

**POWELL COUNTY SCHOOL DISTRICT**

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

YEAR ENDED JUNE 30, 2018

# POWELL COUNTY SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2018

	<u>Page</u>
<b>Independent Auditor's Report</b> .....	1 - 3
<b>Management's Discussion and Analysis</b> .....	4 - 9
<b>Basic Financial Statements:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position .....	10
Statement of Activities .....	11
<b>Fund Financial Statements:</b>	
Balance Sheet – Governmental Funds .....	12
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position .....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
Statement of Net Position – Proprietary Funds.....	16
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds .....	17
Statement of Cash Flows – Proprietary Funds .....	18
Statement of Fiduciary Net Position – Fiduciary Funds.....	19
Statement of Changes in Fiduciary Net Position – Fiduciary Funds.....	20
<b>Notes to the Basic Financial Statements</b> .....	21 - 56
<b>Required Supplementary Information</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual - General Fund.....	57
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – Special Revenue Fund .....	58
Schedules of the District's Proportionate Share of the Net Pension Liability .....	59
Schedules of District Pension Contributions .....	60
Notes to Required Supplementary Information - Pensions .....	61
Schedule of the District's Proportionate Share of the Net TRS OPEB Liability – Medical Insurance Fund.....	62
Schedule of Contributions to TRS Medical Insurance Fund.....	63

# POWELL COUNTY SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2018

Schedule of the District's Proportionate Share of the Net TRS OPEB Liability – Life Insurance Fund.....	64
Schedule of Contributions to TRS Life Insurance Fund.....	65
Schedule of the District's Proportionate Share of the CERS Net OPEB Liability .....	66
Schedules of District CERS OPEB Contributions .....	67
Notes to Required Supplementary Information - OPEB .....	68
<b>Supplementary Information</b>	
<b>Combining Statements – Non-Major Funds</b>	
Combining Balance Sheet – Non-Major Governmental Funds.....	69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds.....	70
Combining Statement of Fiduciary Net Position – Agency Funds .....	71
<b>Schools</b>	
Schedule of Assets, Receipts, Disbursements and Liabilities – All Schools.....	72
Schedule of Assets, Receipts, Disbursements and Liabilities – Powell County High School.....	73 – 74
<b>Schedule of Expenditures of Federal Awards .....</b>	<b>75</b>
<b>Notes to the Schedule of Expenditures of Federal Awards .....</b>	<b>76</b>
<b>Schedule of Findings and Questioned Costs .....</b>	<b>77 – 79</b>
<b>Summary Schedule of Prior Year Audit Findings .....</b>	<b>80</b>
<b>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 <i>Government Auditing Standards</i>.....</b>	<b>81 – 82</b>
<b>Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance .....</b>	<b>83 – 84</b>



STILES, CARTER & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
WWW.SCACPA.COM

CHRIS R. CARTER, CPA  
ANN M. FISHER, CPA  
SCOTT KISSELBAUGH, CPA  
PHILIP A. LOGSDON, CPA  
BRIAN S. WOOSLEY, CPA

AMERICAN INSTITUTE OF CPAS  
KENTUCKY SOCIETY OF CPAS

## INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Powell County School District  
Stanton, 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 Powell County School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

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

## Emphasis of Matter

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

## Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules and OPEB schedules on pages 4 – 9 and 57 – 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

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

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2018, on our consideration of Powell County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Powell County School District's internal control over financial reporting and compliance.

*Stiles, Carter + Associates, CPAs, P.S.C.*

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

Bardstown, Kentucky

November 7, 2018

**POWELL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2018**

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

**FINANCIAL HIGHLIGHTS**

- The ending cash and cash equivalents balance for the District for the year ended June 30, 2018 (FY18) was \$874 thousand, including a construction fund cash balance of \$322 thousand, a building fund cash balance of \$40 thousand, and a capital outlay fund cash balance of \$10 thousand.
- The District's property tax base is derived from residential growth and assessments. Property assessment values grew 9.7%. The District levied FY18 property tax rates of 41.0 cents per \$100 for real estate and tangible property. This rate reflects an decrease of 0.1 cents from the FY17 rate of 41.1 cents. The motor vehicle rate of 50.20 cents per \$100 of assessed value and the 3% utility tax rate remained unchanged from FY17.
- The District ended FY18 with an unassigned fund balance in the general fund of approximately \$853 thousand, reflecting a 61% increase from the previous year. The unassigned fund balance approximates a 90% contingency.
- Bonds are issued as the District constructs and/or renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with the Kentucky Department of Education's stringent compliance regulations. The District's bond debt was reduced \$1.08 million in FY18.
- The District's major construction projects for FY18 included the following projects that were in process at the end of the previous year: (1) Powell Co. Middle School renovations and (2) Powell Co. Middle Energy Project. The projects were substantially completed during fiscal 2018.
- Employees received a 1.0% pay increase in addition to normal step and rank increases.
- During FY18, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This required a restatement and reduction to beginning net position of \$7.3 million. At the end of FY18, the District reported a net post employment benefit obligation (OPEB) of \$5.8 million related to the Teacher's Retirement System OPEB and \$2.6 million related to the County Employees Retirement System.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. The government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. These statements present summaries of Governmental and Business-Type Activities for the District accompanied by a total column.

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

**POWELL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2018**

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are food service and child care operations. All other activities of the district are included in the governmental funds. The basic governmental fund financial statements can be found on pages 12 through 20 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, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by approximately \$4.9 million as of June 30, 2018.

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

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

**POWELL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2018**

**Net Position**

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

**Net Position  
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	(Restated) 2017	2018	(Restated) 2017	2018	(Restated) 2017
Current and other assets	\$ 1,488,730	\$ 2,491,632	\$ 405,929	\$ 482,665	\$ 1,894,659	\$ 2,974,297
Capital assets	24,865,405	24,563,007	84,886	98,033	24,950,291	24,661,040
Total assets	26,354,135	27,054,639	490,815	580,698	26,844,950	27,635,337
Deferred outflows of resources	3,177,006	1,949,246	360,528	153,273	3,537,534	2,102,519
Long-term debt	31,563,741	31,698,709	1,154,403	786,231	32,718,144	32,484,940
Other liabilities	1,529,660	1,861,943	-	-	1,529,660	1,861,943
Total liabilities	33,093,401	33,560,652	1,154,403	786,231	34,247,804	34,346,883
Deferred inflows of resources	976,565	62,977	120,296	301	1,096,861	63,278
Net position:						
Net investment in capital assets	7,110,355	5,036,068	84,886	98,033	7,195,241	5,134,101
Restricted	427,581	1,382,131	-	482,665	427,581	1,864,796
Unrestricted	(12,076,761)	(11,037,943)	(508,242)	(633,259)	(12,585,003)	(11,671,202)
Total net position	\$ (4,538,825)	\$ (4,619,744)	\$ (423,356)	\$ (52,561)	\$ (4,962,181)	\$ (4,672,305)

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

- Capital assets increased approximately \$302 thousand due to current year depreciation of \$1.0 million offset by FY2018 additions of approximately \$1.3 million primarily as a result of construction costs related to the completion of the following: (1) Powell Co. Middle School Renovations, (2) Powell Co. Middle School Energy Project, and (3) bus purchases.
- Total long-term obligations for bonds decreased approximately \$1.1 million as a result of regularly schedules principal payments. The District's proportionate share of CERS reported net pension liability increased approximately \$854 thousand during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the CERS net pension liability was \$7.5 million (as actuarially determined by CERS). The District's proportionate share of CERS reported net OPEB liability increased approximately \$559 thousand during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the CERS net OPEB liability was \$2.6 million (as actuarially determined by CERS). The District's proportionate share of TRS reported net OPEB liability decreased approximately \$57 thousand during fiscal year 2018. As of June 30, 2018, the District's proportionate share of the TRS net OPEB liability was \$5.8 million (as actuarially determined by TRS).

**POWELL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2018**

**Change in Net Position**

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>REVENUES</b>						
<b>Program Revenues</b>						
Charges for services	\$ 15,860	\$ -	\$ 96,053	\$ 102,868	\$ 111,913	\$ 102,868
Operating grants and contributions	8,931,972	9,873,130	1,662,261	1,663,054	10,594,233	11,536,184
Capital grants and contributions	519,722	435,062	-	-	519,722	435,062
<b>General Revenues</b>						
Property taxes	1,901,123	2,007,401	-	-	1,901,123	2,007,401
Motor vehicle taxes	405,704	401,600	-	-	405,704	401,600
Utility taxes	674,741	598,711	-	-	674,741	598,711
Investment earnings	(53,857)	15,994	-	3	(53,857)	15,997
State aid formula grants	14,888,895	15,260,539	-	-	14,888,895	15,260,539
Gain (loss) on sale of equipment	1,374	-	-	-	1,374	-
Miscellaneous	71,293	212,532	-	-	71,293	212,532
<b>Total revenues</b>	<b>27,356,827</b>	<b>28,804,969</b>	<b>1,758,314</b>	<b>1,765,925</b>	<b>29,115,141</b>	<b>30,570,894</b>
<b>EXPENSES</b>						
<b>Program Activities</b>						
Instruction	18,245,857	17,283,873	-	-	18,245,857	17,283,873
Student support	804,610	987,089	-	-	804,610	987,089
Instruction staff support	1,469,437	1,950,435	-	-	1,469,437	1,950,435
District administration support	1,414,125	1,683,044	-	-	1,414,125	1,683,044
School administrative support	1,349,712	1,471,848	-	-	1,349,712	1,471,848
Business support	350,547	460,049	-	-	350,547	460,049
Plant operation and maintenance	1,708,248	2,256,277	-	-	1,708,248	2,256,277
Student transportation	1,168,628	1,544,310	-	-	1,168,628	1,544,310
Community service activities	345,136	378,884	-	-	345,136	378,884
Facilities acquisition and construct	27,285	-	-	-	27,285	-
Interest on long-term debt	450,309	437,901	-	-	450,309	437,901
<b>Business-type Activities</b>						
Food service	-	-	2,071,123	1,770,651	2,071,123	1,770,651
Child care	-	-	-	-	-	-
<b>Total expenses</b>	<b>27,333,894</b>	<b>28,453,710</b>	<b>2,071,123</b>	<b>1,770,651</b>	<b>29,405,017</b>	<b>30,224,361</b>
<b>Transfers</b>	<b>57,986</b>	<b>61,762</b>	<b>(57,986)</b>	<b>(61,762)</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 80,919</b>	<b>\$ 413,021</b>	<b>\$ (370,795)</b>	<b>\$ (66,488)</b>	<b>\$ (289,876)</b>	<b>\$ 346,533</b>

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

- Total revenues decreased approximately \$1.4 million primarily due to decreases in on-behalf revenues of \$1.16 million related to the decrease in the TRS net pension liability; decreases in state aid formula grants of \$372 thousand; decreases in property tax revenues of \$106 thousand, offset by increases in capital grants (SFCC on-behalf) of \$85 thousand and increases in utility tax revenues of \$76 thousand.
- Total expenses decreased approximately \$819 thousand as a result of decreases in Student support (\$182 thousand decrease); decrease in Instruction staff support (\$481 thousand decrease); decrease in District administration support (\$269 thousand decrease); decrease in School administrative support (\$122 thousand decrease); decrease in Business support (\$110 thousand decrease); decrease in Plant Operations and Maintenance (\$548 thousand decrease); decrease in student transportation (\$375 thousand decrease). Offset by increases in Instruction of \$962 thousand and Food Service increases \$301 thousand. The decreases are primarily the result of increases in the CERS net pension liability of \$854 thousand offset by a decrease of approximately \$1.16 million primarily due to decreases in on-behalf revenues related to the decrease in the TRS net pension liability.

**POWELL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2018**

**Capital Assets**

At the end of fiscal year 2018, the School District had approximately \$25.0 million invested in land, building and improvements, vehicles, and equipment. Table 3 shows fiscal year 2018 and 2017 balances.

**Capital Assets, Net of Depreciation  
(Table 3)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,220,539	\$ 1,220,539	\$ -	\$ -	\$ 1,220,539	\$ 1,220,539
Land improvements	16,127	22,867	-	-	16,127	22,867
Buildings and improvements	22,099,912	15,023,453	-	-	22,099,912	15,023,453
Technology Equipment	116,466	121,616	-	-	116,466	121,616
Vehicles	1,096,178	1,018,753	-	-	1,096,178	1,018,753
General equipment	316,183	252,182	84,886	98,033	401,069	350,215
Total	24,865,405	17,659,410	84,886	98,033	24,950,291	17,757,443
Construction in process	-	6,903,597	-	-	-	6,903,597
Total	\$ 24,865,405	\$ 24,563,007	\$ 84,886	\$ 98,033	\$ 24,950,291	\$ 24,661,040

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

Powell Co. Middle School Renovation	\$ 4,021,733
Powell Co. Middle School Energy Project	\$ 3,760,000
Buses	\$ 232,874

**Debt**

At June 30, 2018, the School District had \$17,325,000 in bonds outstanding. Of this amount, \$5,490,865 is to be paid by the Kentucky School Facility Construction Commission. A total of \$1,110,000 is due within one year.

**General Fund – Budget Highlights**

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

Budgeted general fund expenditures of approximately \$18.1 million compare with actual expenditures of approximately \$19.3 million. The most significant fluctuation is in the other category for \$467 thousand budget for contingency that was not needed. Additional significant variances from budgeted amounts include: (1) state on-behalf expenditures being over budget by \$1.95 million; (2) Instruction staff expenditures were over budget by \$1.5 million; (3) school administrative expenditures were over budget by \$172 thousand; and (4) plant operation and maintenance expenditures were under budget by \$257 thousand.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21 – 56 of this report.

**POWELL COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE YEAR ENDED JUNE 30, 2018**

**BUDGETARY IMPLICATIONS**

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

**ADDITIONAL CONTACT INFORMATION**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions regarding this report or requests for additional information should be directed to Andrew Wells, Chief Financial Officer, 691 Breckinridge Street, Stanton, Kentucky 40380 or call 606-663-3300.

**POWELL COUNTY SCHOOL DISTRICT**

**STATEMENT OF NET POSITION**

JUNE 30, 2018

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 544,194	\$ 329,728	\$ 873,922
Investments	430,963	-	430,963
Inventory	-	23,733	23,733
Receivables:			
Taxes-current	82,376	-	82,376
Taxes-delinquent	17,158	-	17,158
Other receivables	12,175	-	12,175
Intergovernmental-Indirect Federal	401,864	52,468	454,332
<b>Total Current Assets</b>	<u>1,488,730</u>	<u>405,929</u>	<u>1,894,659</u>
<b>Noncurrent Assets</b>			
Non-depreciable capital assets	1,220,539	-	1,220,539
Depreciable capital assets, net of accumulated depreciation	23,644,866	84,886	23,729,752
<b>Total Noncurrent Assets</b>	<u>24,865,405</u>	<u>84,886</u>	<u>24,950,291</u>
<b>Total Assets</b>	<u>\$ 26,354,135</u>	<u>\$ 490,815</u>	<u>\$ 26,844,950</u>
<b>Deferred Outflows of Resources</b>			
Deferred amount on debt refundings	\$ 87,892	\$ -	\$ 87,892
CERS - Pension	2,176,505	279,775	2,456,280
CERS - OPEB	628,212	80,753	708,965
TRS - OPEB	284,397	-	284,397
<b>Total Deferred Outflows of Resources</b>	<u>\$ 3,177,006</u>	<u>\$ 360,528</u>	<u>\$ 3,537,534</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 990	\$ -	\$ 990
Accrued liabilities	13,824	-	13,824
Unearned revenue	195,553	-	195,553
Bond obligations	1,110,000	-	1,110,000
Claim payable - KSBIT	25,229	-	25,229
Capital leases payable	74,612	-	74,612
Compensated absences	23,195	-	23,195
Interest payable	86,257	-	86,257
<b>Total Current Liabilities</b>	<u>1,529,660</u>	<u>-</u>	<u>1,529,660</u>
<b>Noncurrent Liabilities</b>			
Bond obligations	16,194,061	-	16,194,061
Capital leases payable	464,269	-	464,269
Claim payable - KSBIT	25,229	-	25,229
Compensated absences	131,441	-	131,441
Net pension liability - CERS	6,684,755	859,280	7,544,035
Net OPEB liability - CERS	2,295,906	295,123	2,591,029
Net OPEB liability - TRS	5,768,080	-	5,768,080
<b>Total Noncurrent Liabilities</b>	<u>31,563,741</u>	<u>1,154,403</u>	<u>32,718,144</u>
<b>Total Liabilities</b>	<u>\$ 33,093,401</u>	<u>\$ 1,154,403</u>	<u>\$ 34,247,804</u>
<b>Deferred Inflows of Resources</b>			
CERS - Pension	\$ 815,631	\$ 104,844	\$ 920,475
CERS - OPEB	120,206	15,452	135,658
TRS - OPEB	40,728	-	40,728
<b>Total Deferred Inflows of Resources</b>	<u>\$ 976,565</u>	<u>\$ 120,296</u>	<u>\$ 1,096,861</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 7,110,355	\$ 84,886	\$ 7,195,241
Restricted	427,581	-	427,581
Unrestricted	(12,076,761)	(508,242)	(12,585,003)
<b>Total Net Position</b>	<u>\$ (4,538,825)</u>	<u>\$ (423,356)</u>	<u>\$ (4,962,181)</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2018**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expenses) Revenues and Changes in Net Position			
	Expenses	Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 18,245,857	\$ -	\$ 8,207,874	\$ -	\$ (10,037,983)	\$ -	\$ (10,037,983)
Support services:							
Student	804,610	-	128,808	-	(675,802)	-	(675,802)
Instruction staff	1,469,437	-	136,819	-	(1,332,618)	-	(1,332,618)
District administrative	1,414,125	-	117,743	-	(1,296,382)	-	(1,296,382)
School administrative	1,349,712	-	194,558	-	(1,155,154)	-	(1,155,154)
Business	350,547	-	36,479	-	(314,068)	-	(314,068)
Plant operation and maintenance	1,708,248	-	50,384	-	(1,657,864)	-	(1,657,864)
Student transportation	1,168,628	5,480	59,307	-	(1,103,841)	-	(1,103,841)
Community service activities	345,136	-	-	-	(345,136)	-	(345,136)
Other	-	10,380	-	-	10,380	-	10,380
Facilities acquisition and construction	27,285	-	-	-	(27,285)	-	(27,285)
Interest on long-term debt	450,309	-	-	519,722	69,413	-	69,413
<b>Total Governmental Activities</b>	<u>27,333,894</u>	<u>15,860</u>	<u>8,931,972</u>	<u>519,722</u>	<u>(17,866,340)</u>	<u>-</u>	<u>(17,866,340)</u>
<b>Business-Type Activities:</b>							
Food service	2,071,123	96,053	1,662,261	-	-	(312,809)	(312,809)
<b>Total Business-Type Activities</b>	<u>2,071,123</u>	<u>96,053</u>	<u>1,662,261</u>	<u>-</u>	<u>-</u>	<u>(312,809)</u>	<u>(312,809)</u>
<b>Total Primary Government</b>	<u>\$ 29,405,017</u>	<u>\$ 111,913</u>	<u>\$ 10,594,233</u>	<u>\$ 519,722</u>	<u>(17,866,340)</u>	<u>(312,809)</u>	<u>(18,179,149)</u>
<b>General Revenues:</b>							
Taxes:							
Property taxes					1,901,123	-	1,901,123
Motor vehicle taxes					405,704	-	405,704
Utility taxes					674,741	-	674,741
Investment earnings					(53,857)	-	(53,857)
Gain on disposal of capital assets					1,374	-	1,374
State and formula grants					14,888,895	-	14,888,895
Miscellaneous					71,293	-	71,293
<b>Total general revenues</b>					<u>17,889,273</u>	<u>-</u>	<u>17,889,273</u>
Transfers					57,986	(57,986)	-
Change in net position					<u>80,919</u>	<u>(370,795)</u>	<u>(289,876)</u>
Net position - beginning					1,680,873	113,027	1,793,900
Prior period adjustments (see Note)					(6,300,617)	(165,588)	(6,466,205)
Net position - beginning, as restated					<u>(4,619,744)</u>	<u>(52,561)</u>	<u>(4,672,305)</u>
Net position - ending					<u>\$ (4,538,825)</u>	<u>\$ (423,356)</u>	<u>\$ (4,962,181)</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

**JUNE 30, 2018**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ 170,151	\$ -	322,416	\$ 51,628	\$ 544,195
Investments	430,963	-	-	-	430,963
Due from other funds	138,116	-	-	-	138,116
Receivables:					
Taxes - current	82,376	-	-	-	82,376
Taxes - delinquent	17,158	-	-	-	17,158
Other receivables	10,812	-	-	1,363	12,175
Intergovernmental - Indirect Federal	71,122	330,742	-	-	401,864
<b>Total Assets</b>	<b>\$ 920,698</b>	<b>\$ 330,742</b>	<b>\$ 322,416</b>	<b>\$ 52,991</b>	<b>\$ 1,626,847</b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities</b>					
Due to other funds	\$ -	\$ 138,116	\$ -	\$ -	\$ 138,116
Accounts payable	990	-	-	-	990
Accrued liabilities	13,824	-	-	-	13,824
Claim payable - KSBIT	25,229	-	-	-	-
Advances from grantors	-	192,626	-	2,928	195,554
<b>Total Liabilities</b>	<b>40,043</b>	<b>330,742</b>	<b>-</b>	<b>2,928</b>	<b>373,713</b>
<b>Fund Balances</b>					
Restricted	55,102	-	322,416	50,063	427,581
Committed	41,694	-	-	-	41,694
Assigned	-	-	-	-	-
Unassigned	783,859	-	-	-	783,859
<b>Total Fund Balances</b>	<b>880,655</b>	<b>-</b>	<b>322,416</b>	<b>50,063</b>	<b>1,253,134</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 920,698</b>	<b>\$ 330,742</b>	<b>\$ 322,416</b>	<b>\$ 52,991</b>	<b>\$ 1,626,847</b>

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

**POWELL COUNTY SCHOOL DISTRICT**

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

JUNE 30, 2018

Total fund balance per fund financial statements	\$ 1,253,134
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	24,865,405
Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	87,892
Governmental funds do not record deferred outflows of resources for pensions and OPEB but those are reported on the statement of net position as deferred outflows of resources.	3,089,114
Governmental funds do not record deferred inflows of resources for pensions and OPEB but those are reported on the statement of net position as deferred inflows of resources.	(976,565)
Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:	
Bonds payable (net of discounts/premiums)	(17,304,061)
Capital lease payable	(538,881)
Interest payable	(86,257)
KSBIT claim payable	(25,229)
Compensated absences	(154,636)
Net pension liability - CERS	(6,684,755)
Net OPEB liability - CERS	(2,295,906)
Net OPEB liability - TRS	<u>(5,768,080)</u>
Net position for governmental activities	<u>\$ (4,538,825)</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**

**GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
From local sources:					
Taxes:					
Property	\$ 1,597,388	\$ -	\$ -	\$ 299,904	\$ 1,897,292
Motor vehicle	405,704	-	-	-	405,704
Utilities	674,741	-	-	-	674,741
Distilled spirits	3,831	-	-	-	3,831
Earnings on investments	(53,857)	-	-	-	(53,857)
Other local revenues	118,138	111,283	-	14,282	243,703
Intergovernmental - State	16,467,688	1,105,806	-	1,250,554	18,824,048
Intergovernmental - Indirect Federal	-	1,727,231	-	-	1,727,231
Intergovernmental - Direct Federal	320,723	285,968	-	-	606,691
<b>Total Revenues</b>	<u>19,534,356</u>	<u>3,230,288</u>	<u>-</u>	<u>1,564,740</u>	<u>24,329,384</u>
<b>Expenditures:</b>					
Instruction	12,416,273	1,996,342	-	7,015	14,419,630
Support services:					
Student	751,932	33,097	-	-	785,029
Instruction staff	752,916	694,197	-	7,267	1,454,380
District administrative	1,235,509	124,854	-	-	1,360,363
School administrative	1,271,212	16,908	-	-	1,288,120
Business	327,128	-	-	-	327,128
Plant operation and maintenance	1,409,851	-	-	-	1,409,851
Student transportation	1,016,900	110,909	-	-	1,127,809
Facilities acquisition and construction	-	-	937,707	-	937,707
Community service activities	-	298,021	-	-	298,021
Bond issue costs	-	-	39,420	-	39,420
Debt service:					
Principal	132,919	-	-	1,080,000	1,212,919
Interest	8,973	-	-	439,660	448,633
<b>Total Expenditures</b>	<u>19,323,613</u>	<u>3,274,328</u>	<u>977,127</u>	<u>1,533,942</u>	<u>25,109,010</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<u>210,743</u>	<u>(44,040)</u>	<u>(977,127)</u>	<u>30,798</u>	<u>(779,626)</u>
<b>Other Financing Sources (Uses):</b>					
Bond discount	-	-	39,420	-	39,420
Proceeds from disposal of capital assets	1,374	-	-	-	1,374
Transfers in	231,409	44,040	-	999,938	1,275,387
Transfers out	(203,181)	-	-	(1,014,220)	(1,217,401)
<b>Total Other Financing Sources (Uses)</b>	<u>29,602</u>	<u>44,040</u>	<u>39,420</u>	<u>(14,282)</u>	<u>98,780</u>
<b>Net Change in Fund Balances</b>	<u>240,345</u>	<u>-</u>	<u>(937,707)</u>	<u>16,516</u>	<u>(680,846)</u>
<b>Fund Balance, July 1, 2017, previously reported</b>	617,191	-	1,260,123	33,547	1,910,861
<b>Restatement</b>	23,119	-	-	-	23,119
<b>Fund Balance, July 1, 2017, restated</b>	<u>640,310</u>	<u>-</u>	<u>1,260,123</u>	<u>33,547</u>	<u>1,933,980</u>
<b>Fund Balance, June 30, 2018</b>	<u>\$ 880,655</u>	<u>\$ -</u>	<u>\$ 322,416</u>	<u>\$ 50,063</u>	<u>\$ 1,253,134</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2018

Net change in total fund balances per fund financial statements		\$ (680,846)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.		
Capital expenditures	\$ 1,311,696	
Depreciation	<u>(1,009,300)</u>	302,396
Debt service payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position. The difference is the amount of principal payment during the year for:		
Principal payments on bonds	1,080,000	
Principal payments on capital leases	<u>132,919</u>	1,212,919
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Compensated absences - long-term	(41,651)	
Changes in interest payable, discounts, and deferred amounts on refunding	(1,676)	
Claims payable - KSBIT (noncurrent)	25,229	
Pension and OPEB expenses related to changes in the net pension liability, the net OPEB liability, and net changes in deferred outflows and inflows for CERS and TRS pensions and OPEB	<u>(735,452)</u>	<u>(753,550)</u>
Change in net position of governmental activities		<u>\$ 80,919</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

STATEMENT OF NET POSITION

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Food Service Fund</u>
<b>Assets</b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 329,728
Intergovernmental - Indirect Federal	52,468
Inventory	<u>23,733</u>
<b>Total Current Assets</b>	<u>405,929</u>
<b><u>Noncurrent Assets</u></b>	
Capital assets, net of accumulated depreciation	<u>84,886</u>
<b>Total Noncurrent Assets</b>	<u>84,886</u>
<b>Total Assets</b>	<u>\$ 490,815</u>
<b>Deferred Outflows of Resources</b>	
CERS - Pension	\$ 279,775
CERS - OPEB	<u>80,753</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 360,528</u>
<b><u>Noncurrent Liabilities</u></b>	
Net pension liability - CERS	859,280
Net OPEB liability - CERS	<u>295,123</u>
<b>Total Noncurrent Liabilities</b>	<u>1,154,403</u>
<b>Total Liabilities</b>	<u>\$ 1,154,403</u>
<b>Deferred Inflows of Resources</b>	
CERS - Pension	\$ 104,844
CERS - OPEB	<u>15,452</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 120,296</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	84,886
Unrestricted	<u>\$ (508,242)</u>
<b>Total Net Position</b>	<u>\$ (423,356)</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2015

	Food Service Fund
<b>Operating Revenues</b>	
Lunchroom sales	\$ 96,053
<b>Total Operating Revenues</b>	<u>96,053</u>
<b>Operating Expenses</b>	
Salaries and wages	914,815
Materials and supplies	1,139,570
Depreciation	13,147
Other operating expenses	3,591
<b>Total Operating Expenses</b>	<u>2,071,123</u>
Operating loss	<u>(1,975,070)</u>
<b>Non-Operating Revenues (Expenses)</b>	
Federal grants	1,424,522
Donated commodities	112,445
Interest income	2
State grants	14,657
State on-behalf payments	110,635
<b>Total Non-Operating Revenues (Expenses)</b>	<u>1,662,261</u>
Transfers out	<u>(57,986)</u>
Changes in net position	<u>(370,795)</u>
<b>Net Position, July 1, 2017</b>	113,027
<b>Restatements (See Notes)</b>	<u>(165,588)</u>
<b>Net Position, July 1, 2017, as restated</b>	<u>(52,561)</u>
<b>Net Position, June 30, 2018</b>	<u>\$ (423,356)</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

**STATEMENT OF CASH FLOWS**

**PROPRIETARY FUND**

**FOR THE YEAR ENDED JUNE 30, 2018**

	Food Service Fund
<b>Cash Flows from Operating Activities</b>	
Cash received from:	
Lunchroom sales	\$ 96,053
Other revenue	-
Tuition and fees	-
Cash paid to/for:	
Employees	(523,268)
Supplies	(1,022,652)
Other activities	(3,591)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(1,453,458)</u>
<b>Cash flows from Non-Capital Financing Activities</b>	
Federal grants	1,382,798
State grants	14,657
Transfers to other funds	(57,986)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>1,339,469</u>
<b>Cash Flows from Investing Activities</b>	
Receipt of interest income	<u>2</u>
<b>Net Cash Provided by Investing Activities</b>	<u>2</u>
Net change in cash and cash equivalents	(113,987)
<b>Balances, beginning of year</b>	<u>443,715</u>
<b>Balances, end of year</b>	<u>\$ 329,728</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:	
Operating loss	\$ (1,975,070)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	13,147
Donated commodities	112,445
State on-behalf payments	110,635
CERS pension and OPEB expense	280,912
Change in assets and liabilities:	
Inventory	4,473
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (1,453,458)</u>
<b>Schedule of Non-cash Transactions</b>	
Donated commodities received from federal government	<u>\$ 112,445</u>
State on-behalf payments	<u>\$ 110,635</u>
CERS Pensions and OPEB	<u>\$ 280,912</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

**STATEMENT OF FIDUCIARY NET POSITION**

**FIDUCIARY FUNDS**

JUNE 30, 2018

	<u>Agency Funds</u>	<u>Scholarship Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 194,846	10,157	\$ 205,003
Investments	-	167,803	167,803
<b>Total Assets</b>	<u>\$ 194,846</u>	<u>\$ 177,960</u>	<u>\$ 372,806</u>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
Due to student groups	194,846	-	194,846
<b>Total Liabilities</b>	<u>\$ 194,846.00</u>	<u>-</u>	<u>194,846</u>
<b>Net Position Held in Trust</b>			
Permanently restricted		167,803	167,803
Restricted for scholarships		10,157	10,157
<b>Total Net Position Held in Trust</b>		<u>\$ 177,960</u>	<u>\$ 177,960</u>

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

**POWELL COUNTY SCHOOL DISTRICT**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Scholarship Fund</u>
Additions	
Contributions	\$ -
Net interest and investment gains	<u>5,306</u>
Total additions	<u>5,306</u>
Deductions	
Scholarship payments	<u>6,000</u>
Change in net position	(694)
Net Position held in trust, beginning of year	<u>178,654</u>
Net Position held in trust, end of year	<u>\$ 177,960</u>

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

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

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

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

#### Basis of Presentation

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

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

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

The District has the following funds:

#### I. Governmental Fund Types

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
    - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
    - 2. The Facility Support Program of Kentucky (FSPK), Building Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
    - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
  - D. The Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. This is a major fund of the District.
- 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.
- III. Fiduciary Fund Types (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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
  - B. The Private Purpose Trust Fund (Scholarship Fund) is used to report bequests left for charitable payments for scholarship awards. The assets are held by the District in a trustee capacity, whereby the original bequest is preserved as nonexpendable and the interest earnings are available for scholarships for Powell County High School students.

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Basis of Accounting

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

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

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

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

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

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

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

#### Property Taxes

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$0.411 per \$100 valuation for real property, \$0.411 per \$100 valuation for business personal property and \$0.502 per \$100 valuation for motor vehicles.

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

#### Capital Assets

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

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

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

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

#### Interfund Balances

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Budgetary Process

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

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

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

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

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

#### Encumbrances

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

#### Cash, Cash Equivalents, and Investments

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

The District's investment are reported at fair value.

#### Inventories

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

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

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

#### Prepaid Assets

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Accrued Liabilities and Long-Term Obligations

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

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

#### Compensated Absences

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon retirement at 30% of the current rate of pay on the date of retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee retirements.

Compensated absences are not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

#### Pension and OPEB Plans

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

#### Fund Balances

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

#### Net Position

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

#### Operating Revenues

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

#### Contributions of Capital

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

#### Interfund Activity

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Recently Issued And Adopted Accounting Principles

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

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

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

#### Recently Issued Accounting Principles

In January 2018, the GASB issued Statement No. 84, *Fiduciary Activities*, effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

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

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

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

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

### NOTE 2 – ESTIMATES

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS

#### Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2018, \$135,716 of the District's bank balance of \$385,716 was exposed to custodial credit risk. The \$135,716 of the bank balance not covered by depository insurance was uninsured and uncollateralized at June 30, 2018.

#### Investments

Investments recorded by the District at June 30, 2018 include the following:

<u>Investment type</u>	<u>Fair Value Classification</u>	<u>Fund</u>	<u>Fair Value</u>
Guggenheim Annuity Contract	Level 2	Fiduciary	\$ 167,803
Athene Annuity Contract	Level 2	General	212,256
North American Co Annuity Contract	Level 2	General	218,706
Total investments			<u>\$ 598,765</u>

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits.

The District may legally invest in certificates of deposit and other interest bearing accounts insured by the Federal Deposit Insurance Corporation (FDIC), uncollateralized certificates of deposit rated in one of the three highest categories by a nationally recognized rating agency; obligations of the United States and of its agencies and instrumentalities, including any corporation of the United States government, bonds or certificates of indebtedness of the State of Kentucky and any of its agencies and instrumentalities; or securities issued by a state or local government or any instrumentalities or agency thereof in the United States and rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in the highest category by a nationally recognized rating agency and certain mutual funds as more fully described in KRS 66.480. All of the investments of the District are held in U.S. government agency obligations, which carry the explicit guarantee of the U.S. government or certificates of deposit that are insured by the FDIC.

No investments are reported at amortized cost. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's investments are valued using level 2 inputs.

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 3 – CASH, CASH EQUIVALENTS, AND INVESTMENT DEPOSITS**

Concentration of Credit Risk – The District, in accordance with KRS 66.480, limits the amount that may be invested at any time in uncollateralized certificates of deposit, bankers acceptances, commercial paper and securities issued by a state or local government or any instrumentality or agency thereof, to 20% of the total amount of funds invested by the District. At June 30, 2018, the District did not hold any investments in excess of this limit.

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by the District are insured or collateralized with securities held by the financial institution in the District’s name.

**NOTE 4 – TRANSFER OF FUNDS AND INTERFUND BALANCES**

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

**Fund Financial Statements:**

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 40,040
General	Non-major fund	Debt Service	159,141
Non-major fund	General	Capital Funds	173,423
Non-major fund	Non-major fund	Debt Service	840,797
Food Service Fund	General Fund	Indirect Costs	57,986

**Government-wide Financial Statements:**

From Fund	To Fund	Purpose	Amount
Food Service Fund	General Fund	Indirect Costs	\$ 57,986

At June 30, 2018, the Special Revenue Fund owed the General Fund \$138,116 for expenses.

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 5 – CAPITAL ASSETS**

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

Governmental Activities	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 1,220,539	\$ -	\$ -	\$ 1,220,539
Construction in progress	6,903,597	910,421	(7,814,018)	-
Total Capital Assets Not Being Depreciated	<u>8,124,136</u>	<u>910,421</u>	<u>(7,814,018)</u>	<u>1,220,539</u>
Capital Assets Being Depreciated:				
Land improvements	1,067,294	-	-	1,067,294
Buildings and improvements	28,170,642	7,814,020	-	35,984,662
Technology equipment	617,843	60,989	-	678,832
Vehicles	3,362,707	232,874	-	3,595,581
General equipment	917,846	107,412	-	1,025,258
Total Capital Assets Being Depreciated at Historical Cost	<u>34,136,332</u>	<u>8,215,295</u>	<u>-</u>	<u>42,351,627</u>
Accumulated depreciation:				
Land improvements	1,044,427	6,740	-	1,051,167
Buildings and improvements	13,147,189	737,561	-	13,884,750
Technology equipment	496,227	66,139	-	562,366
Vehicles	2,343,954	155,449	-	2,499,403
General equipment	665,664	43,411	-	709,075
Total accumulated depreciation	<u>17,697,461</u>	<u>1,009,300</u>	<u>-</u>	<u>18,706,761</u>
Total Other Capital Assets, net	<u>16,438,871</u>	<u>7,205,995</u>	<u>-</u>	<u>23,644,866</u>
Governmental Activities Capital Assets - Net	<u>\$ 24,563,007</u>	<u>\$ 8,116,416</u>	<u>\$ (7,814,018)</u>	<u>\$ 24,865,405</u>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 634,541
District administration	5,657
School administration	861
Plant	205,005
Transportation	154,187
Community Services	9,049
	<u>\$ 1,009,300</u>

Business-Type Activities	Balance July 01, 2017	Additions	Deductions	Balance June 30, 2018
Capital Assets Being Depreciated:				
Technology equipment	\$ 8,800	\$ -	\$ -	\$ 8,800
General equipment	605,008	-	-	605,008
Totals at historical cost	<u>613,808</u>	<u>-</u>	<u>-</u>	<u>613,808</u>
Accumulated depreciation:				
Technology equipment	8,800	-	-	8,800
General equipment	506,975	13,147	-	520,122
Total accumulated depreciation	<u>515,775</u>	<u>13,147</u>	<u>-</u>	<u>528,922</u>
Business-type Activities Capital Assets - Net	<u>\$ 98,033</u>	<u>\$ (13,147)</u>	<u>\$ -</u>	<u>\$ 84,886</u>

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 6 – LONG-TERM OBLIGATIONS**

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

<u>Issue Date</u>	<u>Original Proceeds</u>	<u>Interest Rates</u>
2008	1,275,000	3.35% - 4.40%
2010 Ref	4,050,000	1.50% - 3.00%
2013	5,545,000	1.50% - 3.00%
2015 Ref	2,685,000	2.00% - 2.40%
2016 EN	3,765,000	2.00% - 3.00%
2016	4,120,000	1.15% - 3.00%
2016 Ref	955,000	1.10% - 3.00%

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

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

<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>SFCC Participation</u>	<u>District's Portion</u>
2019	\$ 1,110,000	\$ 414,240	\$ 512,486	\$ 1,011,754
2020	1,140,000	387,844	511,882	1,015,962
2021	1,170,000	363,924	510,712	1,023,212
2022	1,195,000	338,414	498,191	1,035,223
2023	950,000	315,600	451,481	814,119
2024- 2028	4,890,000	1,263,958	2,097,986	4,055,972
2029 - 2033	4,380,000	717,384	1,618,778	3,478,606
2034 - 2038	2,490,000	149,518	401,966	2,237,552
	<u>\$ 17,325,000</u>	<u>\$ 3,950,882</u>	<u>\$ 6,603,482</u>	<u>\$ 14,672,400</u>

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)**

Capital Lease Obligations

The District has entered into a capital lease agreement for the purchase of copier/fax/scanning equipment to be used District-wide. Future minimum lease payments under the terms of the lease are as follows:

Year Ending June 30		
2019	\$	87,180
2020		82,566
2021		74,768
2022		74,692
2023		74,770
2024 - 2027		<u>202,115</u>
		596,091
Less: amount representing interest		<u>(57,210)</u>
Present value of minimum lease payments	\$	<u>538,881</u>
Current maturities	\$	74,612
Non-current maturities		<u>464,269</u>
	\$	<u>538,881</u>

Capital assets under capital leases are depreciated over the lower of their related lease terms or their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense. The cost of the equipment under capital lease is \$596,546.

Changes in Long-term Obligations

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

	Balance July 01, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds Payable:					
Revenue bonds	\$ 18,405,000	\$ -	\$ 1,080,000	\$ 17,325,000	\$ 1,110,000
Less Premium (Discount)	<u>(15,366)</u>	<u>(5,573)</u>	<u>-</u>	<u>(20,939)</u>	<u>-</u>
Total Bonds Payable	<u>18,389,634</u>	<u>(5,573)</u>	<u>1,080,000</u>	<u>17,304,061</u>	<u>1,110,000</u>
Other Liabilities:					
Other capital lease obligation	671,800	-	132,919	538,881	74,612
Compensated absences	<u>112,983</u>	<u>193,293</u>	<u>151,640</u>	<u>154,636</u>	<u>23,195</u>
Total Other Liabilities	<u>784,783</u>	<u>193,293</u>	<u>284,559</u>	<u>693,517</u>	<u>97,807</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 19,174,417</u>	<u>\$ 187,720</u>	<u>\$ 1,364,559</u>	<u>\$ 17,997,578</u>	<u>\$ 1,207,807</u>

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 6 – LONG-TERM OBLIGATIONS (CONTINUED)

#### Accumulated Unpaid Sick Leave Benefits

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

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

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

### NOTE 7 – PENSION PLANS

#### Plan Descriptions

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

#### **TRS**

##### ***Retirement Plan***

##### Benefits Provided

*For Members Before July 1, 2008:*

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

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

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

#### *For Members On or After July 1, 2008:*

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

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

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

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

#### Contributions

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

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

At June 30, 2018, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$83,434,442.

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

For the year ended June 30, 2018, the District recognized pension expense of \$5,868,068 and revenue of \$5,868,068 (\$2,928,842 in the governmental funds and an additional \$2,939,226 in government-wide activities) for support provided by the State. At June 30, 2018, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

#### Actuarial Assumptions

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

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

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

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

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 7 – PENSION PLANS – CONTINUED**

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

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

Discount Rate

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

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

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

#### Pension Plan Fiduciary Net Position

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

#### **CERS**

#### Benefits Provided

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

#### Contributions

For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 14.48 percent of annual creditable compensation. Contributions to the pension plan from the District were \$447,257.

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

At June 30, 2018, the District reported a liability of \$7,544,035 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.128885 percent, which was a decrease of .006996 percent from its proportion measured as of June 30, 2016.

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 7 – PENSION PLANS – CONTINUED**

For the year ended June 30, 2017, the District recognized pension expense of \$761,283. At June 30, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,357	\$ 191,500
Changes in actuarial assumptions	1,392,079	-
Difference between projected and actual investment earnings	597,479	504,168
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,108	224,807
Contributions paid to CERS subsequent to the measurement date	<u>447,257</u>	-
	<u>\$ 2,456,280</u>	<u>\$ 920,475</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$447,257 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 490,127
2020	482,856
2021	212,436
2022	<u>(96,871)</u>
	<u>\$ 1,088,548</u>

Actuarial Assumptions

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

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

Actuarial Assumptions

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

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

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

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

#### Discount Rate

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 7 – PENSION PLANS – CONTINUED

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

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 9,514,659	\$ 7,544,035	\$ 5,895,623

#### Pension Plan Fiduciary Net Position

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

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS

#### Plan Descriptions

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

#### **TRS**

##### General Information about the OPEB Plan

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

#### Medical Insurance Fund

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

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

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

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

At June 30, 2018, the District reported a liability of \$5,768,080 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.161762 percent.

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

District's proportionate share of the net OPEB liability	\$ 5,768,080
State proportionate share of the net OPEB liability associated with the District	4,712,000
	<u>\$ 10,480,080</u>

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)**

For the year ended June 30, 2018, the District recognized OPEB revenue and expense of \$119,460 in the governmental funds and revenues and expenses of \$316,000 (\$229,158 in the governmental funds and an additional \$86,842 in government-wide activities) for support provided by the Commonwealth. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	\$ -	\$ 40,728
Contributions paid to TRS subsequent to the measurement date	<u>284,397</u>	<u>-</u>
	<u>\$ 284,397</u>	<u>\$ 40,728</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$284,397 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ (10,182)
2020	(10,182)
2021	(10,182)
2022	<u>(10,182)</u>
	<u>\$ (40,728)</u>

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

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

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

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

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

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

**POWELL COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)**

	1 % Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net OPEB liability	\$ 12,204,000	\$ 5,768,080	\$ 9,045,000

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

	1 % Decrease (3.20%)	Current Trend Rate (4.20%)	1% Increase (5.20)
District's proportionate share of the net OPEB liability	\$ 8,777,000	\$ 5,768,080	\$ 12,583,000

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

**Life Insurance Fund**

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

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

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

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

At June 30, 2018, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability was \$0 and the Commonwealth's total portion of the net OPEB liability that was associated with the District was \$63,000.

For the year ended June 30, 2018, the District recognized OPEB expense of \$13,029 and revenue of \$13,029 (\$4,029 in the governmental funds and an additional \$9,000 in government-wide activities) for support provided by the Commonwealth. At June 30, 2018, the District reported no deferred outflows of resources and deferred inflows of resources related to the OPEB.

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)**

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

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

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

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

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

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

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

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

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

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

### CERS

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

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

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)**

Contributions – For the fiscal year ended June 30, 2018, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2018, was 4.70 percent of annual creditable compensation. Contributions to the plan from the District were \$145,173.

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

At June 30, 2018, the District reported a liability of \$2,591,029 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2017, the District's proportion was 0.128885 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$135,624. At June 30, 2018, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 7,196
Changes in actuarial assumptions	563,792	-
Difference between projected and actual investment earnings	-	122,451
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	6,011
Contributions paid to CERS subsequent to the measurement date	145,173	-
	<u>\$ 708,965</u>	<u>\$ 135,658</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$145,173 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)**

Year Ending June 30	Pension Expense Amount
2019	\$ 73,664
2020	73,664
2021	73,664
2022	73,664
2023	104,277
Thereafter	29,201
	<u>\$ 428,134</u>

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

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

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

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

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

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

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

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

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

**POWELL COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)**

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

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

	1% Decrease -4.83%	Current Discount Rate -5.83%	1% Increase -6.83%
District's proportionate share of the net OPEB liability	\$ 3,296,941	\$ 2,591,029	\$ 2,003,600

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

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 1,987,453	\$ 2,591,029	\$ 3,375,643

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

**DEFERRED COMPENSATION**

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

**NOTE 9 – FUND BALANCES**

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2018, the District had \$55,102 restricted for sick leave in the general fund, \$322,416 restricted for capital projects in the Construction Fund, \$10,339 restricted for debt service in the Capital Outlay Fund, and \$39,724 restricted for debt service in the Building Fund.

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 9 – FUND BALANCES – CONTINUED

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. At June 30, 2018, the District had \$41,694 committed for site based carryforward in the General Fund.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. There were no amounts assigned related to encumbrances at June 30, 2018. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. There were no assigned fund balances at June 30, 2018.

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

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

### NOTE 10 – COMMITMENTS AND CONTINGENCIES

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

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

The District was notified Kentucky School Board Insurance Trust dissolved in a previous fiscal year. As a result, assessments were proposed to be passed to local participating Districts based on past premiums or past claims. The District's liability to the KSBIT Workers' Compensation Fund was \$50,458. Two annual payments of \$25,229 are due for the years ending June 30, 2019 and 2020.

# POWELL COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

### NOTE 11 – OPERATING LEASES

The District has multiple leases for copier / printer / scanners. Future payment requirements under the leases are as follows:

Year Ending June 30	
2019	\$ 29,375
2020	29,375
2021	29,375
2022	21,940
2023	9,665
	<u>\$ 119,730</u>

The amount paid in FY 2017 was \$29,375.

### NOTE 12 – LITIGATION

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

### NOTE 13 – INSURANCE AND RELATED ACTIVITIES

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

### NOTE 14 – RISK MANAGEMENT

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

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

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 15 – DEFICIT OPERATING BALANCES**

The Food Service Fund had a deficit net position at June 30, 2018 in the amount of \$423,356. The deficit net position is a result of the recording of the net pension liability and net OPEB liability for CERS.

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

Construction Fund	\$	937,707
Food Service Fund		370,795

**NOTE 16 – ON-BEHALF PAYMENTS**

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

Health	\$	2,288,027
Life		4,029
Admin		33,323
HRA		173,958
TRS - Pension		2,928,842
TRS - OPEB		229,158
Technology		52,881
Debt Service		519,722
Less: Federal Reimbursement		<u>(170,954)</u>
Total on-behalf	\$	<u>6,058,986</u>

Recorded as follows:

General Fund	\$	5,428,629
Food Service Fund		110,635
Daycare Fund		-
Debt Service Fund		<u>519,722</u>
	\$	<u>6,058,986</u>

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS**

During fiscal year 2018, the District adopted the provisions of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The District also noted errors in the recorded amounts for certain assets, deferred outflows of resources, and liabilities at June 30, 2017. These required a restatement to beginning net position as follows:

**POWELL COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2018

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS – CONTINUED**

	Governmental activities	Business-type activities	Total
Net position, as previously reported	\$ 1,680,873	\$ 113,027	\$ 1,793,900
Net OPEB liability - TRS	(5,711,000)	-	(5,711,000)
Net OPEB liability - CERS	(1,799,680)	(232,646)	(2,032,326)
Deferred outflows OPEB - TRS	306,048	-	306,048
Deferred outflows OPEB - CERS	133,030	17,197	150,227
Deferred outflows omitted for CERS pension	387,896	49,861	437,757
Overstatement of accrued interest	358,767	-	358,767
Overstatement of deferred amount on ref.	(24,026)	-	(24,026)
June utility tax receivable not accrued	48,348	-	48,348
Net position, as restated	<u>\$ (4,619,744)</u>	<u>\$ (52,561)</u>	<u>\$ (4,672,305)</u>

	Food Service Fund
Net position, as previously reported	\$ 113,027
Deferred outflows omitted for CERS pension	49,861
Net OPEB liability - CERS	(232,646)
Deferred outflows OPEB - CERS	17,197
Net position, as restated	<u>\$ (52,561)</u>

The District also noted errors in the recorded amounts for the utility tax receivable and the short-term portion of the KSBIT claim payable at June 30, 2017. These required a restatement to beginning fund balance as follows:

	General Fund
Fund balance, as previously reported	\$ 617,191
Current portion of KSBIT claim omitted	(25,229)
June utility tax receivable not accrued	48,348
Fund balance, as restated	<u>\$ 640,310</u>

**NOTE 18 – COBRA**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**POWELL COUNTY SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Revenues</b>			
From local sources:			
Taxes:			
Property	\$ 1,551,345	\$ 1,657,573	\$ 1,597,388
Motor vehicle	365,000	383,600	405,704
Utilities	600,000	600,000	674,741
Unmined minerals	5,000	5,000	3,831
Earnings on investments	8,000	10,000	(53,857)
Other local revenues	80,380	135,648	118,138
Intergovernmental - State	14,540,723	14,524,917	16,467,688
Intergovernmental - Direct Federal	275,000	255,314	320,723
<b>Total Revenues</b>	<u>17,425,448</u>	<u>17,572,052</u>	<u>19,534,356</u>
<b>Expenditures</b>			
Instruction	10,543,690	10,906,636	12,416,273
Support services:			
Student	741,033	744,449	751,932
Instruction staff	640,970	661,764	752,916
District administrative	1,186,544	1,162,193	1,235,509
School administrative	1,103,247	1,099,141	1,271,212
Business	342,419	344,153	327,128
Plant operation and maintenance	1,662,234	1,666,412	1,409,851
Student transportation	920,642	957,632	1,016,900
Debt service and contingency	494,510	592,650	132,919
<b>Total Expenditures</b>	<u>17,635,289</u>	<u>18,135,030</u>	<u>19,314,640</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<u>(209,841)</u>	<u>(562,978)</u>	<u>219,716</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from disposal of capital assets	4,935	1,364	1,374
Transfers in	50,000	223,423	231,409
Transfers out	(198,980)	(212,885)	(203,181)
<b>Total Other Financing Sources (Uses)</b>	<u>(144,045)</u>	<u>11,902</u>	<u>29,602</u>
<b>Net Change in Fund Balance</b>	(353,886)	(551,076)	249,318
<b>Fund Balance, July 1, 2017 (as restated)</b>	<u>353,886</u>	<u>551,076</u>	<u>640,310</u>
<b>Fund Balance, June 30, 2018</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 889,628</u>

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Revenues</b>			
Other local revenues	\$ 2	\$ 19,768	\$ 111,283
Intergovernmental - State	1,248,959	1,140,974	1,105,806
Intergovernmental - Indirect Federal	2,188,389	2,201,207	1,727,231
Intergovernmental - Direct Federal	-	-	285,968
<b>Total Revenues</b>	<u>3,437,350</u>	<u>3,361,949</u>	<u>3,230,288</u>
<b>Expenditures</b>			
Instruction	2,076,724	2,147,772	1,996,342
Support services:			
Student	30,427	29,992	33,097
Instruction staff	845,182	708,353	694,197
District administrative	78,222	121,598	124,854
School administrative	21,446	16,908	16,908
Plant operation and maintenance	-	30,608	-
Student transportation	98,922	56,753	110,909
Community service activities	286,427	302,709	298,021
<b>Total Expenditures</b>	<u>3,437,350</u>	<u>3,414,693</u>	<u>3,274,328</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<u>-</u>	<u>(52,744)</u>	<u>(44,040)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	69,456	44,040	44,040
Transfers out	(69,456)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>44,040</u>	<u>44,040</u>
<b>Net Change in Fund Balance</b>	<u>-</u>	<u>(8,704)</u>	<u>-</u>
<b>Fund Balance, July 1, 2017</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balance, June 30, 2018</b>	<u>\$ -</u>	<u>\$ (8,704)</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY**

**FOR THE YEAR ENDED JUNE 30, 2018**

<b>CERS</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
				*
Proportion of the net pension liability	0.128885%	0.135900%	0.137300%	0.135300%
Proportionate share of the net pension liability	\$ 7,544,035	\$ 6,690,266	\$ 5,901,516	\$ 4,391,000
Covered - employee payroll	\$ 2,771,090	\$ 3,299,597	\$ 4,439,208	\$ 3,203,164
Proportionate share of the net pension liability as percentage of covered payroll	272.2%	202.8%	132.9%	137.1%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%
<b>TRS</b>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
				*
Proportion of the net pension liability	0.00000%	0.00000%	0.00000%	0.00000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State proportionate share of the net pension liability associated with the District	<u>83,434,442</u>	<u>90,120,765</u>	<u>71,163,841</u>	<u>65,420,079</u>
Total	<u>\$ 83,434,442</u>	<u>\$ 90,120,765</u>	<u>\$ 71,163,841</u>	<u>\$ 65,420,079</u>
Covered - employee payroll	\$ 10,155,609	\$ 10,227,610	\$ 10,097,712	\$ 9,969,802
District's proportionate share of the net pension liability as percentage of covered payroll	0.0%	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	39.80%	35.20%	42.50%	45.59%

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

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

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULES DISTRICT PENSION CONTRIBUTIONS**

**FOR THE YEAR ENDED JUNE 30, 2018**

**CERS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 447,257	\$ 386,567	\$ 409,810	\$ 565,999
Contribution in relation to the actuarially determined contributions	<u>447,257</u>	<u>386,567</u>	<u>409,810</u>	<u>565,999</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,088,791	\$ 2,771,090	\$ 3,299,597	\$ 4,439,208
Contributions as a percentage of covered employee payroll	14.48%	13.95%	12.42%	12.75%

**TRS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ -	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 9,578,621	\$ 10,155,609	\$ 10,227,610	\$ 10,097,712
Contributions as a percentage of covered employee payroll	0.00%	0.00%	0.00%	0.00%

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

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

See accompanying independent auditor's report.

## **POWELL COUNTY SCHOOL DISTRICT**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSIONS**

JUNE 30, 2018

#### **CERS PENSION**

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

*Changes of assumptions:*

2015

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

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

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

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

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

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

2016 and 2017

No changes.

2018

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

#### **TRS PENSION**

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

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

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

**POWELL COUNTY SCHOOL DISTRICT**

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

JUNE 30, 2018

	*
	<u>2018</u>
Proportion of the net OPEB liability	0.16176%
District's proportionate share of the net OPEB liability	\$ 5,768,080
State proportionate share of the net OPEB liability associated with the District	<u>4,712,000</u>
Total	<u>\$ 10,480,080</u>
Covered - employee payroll	\$ 10,155,609
District's proportionate share of the net OPEB liability as percentage of covered payroll	56.8%
Plan fiduciary net position as a percentage of the total OPEB liability	81.38%

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

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULE OF THE CONTRIBUTIONS TO TRS MEDICAL INSURANCE FUND**

JUNE 30, 2018

	*
	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 284,397
Contribution in relation to the actuarially determined contributions	<u>284,397</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 9,479,900
Contributions as a percentage of covered employee payroll	3.00%

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

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

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

JUNE 30, 2018

	*
	<u>2018</u>
Proportion of the net OPEB liability	0.00000%
District's proportionate share of the net OPEB liability	\$ -
State proportionate share of the net OPEB liability associated with the District	<u>63,000</u>
Total	<u>\$ 63,000</u>
Covered - employee payroll	\$ 10,155,609
District's proportionate share of the net OPEB liability as percentage of covered payroll	0.0%
Plan fiduciary net position as a percentage of the total OPEB liability	80.00%

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

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULE OF CONTRIBUTIONS TO THE TRS LIFE INSURANCE FUND**

JUNE 30, 2018

	*
	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ -
Contribution in relation to the actuarially determined contributions	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 9,479,900
Contributions as a percentage of covered employee payroll	0.00%

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

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

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

JUNE 30, 2018

	*
	<u>2018</u>
Proportion of the net OPEB liability	0.128885%
Proportionate share of the net OPEB liability	\$ 2,591,029
Covered - employee payroll	\$ 3,088,791
Proportionate share of the net OPEB liability as percentage of covered payroll	83.9%
Plan fiduciary net position as a percentage of the total OPEB liability	55.50%

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

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT'S CERS OPEB CONTRIBUTIONS**

JUNE 30, 2018

	*
	<u>2018</u>
Contractually required contribution (actuarially determined)	\$ 145,173
Contribution in relation to the actuarially determined contributions	<u>145,173</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 3,088,791
Contributions as a percentage of covered employee payroll	4.70%

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

See accompanying independent auditor's report.

## **POWELL COUNTY SCHOOL DISTRICT**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OPEB**

JUNE 30, 2018

#### **CERS OPEB**

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

*Changes of assumptions:*

2018

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

#### **TRS OPEB**

*Changes of benefit terms.*

2018

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

LIF - None

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

**SUPPLEMENTARY INFORMATION**

**POWELL COUNTY SCHOOL DISTRICT**

**COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2018

	Capital Outlay Fund	District Activity Fund	Debt Service Fund	Building Fund	Total Nonmajor Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ 10,339	\$ 1,565	\$ -	\$ 39,724	\$ 51,628
Receivables	-	1,363	-	-	1,363
<b>Total Assets</b>	<b>\$ 10,339</b>	<b>\$ 2,928</b>	<b>\$ -</b>	<b>\$ 39,724</b>	<b>\$ 52,991</b>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Advances from grantors	-	2,928	-	-	2,928
<b>Total Liabilities</b>	<b>-</b>	<b>2,928</b>	<b>-</b>	<b>-</b>	<b>2,928</b>
<b>Fund Balances</b>					
Restricted	10,339	-	-	39,724	50,063
<b>Total Fund Balances</b>	<b>10,339</b>	<b>-</b>	<b>-</b>	<b>39,724</b>	<b>50,063</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,339</b>	<b>\$ 2,928</b>	<b>\$ -</b>	<b>\$ 39,724</b>	<b>\$ 52,991</b>

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

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

FOR THE YEAR ENDED JUNE 30, 2018

	Capital Outlay Fund	District Activity Fund	Debt Service Fund	Building Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>					
From local sources:					
Taxes:					
Property	\$ -	\$ -	\$ -	\$ 299,904	\$ 299,904
Earnings on investments	-	-	-	-	-
Other local revenue	-	14,282	-	-	14,282
Intergovernmental - State	209,713	-	519,722	521,119	1,250,554
<b>Total Revenues</b>	<u>209,713</u>	<u>14,282</u>	<u>519,722</u>	<u>821,023</u>	<u>1,564,740</u>
<b>Expenditures</b>					
Instruction	-	7,015	-	-	7,015
Support services:					
Instruction staff	-	7,267	-	-	7,267
Debt service:					
Principal	-	-	1,080,000	-	1,080,000
Interest	-	-	439,660	-	439,660
<b>Total Expenditures</b>	<u>-</u>	<u>14,282</u>	<u>1,519,660</u>	<u>-</u>	<u>1,533,942</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	209,713	-	(999,938)	821,023	30,798
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	999,938	-	999,938
Transfers out	(209,713)	-	-	(804,507)	(1,014,220)
<b>Total Other Financing Sources (Uses)</b>	<u>(209,713)</u>	<u>-</u>	<u>999,938</u>	<u>(804,507)</u>	<u>(14,282)</u>
<b>Net Change in Fund Balances</b>	-	-	-	16,516	16,516
<b>Fund balance, July 1, 2017</b>	10,339	-	-	23,208	33,547
<b>Fund balance, June 30, 2018</b>	<u>\$ 10,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,724</u>	<u>\$ 50,063</u>

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

COMBINING STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

JUNE 30, 2018

	Bowen Elementary School	Clay City Elementary School	Stanton Elementary School	Powell Co. Middle School	Powell Co. High School	Total Agency Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 10,659	\$ 6,114	\$ 14,927	\$ 33,100	\$ 130,046	\$ 194,846
Receivables	-	-	-	-	-	-
<b>Total Assets</b>	<u>\$ 10,659</u>	<u>\$ 6,114</u>	<u>\$ 14,927</u>	<u>\$ 33,100</u>	<u>\$ 130,046</u>	<u>\$ 194,846</u>
<b>Liabilities</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to student groups	10,659	6,114	14,927	33,100	130,046	194,846
<b>Total Liabilities</b>	<u>\$ 10,659</u>	<u>\$ 6,114</u>	<u>\$ 14,927</u>	<u>\$ 33,100</u>	<u>\$ 130,046</u>	<u>\$ 194,846</u>

See accompanying independent auditor’s report.

**POWELL COUNTY SCHOOL DISTRICT**

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

<u>SCHOOL</u>	<u>CASH BALANCE JULY 1, 2017</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>CASH BALANCE JUNE 30, 2018</u>	<u>RECEIVABLES JUNE 30, 2018</u>	<u>ACCOUNTS PAYABLE JUNE 30, 2018</u>	<u>DUE TO STUDENT GROUPS JUNE 30, 2018</u>
Bowen Elementary	\$ 9,757	\$ 19,738	\$ 18,836	\$ 10,659	\$ -	\$ -	\$ 10,659
Clay City Elementary	8,175	25,120	27,181	6,114	-	-	6,114
Stanton Elementary	16,821	29,862	31,756	14,927	-	-	14,927
Powell Co. Middle	34,254	175,512	176,666	33,100	-	-	33,100
Powell Co. High	110,909	447,225	428,088	130,046	-	-	130,046
Totals	<u>\$ 179,916</u>	<u>\$ 697,457</u>	<u>\$ 682,527</u>	<u>\$ 194,846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 194,846</u>

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

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

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

NAME OF ACTIVITY	CASH		DISBURSE- MENTS	CASH		ACCOUNTS PAYABLE	DUE TO STUDENT GROUPS
	BALANCES JULY 1, 2017	RECEIPTS		BALANCES JUNE 30, 2018	RECEIVABLES JUNE 30, 2018		
General Fund	\$ 2,218	\$ 608	\$ 1,451	\$ 1,375	\$ -	\$ -	\$ 1,375
Teacher Vending	797	2,295	2,082	1,010	-	-	1,010
Foundation Scholarship	-	500	500	-	-	-	-
Student Activities	3,719	3,706	4,411	3,014	-	-	3,014
AP English	1,122	-	-	1,122	-	-	1,122
Courtesy Committee	-	533	475	58	-	-	58
PTO	26	1,962	1,987	1	-	-	1
Art Class Fee	349	118	74	393	-	-	393
Pirates for Paws	-	311	52	259	-	-	259
STLP	168	-	-	168	-	-	168
AP History	35	-	-	35	-	-	35
FMD Classroom	190	-	-	190	-	-	190
Humanites Trip	59	-	-	59	-	-	59
Science Grant	1	-	-	1	-	-	1
Student Testing	1,579	-	-	1,579	-	-	1,579
Christmas Tea	398	-	-	398	-	-	398
Graduation	3,115	2,950	3,403	2,662	-	-	2,662
Social Studies Grant	131	-	-	131	-	-	131
Key Club	38	525	468	95	-	-	95
Senior Breakfast	759	5,532	3,839	2,452	-	-	2,452
Bass Team	1,487	1,234	2,393	328	-	-	328
Substitutes	270	-	-	270	-	-	270
Upper Room	24	-	-	24	-	-	24
Academic Team	148	2,685	2,672	161	-	-	161
Student Parking	37	-	-	37	-	-	37
Library	938	6	902	42	-	-	42
Spanish	482	2,035	1,857	660	-	-	660
Entrepreneurship	609	6,246	5,524	1,331	-	-	1,331
Home Economics	323	-	-	323	-	-	323
Registration Fees	5,440	7,192	1,924	10,708	-	-	10,708
Prom	6,220	6,650	7,065	5,805	-	-	5,805
Senior Class Trip	1,090	7,385	7,385	1,090	-	-	1,090
Class of 2018	211	13,734	13,945	-	-	-	-
Band	1,110	11,320	12,056	374	-	-	374
FBLA	2,887	20,075	19,680	3,282	-	-	3,282
Ecology Club	194	34,452	33,794	852	-	-	852
YSC	3,428	3,566	3,351	3,643	-	-	3,643
Snack Shack	742	14,876	14,711	907	-	-	907
Marching Band	-	12,100	5,914	6,186	-	-	6,186
Class of 2019	56	-	-	56	-	-	56
Yearbook	11,881	7,225	7,291	11,815	-	-	11,815
Pirate Press	397	-	-	397	-	-	397
Counselors	289	480	36	733	-	-	733
DECA	-	379	378	1	-	-	1
Gear-Up Projects	1	5	-	6	-	-	6
Kentucky Youth Asso	1,127	1,600	2,086	641	-	-	641
Science Olympiad	-	5,796	5,304	492	-	-	492
PCHS Dance Team	-	4,432	4,066	366	-	-	366
Locker Rental	15	-	-	15	-	-	15
BETA Club	870	2,425	811	2,484	-	-	2,484
Drama Club	1,119	-	-	1,119	-	-	1,119
FCA	407	848	976	279	-	-	279
FFA	2,740	11,361	14,101	-	-	-	-
FCCLA	2,979	17,402	16,552	3,829	-	-	3,829
FEA Club	145	-	-	145	-	-	145
SEW What	3,379	190	-	3,569	-	-	3,569
Pep Club	5	-	-	5	-	-	5
TSA	6	-	-	6	-	-	6
Special Olympics	203	128	331	-	-	-	-
HOBA	32	3	35	-	-	-	-
Construction Club	2,376	1,304	750	2,930	-	-	2,930
Skills Club	6	-	-	6	-	-	6
HOSA Competition	8	-	-	8	-	-	8
Bus Garage	8	270	263	15	-	-	15
Athletics	8,827	96,615	95,007	10,435	-	-	10,435
Baseball	264	22,278	19,481	3,061	-	-	3,061
Boys' Basketball	3,566	13,318	14,142	2,742	-	-	2,742
Girls' Basketball	72	9,882	9,181	773	-	-	773
Cheerleading	1,539	11,509	10,648	2,400	-	-	2,400

See accompanying independent auditor's report.

**POWELL COUNTY SCHOOL DISTRICT**

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2018

(CONTINUED)

<u>NAME OF ACTIVITY</u>	<u>CASH BALANCES JULY 1, 2017</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>CASH BALANCES JUNE 30, 2018</u>	<u>RECEIVABLES JUNE 30, 2018</u>	<u>ACCOUNTS PAYABLE JUNE 30, 2018</u>	<u>DUE TO STUDENT GROUPS JUNE 30, 2018</u>
Concessions	497	15,600	15,324	773	-	-	773
Football	2,342	24,892	23,894	3,340	-	-	3,340
Boys' Golf	575	4,828	4,200	1,203	-	-	1,203
Girls' Golf	3,828	3,739	6,710	857	-	-	857
Softball	1,981	11,827	8,269	5,539	-	-	5,539
Track	1,350	1,723	2,923	150	-	-	150
Boys' Soccer	2,347	8,258	8,302	2,303	-	-	2,303
Cross Country	2,413	2,835	4,536	712	-	-	712
Volleyball	770	10,116	6,912	3,974	-	-	3,974
Archery	-	300	-	300	-	-	300
4th & 5th Grade FOC	2,414	14,215	11,883	4,746	-	-	4,746
Athletic Field Trip	1	-	-	1	-	-	1
Girls' Soccer	-	2,380	-	2,380	-	-	2,380
Xteam	6,104	26,805	31,603	1,306	-	-	1,306
Band Trip	2,958	11,190	12,064	2,084	-	-	2,084
Band Parent Org	382	10,209	9,852	739	-	-	739
Gen Athletics	286	-	-	286	-	-	286
Sub total	<u>110,909</u>	<u>518,963</u>	<u>499,826</u>	<u>130,046</u>	<u>-</u>	<u>-</u>	<u>130,046</u>
Transfers	-	71,738	71,738	-	-	-	-
<b>TOTALS</b>	<b>\$ 110,909</b>	<b>\$ 447,225</b>	<b>\$ 428,088</b>	<b>\$ 130,046</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 130,046</b>

See accompanying independent auditor's report.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2018**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster - Cash Assistance Passed Through State Department of Education School Breakfast Program	10.553	7760005-17 7760005-18	\$ 69,731 243,999
National School Lunch Program	10.555	7760005-17 7760005-18	230,982 828,506
Summer Food Service Program for Children	10.559	7690024-17 7740023-18	5,314 45,990
Non-Cash Assistance (Commodities) National School Lunch Program	10.555	4003164	<u>112,445</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,536,967</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster (IDEA) - Passed Through State Department of Education			
Special Education - Grants to States	84.027	337C 337CP 337D	114,127 15,352 387,826
Special Education - Preschool Grants	84.173	343C 343D	167 <u>31,076</u>
			<u>548,548</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	310CM 310C 310D 310DM	5,709 223,875 767,434 7,282
			<u>1,004,300</u>
Vocational Education - Basic Grants to States	84.048	348CA 348C	1,718 <u>33,198</u>
			<u>34,916</u>
Improving Teacher Quality - State Grants	84.367	401C 401D	24,023 88,348
			<u>112,371</u>
Migrant Education	84.011	311C 311D	35,156 47,893
			<u>83,049</u>
Rural Education	84.358	350C 350D	12,268 31,732
			<u>44,000</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through Berea College			
GEAR UP	84.334A	379CG 379CP 379CR 379DG 379DP 379DR	17,898 6,057 3,352 76,976 28,606 53,126
			<u>186,015</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,013,199</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,550,166</u>

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

## **POWELL COUNTY SCHOOL DISTRICT**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

JUNE 30, 2018

#### **NOTE 1 – BASIS OF PRESENTATION**

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

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **NOTE 3 – FOOD DISTRIBUTION**

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

#### **NOTE 4 – INDIRECT COST RATE**

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

#### **NOTE 5 – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2018

---

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

---

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.553 / 10.555 / 10.559

**Child Nutrition Cluster**



**POWELL COUNTY SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2018

---

**Section II – Financial Statement Findings (Continued)**

---

**View of Responsible Officials and Planned Corrective Action:** The investments in question were entered into by a previous superintendent and finance officer. Current management has reached out to the Kentucky Department of Education (KDE) for guidance and will work with all involved parties to ensure that these investments are remedied appropriately in regards to state law and board policy.

---

**Section III – Federal Award Findings and Questioned Costs**

---

No findings to report.

**POWELL COUNTY SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**JUNE 30, 2018**

No findings reported.



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

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Powell County School District  
Stanton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Powell County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Powell County School District's basic financial statements, and have issued our report thereon dated November 7, 2018.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-001 that we consider to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-002. In addition, the results of our tests disclosed one instance of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements* and which is described in the accompanying schedule of findings and questioned costs as item 2018-002.

### **Powell County School District's Responses to Findings**

The Powell County School District's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain other matters that we reported to management of Powell County School District in a separate letter dated November 7, 2018.

### **Purpose of this Report**

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

*Stiles, Carter + Associates, CPAs, P.S.C.*

Stiles, Carter & Associates, CPAs, P.S.C.  
Bardstown, Kentucky  
November 7, 2018



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

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Powell County School District  
Stanton, Kentucky

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

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

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

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

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

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

*Stiles, Carter + Associates, CPAs, P.S.C.*

Stiles, Carter & Associates, CPAs, P.S.C.  
Bardstown, Kentucky  
November 7, 2018

**POWELL COUNTY SCHOOL DISTRICT**

MANAGEMENT LETTER  
COMMENTS

YEAR ENDED JUNE 30, 2018



STILES, CARTER & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS  
WWW.SCACPA.COM

CHRIS R. CARTER, CPA  
ANN M. FISHER, CPA  
SCOTT KISSELBAUGH, CPA  
PHILIP A. LOGSDON, CPA  
BRIAN S. WOOSLEY, CPA

AMERICAN INSTITUTE OF CPAS  
KENTUCKY SOCIETY OF CPAS

Kentucky State Committee for School District Audits and  
Members of the Board of Education  
Powell County School District  
Stanton, Kentucky

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

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. A separate report dated November 7, 2018 contains our report on the District's internal control structure. This letter does not affect our report dated November 7, 2018 on the financial statements of the Powell County School District.

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

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

Respectfully,

*Stiles, Carter + Associates, CPAs, P.S.C.*

Stiles, Carter & Associates, CPAs, P.S.C.  
Bardstown, Kentucky  
November 7, 2018

# **POWELL COUNTY SCHOOL DISTRICT**

## **MANAGEMENT LETTER COMMENTS**

JUNE 30, 2018

### **CURRENT YEAR COMMENTS**

#### **BOWEN ELEMENTARY SCHOOL**

##### **INTERNAL CONTROL QUESTIONNAIRE**

We noted during review of the internal control questionnaire that the bookkeeper enters invoices into the accounting system, prints checks and matches invoices to checks. Redbook requires these duties to be segregated.

##### **MANAGEMENT'S RESPONSE**

Due to the limited number of staff in our school, the bookkeeper is the only employee with access to the accounting system. Upon arrival of an invoice, the bookkeeper pulls the previously approved purchase order and only makes necessary changes or updates in the accounting program (Invoice # or corrected amount). The check is then printed from the accounting program. The check, purchase order with all paperwork and invoice are given to the principal for a double check of accuracy and signature on the check.

#### **CLAY CITY ELEMENTARY SCHOOL**

##### **INTERNAL CONTROL QUESTIONNAIRE**

We noted during review of the internal control questionnaire that the bookkeeper approves invoices, enters invoices into the accounting system, prints checks, matches invoices to checks and mails the checks. Redbook requires these duties to be segregated.

##### **MANAGEMENT'S RESPONSE**

Due to a limited number of staff, the bookkeeper is the only member of staff with access to the accounting system. All purchases have been approved by the school principal prior to receipt of invoice using signed purchase order which deems invoice approval unnecessary (as per Redbook). Generated checks are then given to principal for signature along with signed purchase order, invoice, and packing slip (if applicable) for review. After checks are signed by principal the bookkeeper then retains 2 copies of each check which are attached to purchase order, invoice, and packing slip.

#### **STANTON ELEMENTARY SCHOOL**

##### **INTERNAL CONTROL QUESTIONNAIRE**

We noted during review of the internal control questionnaire that the bookkeeper photocopies checks/records receipts, records revenue and takes the deposit to the bank. Redbook requires these duties to be segregated.

We noted during review of the internal control questionnaire that the bookkeeper enters invoices, prints checks, matches invoices to checks and mails the checks. Redbook requires these duties to be segregated.

##### **MANAGEMENT'S RESPONSE**

This year, we have implemented the segregation of duties where Angie Meade, attendance clerk, opens the mail, records invoices and checks in a Google document that is shared with Principal Crase and the Bookkeeper, Dana Estep. Angie sends mail out and collects the mail from the mailbox.

## **POWELL COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS**

JUNE 30, 2018

#### CREDIT CARDS

We noted during review of credit cards that there were multiple instances in which the credit card was signed out but there was not a date filled out for when the card was returned. On 06/03/2018, the credit card was checked out but there is no signature for the person witnessing the return. Lastly, there were no applicable PO numbers on the Credit Card Sign In/Out Log. Redbook requires the card and approved purchase orders to be submitted immediately or no later than the close of the next business day.

#### MANAGEMENT'S RESPONSE

This year we are closely monitoring the checking in and out of the card and will record the purchase order numbers on the sign in/out log.

#### MULTIPLE RECEIPT FORMS

We noted during review of fundraisers, ticket sales and receipts that the applicable Multiple Receipt Forms (F-SA-6) were not filled out correctly. On multiple instances, there was no information filled out for the receipt number or the applicable activity fund. Redbook requires the Multiple Receipt Form to be properly completed in its entirety.

#### MANAGEMENT'S RESPONSE

Mr. Crase will address this the school staff. It has been addressed in the past but it will be reviewed with them.

#### DEPOSIT SLIPS

We noted during review of receipts that none of the deposit slips had the applicable receipt numbers written on them. Redbook requires the deposit slip to note the applicable receipt numbers.

#### MANAGEMENT'S RESPONSE

This was an oversight on my part as a bookkeeper. It was a new practice and I simply forgot. I will implement this for the coming

### **POWELL COUNTY MIDDLE SCHOOL**

#### CREDIT CARDS

We noted during review of credit cards multiple instances where the card was checked out over five days. Redbook requires the card, approved purchase orders, and itemized receipts be submitted immediately or no later than the close of the next business day.

#### MANAGEMENT'S RESPONSE

This school year, the school bookkeeper is making sure the credit cards are not checked out longer than what Redbook requires. The only reason that a credit card may be checked longer than required would be an overnight field trip, out-of-state trip or the occasional need to checkout over a weekend.

#### SEGREGATION OF DUTIES

We noted during review of the internal control questionnaire that the bookkeeper photocopies checks/records receipts, records revenue and takes the deposit to the bank. Redbook requires these duties to be segregated.

We noted during review of the internal control questionnaire that the bookkeeper approves invoices, enters invoices into the accounting system, prints checks, matches invoices to checks and mails the checks. Redbook requires these duties to be segregated.

## **POWELL COUNTY SCHOOL DISTRICT**

### **MANAGEMENT LETTER COMMENTS**

JUNE 30, 2018

#### MANAGEMENT'S RESPONSE

The Principal of Powell County Middle School has now started photocopying the checks when the deposit and receipts are brought to her to count and match before going to the bank to be deposited by the bookkeeper.

The Principal approves all PO's. When the PO is approved by the principal it is then brought to the bookkeeper to be entered into EPES. After the invoice comes in it is matched with the PO, then is paid. After all steps of paying the invoice have occurred, the check, the PO and invoice are taken to the Principal for signature of the check and reviewing of the invoice.

### **POWELL COUNTY HIGH SCHOOL**

#### CREDIT CARDS

We noted during review of credit cards that the Credit Card Sign In/Out Log (F-SA-13) for every card did not have an applicable purchase order number on the log. Redbook requires all charges to have a PRIOR-approved purchase order and a signed itemized store receipt.

#### MANAGEMENT'S RESPONSE

All charges have a prior-approved purchase order but the purchase order was not logged on the Credit Card Sign In/Out Log (F-SA-13). The bookkeeper will now log all purchase order numbers with the corresponding credit card sign out.

#### SEGREGATION OF DUTIES

We noted during review of the internal control questionnaire that the bookkeeper photocopies checks/records receipts, records revenue and takes the deposit to the bank. Redbook requires these tasks to be segregated.

We noted during review of the internal control questionnaire that the bookkeeper enters invoices, prints checks, matches invoices to checks and mails the checks. Redbook requires these tasks to be segregated.

#### MANAGEMENT'S RESPONSE

The secretary copies and records checks on a multiple receipt form. The bookkeeper records revenue in EPES, the school accounting system. Starting in the fiscal year 2019 the front secretary will do a secondary count of all monies before deposit. Before the bookkeeper posts a deposit, they will have the secretary review and co-sign on receipts and the completed deposit ticket. The secretary will count all checks and monies to make sure that the amount matches the deposit. The secretary matches the deposit ticket amount to the pre-posted deposit amount in EPES, the school accounting program. Before and after the deposit the principal reviews all receipts and the deposit ticket/slip for current deposit.

After reviewing the Redbook requirements the segregation of duties will be as follows:

The principal pre-approves all Purchase Orders (with this action they do not need to approve the invoice). The bookkeeper will enter invoices-each will contain:

- a. An invoice,
- b. A signed PO,
- c. A packing slip, if applicable, initialed by purchaser, and a
- d. Confirming receipt, if applicable.

Bookkeepers will print checks.

The principal will match each invoice to the corresponding PO.

The attendance clerk will mail checks.