalloway Smith Doolby, PSC

Ashland, Kentucky
October 20, 2016

**BATH COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

(A) SUMMARY OF AUDIT RESULTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies) identified? _____ yes x none reported

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

Unmodified

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

Identification of major federal programs:

Child Nutrition Cluster (10.553, 10.555, 10.559)

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

The District qualified as a low risk auditee _____ yes x no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

BATH COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

There were no findings in the prior year.

**BATH COUNTY SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016**

No corrective action plan needed in the current year.

Kentucky State Committee for School District Audits
Members of the Board of Education
Bath County School District
Owingsville, Kentucky

In planning and performing our audit of the financial statements of Bath County School District (the "District") as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated October 20, 2016, on the financial statements of the District.

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

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
October 20, 2016

BATH COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

FOR THE YEAR ENDED JUNE 30, 2016

2016-1 Bath County High School & Bath County Middle School Booster Clubs

Statement of Condition: We noted that booster club semi-annual and Annual Financial Reports were not being submitted to the high school on a timely basis.

Criteria for Condition: Semi-annual and Annual Financial Reports of each of the booster clubs should be prepared and submitted to the school within 30 days of month-end.

Cause of Condition: Oversight.

Effect of the Condition: Semi-annual and Annual Financial Reports of the booster clubs were not available on a timely basis.

Recommendation of the Condition: We recommend that more care be taken to ensure that the semi-annual and Annual Financial Reports are prepared on a timely basis.

Management Response: Board Policy, 04.312, addresses all the requirements for semi-annual and Annual Financial Reports for submission to the schools. The District shall reinforce the guidelines within the policy.

Status of Prior Year Management Points

The prior year conditions have been implemented and corrected, except 2015-1 was repeated as 2016-1 above. The Superintendent is the person responsible for initiation of the optional corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.