

# **Henderson County School District**

Independent Auditors' Report on Basic Financial Statements  
and Supplementary Information  
For the fiscal year ended June 30, 2017

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## **INDEPENDENT AUDITORS' REPORT**

Members of the Board of Education  
Henderson County School District  
Henderson, Kentucky

### **Report on 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 Henderson County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the 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, maintenance, and implementation of internal control relevant to the fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### **Auditors' Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County School District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplemental Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, budgetary comparison information on pages 43 and 44, and schedules of the District's proportionate share of net pension liabilities and pension contributions on pages 49 through 53 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparation of the supplemental 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 Henderson County School District's basic financial statements. The combining and activity fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and activity fund financial statements on pages 45 through 48 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 activity fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 03, 2017 on our consideration of Henderson County School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Myriad Co Group, LLC*

Henderson, Kentucky

November 03, 2017

January 10, 2018 (reissuance date)

# Henderson County Schools

1805 Second Street, Henderson, Kentucky 42420  
(270) 831-5000 Fax: (270) 831-5009  
<http://www.hendersonschools.net>



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## **HENDERSON COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

As management of the Henderson County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage our readers to consider information presented here in conjunction with additional information located within the body of the audit report.

### **Financial Highlights:**

- The beginning Governmental Fund balance for the District was \$17,631,84. The ending fund balance was \$36,888,519 which was an increase of \$19,256,685.
- The District is in good financial condition as it has been able to withstand the financial pressures of a very tight state education budget over the past several years without impairing the educational programs or facilities maintenance requirements for the District.
- The District's current assets increased by \$19,720,239 during the year, while current liabilities increased by \$427,364 resulting in a current ratio of 7.73, which is indicative of the District's solid financial position and operating efficiency.
- The District continues to make significant investments in the facilities of the District, as evidenced by additions to capital of \$5,441,400 (at cost).

### **Overview of the Financial Statements**

Management's 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 the readers with a broad overview of the District's finances, in a manner similar to a private sector business.

- The *Statement of Net Position* presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving.
- The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing if the related cash transactions. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**HENDERSON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Both of these District wide statements are divided into two types of activities:

- *Government Activities* - The government wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. The fixed assets and related debt that are also supported by taxes and intergovernmental revenues are reported in this section.
- *Business-Type Activities* - These services are provided on a charge for goods and services basis to recover all of the expenses of the goods or services provided. The types of activities reported in this category are the food service operations, child care centers, and adult education courses. These activities are funded through fees charged and supported by federal grants and federal commodities used in the food service operations.

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 system. 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.

- *Governmental Funds* - Most of the School District's activities are reported in the governmental funds that include: general fund, special revenue (grants), capital outlay, building fund (FSPK), construction fund, and debt service fund. These funds are reported using an accounting method referred to as modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The government fund statements provide a detailed short-term view of the School District's general government operations and basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the financial statements provided.
- *Proprietary Funds* - The proprietary funds include the food service, child care centers, and adult education programs found in the business type activity funds. These funds utilize the same basis of accounting as business type activities, therefore, the statements for the proprietary fund will correspond to the statement of net assets.
- *Fiduciary Funds* - The fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The District's fiduciary funds, referred to as "activity funds" are maintained at the school level.
- *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 financial statements. These notes may better explain data found in the financial statements, or provide additional information not found in the financial statements provided.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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) less any related debt used to acquire those assets, which is outstanding at year end.

**HENDERSON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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 those capital assets.

**Net Financial Position For the Fiscal Year Ended June 30, 2017**

	<b>June 30, 2017</b>	<b>June 30, 2016</b>	<b>Change</b>
Current assets	\$ 41,129,808	\$ 21,409,569	\$ 19,720,239
Capital or non-current assets	36,435,675	33,920,793	2,514,882
Deferred outflows	4,424,406	3,451,131	973,275
<b>Total Assets and Deferred Outflows</b>	<b>81,989,889</b>	<b>58,781,493</b>	<b>23,208,396</b>
Current liabilities	\$ 5,319,686	\$ 4,892,322	\$ 427,364
Non-current liabilities	55,825,198	38,846,916	16,978,282
Deferred Inflows	764,483	28,314	736,169
<b>Total Liabilities and Deferred Inflows</b>	<b>61,909,367</b>	<b>43,767,552</b>	<b>18,141,815</b>
Investment in capital assets, net of related debt	(695,407)	12,700,883	(13,396,290)
Restricted	15,249,953	1,897,312	13,352,641
Unassigned	5,525,976	415,746	5,110,230
<b>Total Net Financial Position</b>	<b>\$ 20,080,522</b>	<b>\$ 15,013,941</b>	<b>\$ 5,066,581</b>

Total net assets and deferred outflows exceeded total liabilities and deferred inflows by \$20,080,522 which indicates that the District remains in good financial condition.

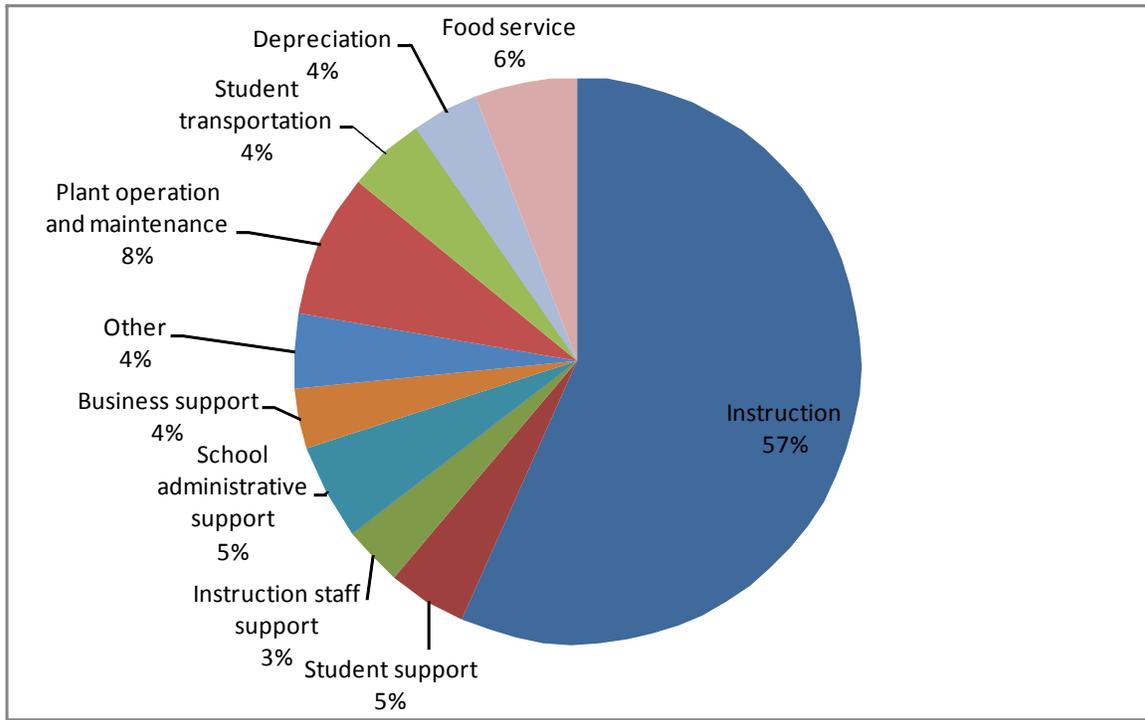
Current assets increased by \$19,720,239 during the fiscal year and capital assets increased by \$2,514,882. Total acquisitions of capital assets during the year were \$5,441,400, while depreciation of assets totaled 2,919,629. This resulted in a net increase in capital assets of \$2,514,882. The net increase in the unfunded pension liability and issuance of a new bond resulted in a net increase in long-term liabilities of \$16,978,282. All of these factors resulted in a increase in net position of \$5,066,581 for the year ended June 30, 2017.

The District's total revenues were \$80,738,767 and the total expenditures were \$75,672,186 which resulted in an increase in net position of \$5,066,581.

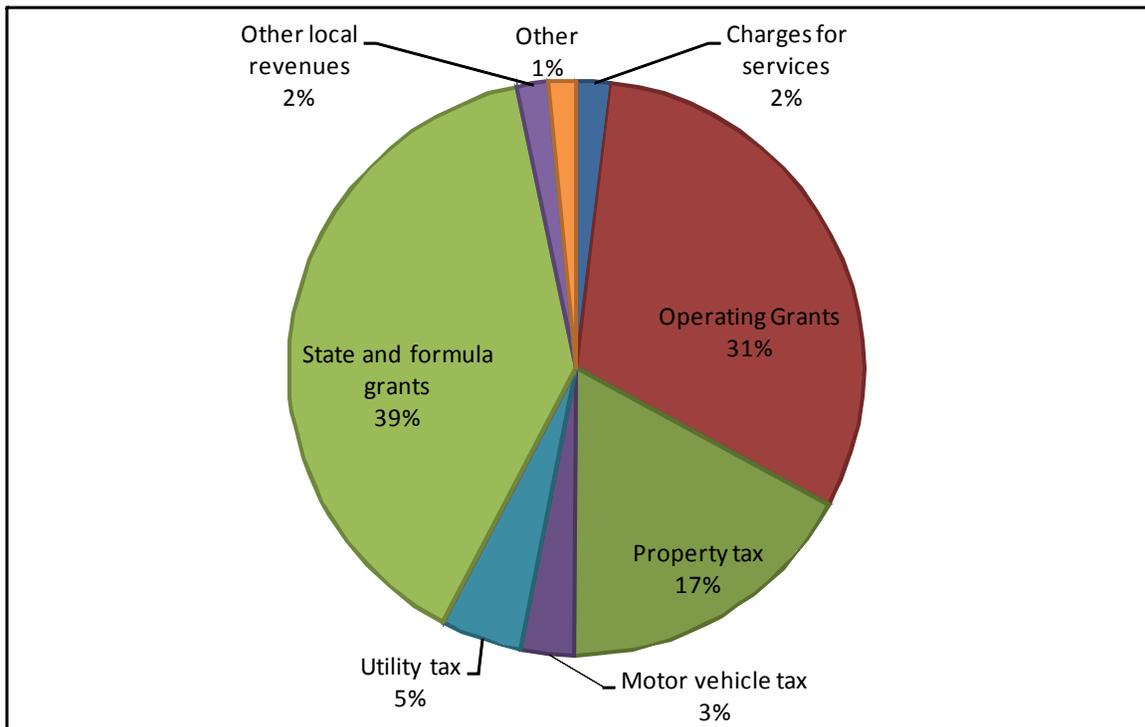
- State revenues accounted for 39.0% of the total revenues while local taxes accounted for 26.0%.
- Expenditures totaled \$75,672,186, with \$42,896,623 or 56.7% of the total being expended towards student instruction.

**HENDERSON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Expenditures:**



**Revenues:**



**HENDERSON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Governmental Fund Highlights**

- Total General Fund revenues for the year were \$60.8 million, with \$40.9 million coming from state revenues, \$0.3 million from federal and the remaining \$19.6 million from local sources.
- Total General Fund Expenditures were \$57.4 million, with instruction costs being the largest area at \$35.4 million.
- The net excess of revenues over expenditures was \$3.4 million and other financing sources added an additional \$2.5 million resulting in an increase in the general fund balance of \$5.9 million for the 2017 fiscal year.
- Special Revenue fund expenditures for the year were \$8.6 million. Two major sources of revenues for this fund were state grants totaling \$3.8 million and federal grants totaling \$4.6 million.
- Construction Fund expenditures included \$5.2 million for facilities acquisition and construction and Other Governmental Funds included debt service payments of \$2.6 million.
- Total ending fund balances as of June 30, 2017 were \$21.6 million in the General Fund and \$15.3 million in the other governmental funds for a total of \$36.9 million.

**Commentary on General Fund Budgetary Comparisons**

- Actual revenues and expenditures both include \$12.9 million of on behalf payments. These represent payments for employee benefits paid at the state level on behalf of the Henderson County School District. The following comments are net of these on-behalf payments.
- Total revenues in relation to budgeted amounts were \$1.3 million favorable. The major revenue line items exceeding amounts budgeted were property taxes from all sources and other local revenues.
- Total expenditures were \$57.4 million, with expenditures in relation to budgeted amounts being \$17.9 million favorable. The budget included a contingency of \$6.1 million with no expenditures, actual instruction expenditures were \$5.7 million less than budgeted, and actual support services were \$6.0 million less than budgeted.

**21st Century Learning Environments**

The condition of physical infrastructure is integral to the core mission of the District. With the passing of the Nickel tax, the District will have the resources available to expand, improve, and maintain its properties. This tax created a healthy bonding capacity for the district which allows us to begin construction on a new facility for Spottsville Elementary School. In addition to the increased bonding potential, the Nickel tax brought in additional revenue of \$1.5 million that will allow us to have cash available for upgrades to facilities. The District moved forward with several facility projects utilizing the cash generated from the Nickel tax. The District has upgraded lighting, safety and communication, and other projects geared toward energy savings.

**Future Budgetary Considerations**

In Kentucky, the public schools operate on a July 1<sup>st</sup> to June 30<sup>th</sup> fiscal year, other programs such as some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have at least a 2% contingency. The district adopted a budget for fiscal year 2017, with a \$6,108,962 or 8.11% contingency. However, current economic conditions are of concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction. The District intends to take a conservative approach to expenditures as it has in the previous years.

**HENDERSON COUNTY BOARD OF EDUCATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**District Challenges for the Future**

Henderson County School District's overall financial status remains in a safe financial position. The District is financially stable, but at risk due to continued, inadequate state funding. As with the current year, transportation costs for students is a significant financial concern now and in the future. State provided funds are being reduced while most components are increasing. The cost of diesel fuel has varied widely over the past four years and continues to be of concern in the future. The costs of bus purchases will continue to increase due to changes in EPA requirements and the need to continue to replace an aging fleet.

The Commonwealth of Kentucky's financial condition, due to a stagnant economy, will have a significant impact on the availability of funds allocated to public education. The school districts have already experienced reductions in funding and allocation of some expenses that were traditionally paid by the state. Since a large percentage of the District's funding is provided by the State sources, the financial outlook for public schools is dependent upon the State's financial condition and budgetary funds. The outlook for the future years is a major concern for the Board and management.

The financial instability in the state pension fund and the rising retirement/pension costs is a financial risk that is facing Henderson County Schools. In 2017, the contribution rate to the County Employees' Retirement System was 13.95% of annual covered payroll as relating to pensions, and 4.73% as relating to postemployment healthcare benefits. Proposed increased of 50.74% to employer contribution rates further burden the District's financial obligation by nearly \$1 million in FY2018-19. No additional state funding has been appropriated to offset this rising cost. There is a need for the District to increase local funding to provide additional revenue to offset this mandated expense increase.

The District's tests scores as with the previous year are on the rise. Several new programs have been initiated in the past few years that will continue to impact test scores in a positive manner. However, many of the programs, such as full day kindergarten, expanded pre-school programs, and instructional coaches are not funded by the State budget. The District will again be challenged to continue to find the resources to fund these important educational programs.

Technology has been and will continue to be a major focus as we continue towards our 1:1 initiative and the need to keep pace with an ever changing technological society. The District Technology Plan will help guide the District's technology decisions. We currently have devices for all instructional staff as well as our fifth through eighth grades. The plan objectives, expectations, indicators, targets, and action plans are reviewed and modified in order to accommodate technology changes and/or future funding challenges. This articulates our common vision and identifies strategies for the use of technology in developing critical thinking skills that are essential for academic and workplace success.

**Report Purpose and Contact Information**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors, with a general overview of the Henderson County School District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

Cindy Cloutier, Director of Finance  
Henderson County Schools  
1805 Second Street  
Henderson, Kentucky 42420  
Telephone: 270.831.5000 or Electronic Mail: [cindy.cloutier@henderson.kyschools.us](mailto:cindy.cloutier@henderson.kyschools.us)

**Henderson County School District**  
**Government-Wide Financial Statements - Statement of Net Position**  
**As of June 30, 2017**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash and cash equivalents	\$ 37,996,384	\$ 1,083,045	\$ 39,079,429
Inventory	-	107,342	107,342
Accounts receivable:			
Taxes - current	614,720	-	614,720
Accounts receivable	53,976	49,983	103,959
Intergovernmental - indirect	1,224,358	-	1,224,358
<b>Total Current Assets</b>	<b>39,889,438</b>	<b>1,240,370</b>	<b>41,129,808</b>
<b><u>Noncurrent Assets:</u></b>			
Capital assets, net	36,249,355	186,320	36,435,675
<b>Total Noncurrent Assets</b>	<b>36,249,355</b>	<b>186,320</b>	<b>36,435,675</b>
<b><u>Deferred Outflows of Resources:</u></b>			
Deferred outflows related to pension liability	4,424,406	-	4,424,406
<b>Total Deferred Outflows of Resources</b>	<b>4,424,406</b>	<b>-</b>	<b>4,424,406</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 80,563,199</b>	<b>\$ 1,426,690</b>	<b>\$ 81,989,889</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Accounts payable	\$ 1,307,609	\$ 9,576	\$ 1,317,185
Accrued payroll and related expenses	329,919	79,330	409,249
Unearned revenue	1,206,527	-	1,206,527
Current portion of bond obligations	2,110,000	-	2,110,000
Current portion of accrued sick leave	156,864	-	156,864
Interest payable	119,861	-	119,861
<b>Total Current Liabilities</b>	<b>5,230,780</b>	<b>88,906</b>	<b>5,319,686</b>
<b><u>Noncurrent Liabilities:</u></b>			
Noncurrent portion of bond obligations	35,021,082	-	35,021,082
Unfunded pension liability-CERS	20,118,396	-	20,118,396
Noncurrent portion of accrued sick leave	685,720	-	685,720
<b>Total Noncurrent Liabilities</b>	<b>55,825,198</b>	<b>-</b>	<b>55,825,198</b>
<b>Total Liabilities</b>	<b>61,055,978</b>	<b>88,906</b>	<b>61,144,884</b>
<b><u>Deferred Inflows of Resources:</u></b>			
Deferred inflows related to pension liability	764,483	-	764,483
<b>Total Deferred Inflows of Resources</b>	<b>764,483</b>	<b>-</b>	<b>764,483</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>61,820,461</b>	<b>88,906</b>	<b>61,909,367</b>
<b><u>NET POSITION</u></b>			
Invested in capital assets, net of related debt	\$ (881,727)	\$ 186,320	\$ (695,407)
Restricted	15,249,953	-	15,249,953
Unrestricted	4,374,512	1,151,464	5,525,976
<b>Total Net Position</b>	<b>\$ 18,742,738</b>	<b>\$ 1,337,784</b>	<b>\$ 20,080,522</b>

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

**Henderson County School District**  
**Government-Wide Financial Statements - Statement of Activities**  
For the fiscal year ended June 30, 2017

<b>FUNCTIONS/PROGRAMS</b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue and Changes in Net Position</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants &amp; Contributions</b>	<b>Capital Grants &amp; Contributions</b>	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b><u>Governmental Activities:</u></b>							
Instruction	\$ 42,896,623	\$ 97,734	\$ 18,002,682	\$ -	\$ (24,796,207)	\$ -	\$ (24,796,207)
Support services:							
Student	3,436,111	-	738,837	-	(2,697,274)	-	(2,697,274)
Instruction staff	2,560,989	-	105,521	-	(2,455,468)	-	(2,455,468)
District administrative	1,151,794	-	54,868	-	(1,096,926)	-	(1,096,926)
School administrative	4,114,281	-	868,015	-	(3,246,266)	-	(3,246,266)
Business	2,603,083	-	259,070	-	(2,344,013)	-	(2,344,013)
Plant operation and maintenance	6,204,674	-	416,180	-	(5,788,494)	-	(5,788,494)
Student transportation	3,326,218	-	413,763	-	(2,912,455)	-	(2,912,455)
Facilities acquisition and construction	-	-	-	-	-	-	-
Community service activities	642,011	-	-	-	(642,011)	-	(642,011)
Interest on long-term debt	820,569	-	-	-	(820,569)	-	(820,569)
Depreciation	2,883,748	-	-	-	(2,883,748)	-	(2,883,748)
Total Governmental Services	<u>70,640,101</u>	<u>97,734</u>	<u>20,858,936</u>	<u>-</u>	<u>(49,683,431)</u>	<u>-</u>	<u>(49,683,431)</u>
<b><u>Business Type Activities:</u></b>							
Food service	4,432,335	827,357	4,092,955	-	-	487,977	487,977
Daycare operations	599,750	626,101	79,229	-	-	105,580	105,580
Adult education	-	150	-	-	-	150	150
Total Business Activities	<u>5,032,085</u>	<u>1,453,608</u>	<u>4,172,184</u>	<u>-</u>	<u>-</u>	<u>593,707</u>	<u>593,707</u>
<b>Total Activities</b>	<u>\$ 75,672,186</u>	<u>\$ 1,551,342</u>	<u>\$ 25,031,120</u>	<u>\$ -</u>			<u>\$ (49,089,724)</u>
<b><u>General Revenues:</u></b>							
Taxes:							
Property tax				\$ 13,868,895	\$ -	\$ 13,868,895	
Motor vehicle tax				2,401,932	-	2,401,932	
Utility tax				3,720,963	-	3,720,963	
Unmined minerals				140,397	-	140,397	
Franchise tax				878,003	-	878,003	
Investment earnings				236,695	3,169	239,864	
State and formula grants				31,499,419	-	31,499,419	
Other local revenues				1,392,475	-	1,392,475	
Disposal of assets				14,357	-	14,357	
Transfers				213,116	(213,116)	-	
Total General Revenues				<u>54,366,252</u>	<u>(209,947)</u>	<u>54,156,305</u>	
Change in Net Position				4,682,821	383,760	5,066,581	
Net Position - Beginning				14,059,917	954,024	15,013,941	
Net Position - Ending				<u>\$ 18,742,738</u>	<u>\$ 1,337,784</u>	<u>\$ 20,080,522</u>	

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

**Henderson County School District  
Balance Sheet - Governmental Funds  
As of June 30, 2017**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS AND RESOURCES:</u></b>					
Cash and cash equivalents	\$ 21,834,515	\$ 82,792	\$ 16,033,447	\$ 45,630	\$ 37,996,384
Accounts receivable:					
Taxes - current	614,720	-	-	-	614,720
Accounts receivable	53,576	-	-	400	53,976
Intergovernmental - State	-	1,224,358	-	-	1,224,358
	<u>-</u>	<u>1,224,358</u>	<u>-</u>	<u>-</u>	<u>1,224,358</u>
<b>Total Assets and Resources</b>	<u>\$ 22,502,811</u>	<u>\$ 1,307,150</u>	<u>\$ 16,033,447</u>	<u>\$ 46,030</u>	<u>\$ 39,889,438</u>
<b><u>LIABILITIES AND FUND BALANCES:</u></b>					
<b><u>LIABILITIES:</u></b>					
Accounts payable	\$ 377,462	\$ 100,623	\$ 822,605	\$ 6,919	\$ 1,307,609
Accrued payroll and related expenses	329,919	-	-	-	329,919
Current portion of accumulated sick leave	156,864	-	-	-	156,864
Unearned revenue	-	1,206,527	-	-	1,206,527
<b>Total Liabilities</b>	<u>864,245</u>	<u>1,307,150</u>	<u>822,605</u>	<u>6,919</u>	<u>3,000,919</u>
<b><u>FUND BALANCES:</u></b>					
Restricted	-	-	15,210,842	39,111	15,249,953
Committed	639,475	-	-	-	639,475
Assigned	2,868,702	-	-	-	2,868,702
Unassigned	18,130,389	-	-	-	18,130,389
<b>Total Fund Balances</b>	<u>21,638,566</u>	<u>-</u>	<u>15,210,842</u>	<u>39,111</u>	<u>36,888,519</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 22,502,811</u>	<u>\$ 1,307,150</u>	<u>\$ 16,033,447</u>	<u>\$ 46,030</u>	<u>\$ 39,889,438</u>

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

**Henderson County School District**  
**Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position**  
**As of June 30, 2017**

Total fund balance per fund financial statements \$ 36,888,519

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.

Gross capital assets	\$ 97,053,176	
Accumulated depreciation	<u>(60,803,821)</u>	36,249,355

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position, as follows:

Unfunded pension liability	\$ (20,118,396)	
Deferred outflows of resources	4,424,406	
Deferred inflows of resources	(764,483)	
Long-term debt	(37,131,082)	
Long-term portion sick leave accrual	(685,720)	
Accrued interest expense	<u>(119,861)</u>	<u>(54,395,136)</u>

Net position for governmental activities \$ 18,742,738

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

**Henderson County School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**  
**For the fiscal year ended June 30, 2017**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES:</u></b>					
From local sources:					
Taxes:					
Property	\$ 10,834,055	\$ -	\$ -	\$ 3,034,840	\$ 13,868,895
Motor vehicle and watercraft	2,401,932	-	-	-	2,401,932
Utilities	3,720,963	-	-	-	3,720,963
Unmined minerals	140,397	-	-	-	140,397
Franchise	878,003	-	-	-	878,003
Tuition and fees	97,734	-	-	-	97,734
Earnings on investments	221,512	-	-	15,183	236,695
Other local revenues	1,101,845	32,782	-	100,626	1,235,253
Intergovernmental - intermediate	145,101	19,149	-	-	164,250
Intergovernmental - state	40,887,558	3,771,752	-	2,572,453	47,231,763
Intergovernmental - indirect federal	-	4,526,798	-	-	4,526,798
Intergovernmental - direct federal	346,933	88,611	-	-	435,544
Total Revenues	<u>60,776,033</u>	<u>8,439,092</u>	<u>-</u>	<u>5,723,102</u>	<u>74,938,227</u>
<b><u>EXPENDITURES:</u></b>					
Instruction	35,366,273	6,379,813	-	61,644	41,807,730
Support services:					
Student	3,052,788	383,323	-	-	3,436,111
Instruction staff	1,525,041	1,018,544	-	17,405	2,560,990
District administrative	1,005,055	146,739	-	-	1,151,794
School administrative	4,114,281	-	-	-	4,114,281
Business	2,603,083	-	-	-	2,603,083
Plant operation and maintenance	6,291,857	-	-	16,785	6,308,642
Student transportation	3,418,642	1,549	-	-	3,420,191
Facilities acquisition and construction	-	-	5,152,501	-	5,152,501
Community service activities	-	642,016	-	-	642,016
Debt service	-	-	-	2,563,586	2,563,586
Total Expenditures	<u>57,377,020</u>	<u>8,571,984</u>	<u>5,152,501</u>	<u>2,659,420</u>	<u>73,760,925</u>
Excess (Deficit) of Revenues Over Expenditures	<u>3,399,013</u>	<u>(132,892)</u>	<u>(5,152,501)</u>	<u>3,063,682</u>	<u>1,177,302</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>					
Operating transfers in	2,626,340	137,370	2,068,640	1,989,669	6,822,019
Operating transfers out	(137,370)	(4,478)	-	(6,467,055)	(6,608,903)
Bond principal proceeds	-	-	17,845,000	-	17,845,000
Disposal of assets	21,267	-	-	-	21,267
Total Other Financing Sources	<u>2,510,237</u>	<u>132,892</u>	<u>19,913,640</u>	<u>(4,477,386)</u>	<u>18,079,383</u>
Change in fund balance	5,909,250	-	14,761,139	(1,413,704)	19,256,685
Fund Balance, Beginning of Year	<u>15,729,316</u>	<u>-</u>	<u>449,703</u>	<u>1,452,815</u>	<u>17,631,834</u>
Fund Balance, End of Year	<u>\$ 21,638,566</u>	<u>\$ -</u>	<u>\$ 15,210,842</u>	<u>\$ 39,111</u>	<u>\$ 36,888,519</u>

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

**Henderson County School District**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances -**  
**Governmental Funds to the Statement of Activities**  
**For the fiscal year ended June 30, 2017**

Net change in total fund balances per fund financial statements		\$ 19,256,685
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 financial position and depreciated over their estimated economic lives. The difference is the amount by which depreciation exceeds capital outlays for the year.		
Depreciation expense	\$ (2,883,748)	
Capital outlay	<u>5,421,536</u>	2,537,788
Gains and losses on the disposal of property and equipment are not recorded in the governmental fund financial statements, only the cash proceeds received from the sale or disposal are recorded in the governmental fund financial statements.		
		(6,910)
Bond issue proceeds, which are reported as other sources of funds in the fund financial statements, are reflected as a liability on the statement of net position		
		(17,845,000)
Bond and capital lease 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.		
Bond principal payments	\$ 1,780,000	
Amortization of bond premiums and discounts	<u>(3,394)</u>	1,776,606
Change in noncurrent portion of accrued sick leave		
		46,246
Change in interest payable		
		31,164
Difference between actuarially determined net pension costs and amount paid to CERS:		
Actuarially determined pension expense	\$ (2,493,232)	
Actual contributions to CERS	<u>1,379,474</u>	<u>(1,113,758)</u>
Change in net position		
		<u>\$ 4,682,821</u>

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

**Henderson County School District**  
**Statement of Net Position - Proprietary Funds**  
**As of June 30, 2017**

	<b>Food Service Fund</b>	<b>Child Care Fund</b>	<b>Adult Education Fund</b>	<b>Total</b>
<b><u>ASSETS</u></b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 648,686	\$ 433,889	\$ 470	\$ 1,083,045
Inventory	107,342	-	-	107,342
Accounts receivable	49,983	-	-	49,983
<b>Total Current Assets</b>	<b>806,011</b>	<b>433,889</b>	<b>470</b>	<b>1,240,370</b>
<b>Noncurrent Assets:</b>				
Capital assets	1,499,834	47,516	-	1,547,350
Less: accumulated depreciation	(1,336,322)	(24,708)	-	(1,361,030)
<b>Total Noncurrent Assets</b>	<b>163,512</b>	<b>22,808</b>	<b>-</b>	<b>186,320</b>
<b>Total Assets</b>	<b>\$ 969,523</b>	<b>\$ 456,697</b>	<b>\$ 470</b>	<b>\$ 1,426,690</b>
<b><u>LIABILITIES</u></b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 5,609	\$ 3,967	\$ -	\$ 9,576
Accrued payroll and related expenses	37,629	41,701	-	79,330
<b>Total Current Liabilities</b>	<b>43,238</b>	<b>45,668</b>	<b>-</b>	<b>88,906</b>
<b><u>NET POSITION:</u></b>				
Invested in capital assets	163,512	22,808	-	186,320
Unrestricted	762,773	388,221	470	1,151,464
<b>Net Position</b>	<b>926,285</b>	<b>411,029</b>	<b>470</b>	<b>1,337,784</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 969,523</b>	<b>\$ 456,697</b>	<b>\$ 470</b>	<b>\$ 1,426,690</b>

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

**Henderson County School District**  
**Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds**  
**For the fiscal year ended June 30, 2017**

	<b>Food Service Fund</b>	<b>Child Care Fund</b>	<b>Adult Education Fund</b>	<b>Total</b>
<b><u>OPERATING REVENUES:</u></b>				
Lunchroom sales	\$ 767,250	\$ -	\$ -	\$ 767,250
Other operating revenues	60,107	626,101	150	686,358
Total Operating Revenues	<u>827,357</u>	<u>626,101</u>	<u>150</u>	<u>1,453,608</u>
<b><u>OPERATING EXPENSES:</u></b>				
Salaries and wages	1,394,906	392,278	-	1,787,184
Materials and supplies	2,255,328	15,060	-	2,270,388
Depreciation	33,982	1,900	-	35,882
Other operating expenses	748,119	190,512	-	938,631
Total Operating Expenses	<u>4,432,335</u>	<u>599,750</u>	<u>-</u>	<u>5,032,085</u>
Operating Profit (Loss)	<u>(3,604,978)</u>	<u>26,351</u>	<u>150</u>	<u>(3,578,477)</u>
<b><u>NON-OPERATING REVENUES:</u></b>				
Federal grants	3,438,911	-	-	3,438,911
Donated commodities	316,257	-	-	316,257
State grants	36,996	-	-	36,996
Other state	300,791	79,229	-	380,020
Interest income	3,169	-	-	3,169
Total Non-Operating Revenues	<u>4,096,124</u>	<u>79,229</u>	<u>-</u>	<u>4,175,353</u>
Income (Loss) Before Other Financing Sources/Uses	<u>491,146</u>	<u>105,580</u>	<u>150</u>	<u>596,876</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Operating transfers out	(213,116)	-	-	(213,116)
Total Other Financing Uses	<u>(213,116)</u>	<u>-</u>	<u>-</u>	<u>(213,116)</u>
Change in net position	278,030	105,580	150	383,760
Net position, beginning of year	<u>648,255</u>	<u>305,449</u>	<u>320</u>	<u>954,024</u>
Net position, end of year	<u>\$ 926,285</u>	<u>\$ 411,029</u>	<u>\$ 470</u>	<u>\$ 1,337,784</u>

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

**Henderson County School District**  
**Statement of Cash Flows - Proprietary Funds**  
**For the fiscal year ended June 30, 2017**

	<b>Food Service Fund</b>	<b>Child Care Fund</b>	<b>Adult Education Fund</b>	<b>Total</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Cash receipts from:				
Lunchroom sales	\$ 767,250	\$ -	\$ -	\$ 767,250
Other activities	60,107	626,101	150	686,358
Cash payments for:				
Employees	(1,391,877)	(394,629)	-	(1,786,506)
Supplies	(2,254,577)	(15,060)	-	(2,269,637)
Other operating expenses	(748,119)	(189,245)	-	(937,364)
Net Cash Used In Operating Activities	<u>(3,567,216)</u>	<u>27,167</u>	<u>150</u>	<u>(3,539,899)</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u></b>				
Receipt of interest income	3,169	-	-	3,169
Operating transfers out	(213,116)	-	-	(213,116)
Cash received for operating grants	4,095,872	79,229	-	4,175,101
Net Cash Provided By Non-Capital Financing Activities	<u>3,885,925</u>	<u>79,229</u>	<u>-</u>	<u>3,965,154</u>
<b><u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</u></b>				
Purchase of equipment	(19,863)	-	-	(19,863)
Net cash used by capital financing activities	<u>(19,863)</u>	<u>-</u>	<u>-</u>	<u>(19,863)</u>
Net Increase (Decrease) In Cash And Cash Equivalents	298,846	106,396	150	405,392
Cash and Cash Equivalents, Beginning of Year	<u>349,840</u>	<u>327,493</u>	<u>320</u>	<u>677,653</u>
Cash and Cash Equivalents, End of Year	<u>\$ 648,686</u>	<u>\$ 433,889</u>	<u>\$ 470</u>	<u>\$ 1,083,045</u>

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

**Henderson County School District**  
**Statement of Cash Flows - Proprietary Funds, Continued**  
**For the fiscal year ended June 30, 2017**

	<u>Food Service Fund</u>	<u>Child Care Fund</u>	<u>Adult Education Fund</u>	<u>Total</u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED</u></b>				
<b><u>IN OPERATING ACTIVITIES:</u></b>				
Operating income (loss)	\$ (3,604,978)	\$ 26,351	\$ 150	\$ (3,578,477)
<b><u>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH</u></b>				
<b><u>USED IN OPERATING ACTIVITIES:</u></b>				
Depreciation	33,982	1,900	-	35,882
Changes in operating assets and liabilities				
Inventory	2,479	-	-	2,479
Accounts payable	(1,728)	1,267	-	(461)
Accrued expenses	3,029	(2,351)	-	678
Net Cash Provided (Used) In Operating Activities	<u>\$ (3,567,216)</u>	<u>\$ 27,167</u>	<u>\$ 150</u>	<u>\$ (3,539,899)</u>
<b><u>SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</u></b>				
Donated commodities received from federal government	<u>\$ 316,257</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,257</u>

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

**Henderson County School District**  
**Statement of Fiduciary Net Position – Fiduciary Funds**  
**As of June 30, 2017**

	<u>Agency Fund</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ 804,193
Accounts receivable	-
<b>Total Assets</b>	<u>\$ 804,193</u>
 <b><u>LIABILITIES</u></b>	
Accounts payable	\$ 9,714
Due to student groups	794,479
<b>Total Liabilities</b>	<u>804,193</u>
<b>Net Position</b>	<u>\$ -</u>

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

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Henderson County School District (“District”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the 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 members.

The District, for financial purposes, includes all the funds and account groups relevant to the operation of the Henderson County Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with 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:

Henderson County Board of Education Finance Corporation – In March, 1989, the Board of Education resolved to authorize the establishment of the Henderson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

**BASIS OF PRESENTATION**

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

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

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

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

The District has the following funds:

I) Government 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 trust 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 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 which is reported separately. This is a major fund of the District.
- 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 Funds).
  - 1) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  - 2) The Facility Support Program of Kentucky (KSPK) 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.

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.
  - E) The District 21 Revenue Fund is used to hold monies transferred from school activity funds to be spent for the purpose of allowable student activities.
- II) Proprietary Fund Types (Enterprise Funds)
- 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 contributions of commodities from the USDA.
  - B) The Day Care Center Fund is used to account for all day care centers.
  - C) The Adult Education Fund is used for adult education.
  - D) The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.
- 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 *Accounting Procedures for Kentucky School Activity Funds*.

**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 sixty days of the fiscal year-end.

Non-exchange transaction, 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 expenditures 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 they can be recognized.

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BASIS OF ACCOUNTING (CONTINUED)**

Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

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

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

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$.530 per \$100 valuation for real property, \$.532 per \$100 valuation for business personal property and \$.548 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 furnishing, within the county, of telephonic and telegraphic communications services, cablevision 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 costs) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS (CONTINUED)**

All 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>Depreciation</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
Audio-visual equipment	15 Years
Food service equipment	10 - 12 Years
Furniture and fixtures	7 Years
Rolling stock	15 Years
Other	10 Years

**INTER-FUND BALANCES**

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

**ACCUMULATED UNPAID SICK LEAVE BENEFITS**

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

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid 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.

**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).

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**BUDGETARY PROCESS (CONTINUED)**

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. Per Board policy all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end dictated by law.

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

**CASH AND CASH EQUIVALENTS**

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

**INVENTORIES**

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.

**PREPAID ASSETS**

Payments made that will benefit periods beyond June 30, 2017, 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 expense is reported in the year in which the services are consumed.

**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, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND BALANCES**

In accordance with Governmental Accounting Standards No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, the District classifies fund balances as follows:

Non-spendable - Includes fund balance amounts which are not in spendable form or because of legal or contractual requirements.

Restricted - Includes fund balance amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors, or due to constitutional provisions or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority.

Assigned - Includes fund balance amounts that are to be used for a specific purpose that are neither considered to be restricted or committed, but rather assigned by the Deputy Superintendent of Finance or the Superintendent.

Unassigned - Includes positive fund balances within the General Fund which have not been classified in any of the above mentioned categories.

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

**STATEMENT OF NET POSITION**

Net position represents the difference between assets and liabilities. The District classifies its net position into the following three categories:

- 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. As of June 30, 2017, there is a deficit balance in the caption invested in capital assets net of related debt of \$881,287, due to \$15.2 million in unspent bond proceeds related to the 2016 School Building Revenue Bonds Series 2016.
- Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

**OPERATING REVENUES AND EXPENSES**

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

**Henderson County School District**  
**Notes to the Basic Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**INTER-FUND ACTIVITIES**

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 inter-fund activities. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**USE OF 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.

**RETIREMENT BENEFITS**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net positions of the Teachers' Retirement System of the Commonwealth of Kentucky (KTRS) and the County Employees' Retirement System (CERS), and additions to/deductions from KTRS and CERS' fiduciary net positions have been determined on the same basis as they are reported by KTRS 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.

**NEW ACCOUNTING PRONOUNCEMENTS**

The GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*; Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*. These statements did not have a material effect on the District's financial statements.

The GASB has also issued Statement No. 74 entitled, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*; and GASB Statement No. 77; entitled, *Tax Abatement Disclosures*, which will require adoption in the future, if applicable. These statements may or will have a material effect on the District's financial statements once implemented. The District will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 2 – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District’s cash and cash equivalents was \$39,883,622. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents consisted of the following as of June 30, 2017:

<b><u>Financial Institution:</u></b>	
Independence Bank	\$ 39,079,429
Independence Bank-Activity Funds	<u>804,193</u>
Totals	<u><u>\$ 39,883,622</u></u>
 <b><u>Allocation per Financial Statements:</u></b>	
Governmental Funds	\$ 37,996,384
Business Type Funds	1,083,045
Agency Funds	<u>804,193</u>
Totals	<u><u>\$ 39,883,622</u></u>

**NOTE 3 – CAPITAL ASSETS**

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

<b><u>GOVERNMENTAL ACTIVITIES:</u></b>	<b><u>Balance July 1, 2016</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Balance June 30, 2017</u></b>
Land	\$ 989,487	\$ -	\$ -	\$ 989,487
Land improvements	3,399,886	-	-	3,399,886
Building and improvements	73,020,901	-	-	73,020,901
Technology	5,285,837	-	(120,467)	5,165,370
Machinery and equipment	7,853,712	183,052	(687,890)	7,348,874
General equipment	1,904,669	85,983	(14,495)	1,976,157
Construction in progress	<u>-</u>	<u>5,152,501</u>	<u>-</u>	<u>5,152,501</u>
<b>Totals at historical cost</b>	<u>92,454,492</u>	<u>5,421,536</u>	<u>(822,852)</u>	<u>97,053,176</u>
Land improvements	(2,727,964)	(89,008)		(2,816,972)
Building and improvements	(44,371,810)	(1,930,081)		(46,301,891)
Technology	(4,530,649)	(363,453)	114,952	(4,779,150)
Machinery and equipment	(5,454,341)	(457,795)	687,890	(5,224,246)
General equipment	<u>(1,651,253)</u>	<u>(43,409)</u>	<u>13,100</u>	<u>(1,681,562)</u>
<b>Less: accumulated depreciation</b>	<u>(58,736,017)</u>	<u>(2,883,746)</u>	<u>815,942</u>	<u>(60,803,821)</u>
<b>Governmental activities, net</b>	<u><u>\$ 33,718,475</u></u>	<u><u>\$ 2,537,790</u></u>	<u><u>\$ (6,910)</u></u>	<u><u>\$ 36,249,355</u></u>

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>
<b><u>BUSINESS TYPE ACTIVITIES:</u></b>				
Buildings and improvements	\$ 47,516	\$ -	\$ -	\$ 47,516
Food service equipment	1,372,441	19,864	(9,196)	1,383,109
Technology equipment	116,728			116,728
<b>Totals at historical cost</b>	<b>1,536,685</b>	<b>19,864</b>	<b>(9,196)</b>	<b>1,547,353</b>
Buildings and improvements	(22,809)	(1,901)		(24,710)
Food service equipment	(1,184,591)	(30,462)	9,196	(1,205,857)
Technology equipment	(126,946)	(3,520)		(130,466)
<b>Less: accumulated depreciation</b>	<b>(1,334,346)</b>	<b>(35,883)</b>	<b>9,196</b>	<b>(1,361,033)</b>
<b>Business type activities, net</b>	<b>\$ 202,339</b>	<b>\$ (16,019)</b>	<b>\$ -</b>	<b>\$ 186,320</b>

Depreciation expenses were not allocated to governmental functions. It appears on the statement of activities as “unallocated.”

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS**

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

<u>Issue Date</u>	<u>Issue Name</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2007	School Building Revenue Refunding Bonds 2007	\$ 4,095,000	3.50% - 3.75%	2019
2011	School Building Revenue Refunding Bonds 2011	\$ 3,675,000	1.00% - 3.00%	2021
2011	School Building Revenue Bonds Series 2011	\$ 1,810,000	1.00% - 5.00%	2021
2009	School Building Revenue Refunding Bonds 2009	\$ 4,505,000	2.00% - 3.60%	2024
2012	School Building Revenue Refunding Bonds 2012	\$ 2,225,000	0.70% - 2.00%	2024
2013	School Building Revenue Bonds Series 2013	\$ 1,200,000	0.60% - 3.35%	2034
2014	School Building Revenue Refunding Bonds 2014	\$ 7,865,000	0.90% - 3.00%	2030
2015	School Building Revenue Bonds Series 2015	\$ 3,790,000	3.00% - 3.375%	2033
2016	School Building Revenue Bonds Series 2016	\$ 17,845,000	2.00% - 3.125%	2036

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 Henderson County Board of Education Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds 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.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)**

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming they are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2017, for debt service (principal and interest) are as follows:

Fiscal Year	Henderson County School District		Kentucky School Facility Construction Commission		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2017-18	\$ 1,452,726	\$ 472,338	\$ 657,274	\$ 214,737	\$ 2,110,000	\$ 687,075
2018-19	1,693,636	429,057	601,364	201,456	2,295,000	630,513
2019-20	1,701,357	385,107	613,643	189,148	2,315,000	574,255
2020-21	1,542,980	356,053	627,047	176,281	2,170,027	532,334
2021-22	1,391,015	332,027	453,985	161,290	1,845,000	493,317
2022-23	1,426,867	313,603	463,133	152,109	1,890,000	465,712
2023-24	1,457,534	294,206	472,466	142,753	1,930,000	436,959
2024-25	1,427,432	268,815	352,570	132,750	1,780,002	401,565
2025-26	1,468,629	243,480	366,371	121,966	1,835,000	365,446
2026-27	1,516,557	214,874	373,443	110,869	1,890,000	325,743
2027-28	1,563,656	185,318	386,344	99,471	1,950,000	284,789
2028-29	1,610,437	156,594	394,563	87,758	2,005,000	244,352
2029-30	1,661,225	126,546	408,775	75,729	2,070,000	202,275
2030-31	1,717,906	93,356	392,094	63,696	2,110,000	157,052
2031-32	1,367,675	70,737	302,325	53,279	1,670,000	124,016
2032-33	1,283,467	52,644	311,533	44,071	1,595,000	96,715
2033-34	1,323,979	35,075	321,021	34,583	1,645,000	69,658
2034-35	1,369,203	18,550	330,797	24,806	1,700,000	43,356
2035-36	873,910	-	341,090	13,980	1,215,000	13,980
2036-37	886,075	-	293,923.00	4,592.00	1,179,998	4,592
<b>Totals</b>	<b>\$ 28,736,266</b>	<b>\$ 4,048,380</b>	<b>\$ 8,463,761</b>	<b>\$ 2,105,324</b>	<b>\$ 37,200,027</b>	<b>\$ 6,153,704</b>

A summary of changes in long-term debt during the fiscal year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
School Building Revenue Bonds	\$ 21,135,027	\$ 17,845,000	\$ (1,780,000)	\$ 37,200,027	\$ 2,110,000
<u>Deferred amounts:</u>					
Issuance premiums and discounts	84,883	(157,222)	3,394	(68,945)	-
Total governmental bonds payable	<u>\$ 21,219,910</u>	<u>\$ 17,687,778</u>	<u>\$ (1,776,606)</u>	<u>\$ 37,131,082</u>	<u>\$ 2,110,000</u>

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 5 – ACCRUED SICK LEAVE**

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net position since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments. Compensated absences are generally liquidated by the General Fund.

A summary of the changes in accumulated sick leave benefits during the fiscal year ended June 30, 2017 is as follows:

	<b>Balance June 30, 2016</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2017</b>	<b>Due Within One Year</b>
Accrued Sick Leave	\$ 739,924	\$ 102,660	\$ -	\$ 842,584	\$ 156,864

**NOTE 6-FUND BALANCES**

The following is a summary of fund balances as of June 30, 2017:

	<b>General Fund</b>	<b>Construction Fund</b>	<b>FSPK Fund</b>	<b>SEEK Capital Outlay Fund</b>	<b>District 21 Activity Fund</b>	<b>Totals</b>
<b><u>RESTRICTED:</u></b>						
Construction	\$ -	\$ 15,210,842	\$ 28,112	\$ 1,001	\$ -	\$ 15,239,955
Student activities	-	-	-	-	9,998	9,998
<b>Total Restricted</b>	<b>-</b>	<b>15,210,842</b>	<b>28,112</b>	<b>1,001</b>	<b>9,998</b>	<b>15,249,953</b>
<b><u>COMMITTED:</u></b>						
Sick leave	639,475	-	-	-	-	639,475
<b><u>ASSIGNED:</u></b>						
State revenue shortfall	749,000	-	-	-	-	749,000
Future technology	429,000	-	-	-	-	429,000
Future bus purchases	643,000	-	-	-	-	643,000
Purchase obligations	1,047,702	-	-	-	-	1,047,702
<b>Total Assigned</b>	<b>2,868,702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,868,702</b>
<b><u>UNASSIGNED:</u></b>						
	18,130,389	-	-	-	-	18,130,389
<b>Total Fund Balances</b>	<b>\$ 21,638,566</b>	<b>\$ 15,210,842</b>	<b>\$ 28,112</b>	<b>\$ 1,001</b>	<b>\$ 9,998</b>	<b>\$ 36,888,519</b>

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 –RETIREMENT PLANS**

**Teachers' Retirement System of the Commonwealth of Kentucky**

**General Information about the Pension Plan**

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

*Benefits provided:* KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KRS requires that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE).

*Contributions:* Contribution rates are established by Kentucky Revised Statutes (KRS). Members are required to contribute 12.855% of their salaries to KTRS. The Commonwealth of Kentucky, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008 and 14.105 percent for those who joined thereafter. The federal program for any salaries paid by that program pays the matching contributions.

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

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

In order to fund the post-retirement healthcare benefit, 6.59% of the gross annual payroll of employees is contributed. The member contributes 3.75%, the District contributes 3.00%, and the State contributes (0.16)%. Also, the premiums collected from retirees, as described in the plan description, and investment interest help with the medical expenses of the plan.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 – RETIREMENT PLANS (CONTINUED)**

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

At June 30, 2017, the District reported no liability for its proportionate share of the net pension liability recognized by the State for pension support provided to the District.

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

District's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the District		<u>301,816,489</u>
Total	\$	<u><u>301,816,489</u></u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 1.023103 percent.

For the year ended June 30, 2017, the District recognized pension expense of \$4,966,126 and revenue of \$4,966,126 for support provided by the State.

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

Inflation	3.50 percent
Salary increases, including inflation	4.00 - 8.20 percent
Long-Term Investment Rate of Return, net of pension plan investment expense, including inflation	7.50 percent
Municipal Bond Index Rate:	
Prior Measurement Date	3.82 percent
Measurement Date	3.01 percent
Year FNP is projected to be depleted	2040
Single Equivalent Interest Rate, net of pension plan investment expense, including inflation:	
Prior Measurement Date	4.88 percent
Measurement Date	4.20 percent
Post-Retirement Benefit Increases	1.50% annually

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 –RETIREMENT PLANS (CONTINUED)**

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females.

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, 2005 - June 30, 2010.

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 rate of return by the target asset allocation percentage and by adding expected inflation.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
<b>Total</b>	<b>100%</b>	

*Discount rate:* The discount rate used to measure the total pension liability as of the measurement date was 4.20%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that member contributions will be made at the current contribution rates and that employer contributions will be made at statutorily required rates, and the additional amounts appropriated for fiscal years 2017 and 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 plan members until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two benefit payments streams was used to determine the total pension liability.

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 –RETIREMENT PLANS (CONTINUED)**

**County Employees' Retirement System**

**General Information about the Pension Plan**

*Plan description:* Substantially all other employees (classified personnel) participate in the County Employees' Retirement System (CERS), a multi-employer, cost sharing, defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at <https://kyret.ky.gov>.

*Benefits provided:* CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Kentucky Revised Statute 61.645 assigns the authority to establish and amend benefit provisions to the Kentucky Retirement Systems Board of Trustees.

*Contributions:* Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% of the annual creditable compensation. For plan members who began participating in CERS on or after September 1, 2008, the contribution rate is 6%. The District is required to contribute at an actuarially determined rate. As of June 30, 2017, the District's required contribution rate was 13.95% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to CERS from the District were \$1,379,474 for the year ended June 30, 2017.

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

At June 30, 2017, the District reported a liability of \$20,118,396 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. 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 employers, actuarially determined. At June 30, 2016, the District's proportion was 0.408610%.

For the year ended June 30, 2017, the District recognized pension expense of \$2,493,232. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 – RETIREMENT PLANS (CONTINUED)**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 87,832	\$ -
Changes of assumptions	1,065,765	-
Net difference between projected and actual investment earnings on pension plan investments	1,891,335	-
Changes in proportion and differences between District contributions and proportional share of contributions	-	764,483
District contributions subsequent to the measurement date	<u>1,379,474</u>	<u>-</u>
Total	<u><u>\$ 4,424,406</u></u>	<u><u>\$ 764,483</u></u>

The \$1,379,474 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2018	\$ 821,542
2019	427,170
2020	615,213
2021	416,524
2022	-
Thereafter	-

*Actuarial assumptions:* The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.0%, average, including inflation
Investment rate of return	7.50%, net of pension plan expense, including inflation

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 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.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 – RETIREMENT PLANS (CONTINUED)**

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for Kentucky Retirement 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 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.

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
<b>Total</b>	<b>100%</b>	

*Discount rate:* 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 27 year amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate:* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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 one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	<b>1% Decrease (6.5%)</b>	<b>Current Discount Rate (7.5%)</b>	<b>1% Increase (8.5%)</b>
District's proportionate share of the net pension liability as of June 30, 2017	<u>\$ 25,070,780</u>	<u>\$ 20,118,396</u>	<u>\$ 15,873,218</u>

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 – RETIREMENT PLANS (CONTINUED)**

The District also offers employees the option to participate in a defined contribution plan under Section 403(b) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amounts allowable by law. The District does not contribute to these plans.

**Postemployment Healthcare Benefits**

*Plan description:* In addition to the pension benefits described above, KRS provides postemployment healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and the State Police Retirement System (SPRS). The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2016 (the date of the latest available information), insurance premiums withheld from benefit payments for these benefits from CERS were \$22.6 million and \$12.2 million for non-hazardous and hazardous employees, respectively. For the fiscal year ended June 30, 2015, insurance premiums withheld from benefit payments for those receiving benefits from CERS were \$22.6 million and \$1.7 million for non-hazardous and hazardous employees, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty. As of June 30, 2016, the Insurance Fund had 113,280 retirees and beneficiaries for whom benefits were available.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are shown below:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree COLA, which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 7 – RETIREMENT PLANS (CONTINUED)**

*Funding policy:* In prior years, the employer's required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal method within a 20 year period measured from 1987. In November 1992, the Board adopted a fixed percentage rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within 20 years.

The District is required to contribute at an actuarially determined rate. As of June 30, 2017, 2016, and 2015, the District's required contribution rate was 4.73%, 4.64%, and 4.92%, respectively, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the District were \$467,736, \$461,172, and \$508,663 for the years ended June 30, 2017, 2016, and 2015, respectively.

On August 6, 2012, the Board voted to cease self-funding of healthcare benefits for most Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan became effective January 1, 2013.

**NOTE 8 – 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 refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and reimbursed disbursement, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's 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 or 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.

**NOTE 9 – RISK MANAGEMENT**

The District is exposed to various forms of loss of assets associated with the risk 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 includes Workers' Compensation Insurance, which are retrospectively rated.

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 9 – RISK MANAGEMENT (CONTINUED)**

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

**NOTE 10 – COBRA**

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

**NOTE 11 – TRANSFER OF FUNDS**

The following transfers were made during the fiscal year ended June 30, 2017:

<u>From:</u>	<u>To:</u>	<u>Amount</u>
General Fund	Special Revenue	\$ 137,370
Special Revenue	General Fund	4,480
Capital Outlay	General Fund	1,468,274
FSPK	General Fund	940,470
Food Service	General Fund	213,116
Capital Outlay	Construction	56,922
FSPK	Construction	2,011,718
FSPK	Debt Service	1,989,669
		<u>\$ 6,822,019</u>

**NOTE 12 – ON-BEHALF PAYMENTS**

The District receives on-behalf payments for fringe benefits, technology, and bond debt from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances - governmental funds, and the statement of revenues, expenses, and changes in net position - proprietary funds:

Retirement Contributions to the Teachers' Retirement System of Kentucky	\$ 4,966,126
Health Insurance	7,640,014
Life Insurance	12,868
Health Reimbursement Account - HRA/Dental/Vision	489,906
Administrative Fee	102,230
Less: Federal Reimbursements of Health Benefits	<u>(359,619)</u>
Total On-Behalf Payments for Fringe Benefits	12,851,525
Technology On-Behalf Payments	108,575
School Facilities Construction Commission (SFCC) Debt Service	<u>573,911</u>
Total On-Behalf Payments	<u>\$ 13,534,011</u>

**Henderson County School District  
Notes to the Basic Financial Statements**

**NOTE 13 – LITIGATION**

The District is subject to various legal actions in various states 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 financial statements as a result of cases currently in progress.

**NOTE 14 – SUBSEQUENT EVENTS**

In accordance with ASC 855, subsequent events were evaluated through November 03, 2017, the date these financial statements were available to be issued. There were no subsequent events that required recognition or additional disclosure in these financial statements.

**Henderson County School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - General Fund**  
**For the year ended June 30, 2017**

	<u>BUDGETED AMOUNTS</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b><u>REVENUES:</u></b>				
From local sources				
Taxes:				
Property	\$ 10,288,254	\$ 10,288,254	\$ 10,834,055	\$ 545,801
Motor vehicle and watercraft	2,054,661	2,054,661	2,401,932	347,271
Utilities	3,375,000	3,375,000	3,720,963	345,963
Unmined minerals	315,000	315,000	140,397	(174,603)
Franchise	725,000	725,000	878,003	153,003
Tuition and fees	128,413	128,413	97,734	(30,679)
Earnings on investments	112,000	112,000	221,512	109,512
Other local revenues	578,025	578,025	1,101,845	523,820
Intergovernmental - intermediate	93,900	93,900	145,101	51,201
Intergovernmental - state	41,476,586	41,476,586	40,887,558	(589,028)
Intergovernmental - direct federal	300,000	300,000	346,933	46,933
Total Revenues	<u>59,446,839</u>	<u>59,446,839</u>	<u>60,776,033</u>	<u>1,329,194</u>
<b><u>EXPENDITURES:</u></b>				
Instruction	41,112,369	41,112,369	35,366,273	5,746,096
Support services:				
Student	3,402,767	3,402,767	3,052,788	349,979
Instruction staff	2,195,061	2,195,061	1,525,041	670,020
District administrative	1,577,980	1,577,980	1,005,055	572,925
School administrative	4,808,719	4,808,719	4,114,281	694,438
Business	3,709,144	3,709,144	2,603,083	1,106,061
Plant operation & maintenance	7,509,661	7,509,661	6,291,857	1,217,804
Student transportation	4,850,181	4,850,181	3,418,642	1,431,539
Community services	8,713	8,713	-	8,713
Debt Service	-	-	-	-
Contingency	6,108,962	6,108,962	-	6,108,962
Total Expenditures	<u>75,283,557</u>	<u>75,283,557</u>	<u>57,377,020</u>	<u>17,906,537</u>
Deficiency of Revenues Over Expenditures	<u>(15,836,718)</u>	<u>(15,836,718)</u>	<u>3,399,013</u>	<u>19,235,731</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Operating transfers in	2,627,875	2,627,875	2,626,340	(1,535)
Operating transfers out	(160,000)	(160,000)	(137,370)	22,630
Fixed Asset Disposal	-	-	21,267	21,267
Total Other Financing Sources (Uses)	<u>2,467,875</u>	<u>2,467,875</u>	<u>2,510,237</u>	<u>42,362</u>
Change in fund balance	(13,368,843)	(13,368,843)	5,909,250	19,278,093
Fund Balance, Beginning of Year	<u>15,678,093</u>	<u>15,678,093</u>	<u>15,729,316</u>	<u>51,223</u>
Fund Balance, End of Year	<u>\$ 2,309,250</u>	<u>\$ 2,309,250</u>	<u>\$ 21,638,566</u>	<u>\$ 19,329,316</u>

See Independent Auditors' Report

**Henderson County School District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual - Special Revenue Fund**  
**For the year ended June 30, 2017**

	<u>BUDGETED AMOUNTS</u>			<b>Variance with Final Budget</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b><u>REVENUES:</u></b>				
Other local revenues	\$ 36,844	\$ 36,844	\$ 32,782	\$ (4,062)
Intergovernmental - State	3,787,109	3,787,109	3,771,752	(15,357)
Intergovernmental - Federal	4,284,376	4,284,376	4,634,558	350,182
	<u>8,108,329</u>	<u>8,108,329</u>	<u>8,439,092</u>	<u>330,763</u>
<b><u>EXPENDITURES:</u></b>				
Instruction	6,235,538	6,235,538	6,379,813	(144,275)
Support Services:				
Student	432,515	432,515	383,323	49,192
Instruction Staff	839,942	839,942	1,018,544	(178,602)
District Administrative	145,463	145,463	146,739	(1,276)
Student Transportation	-	-	1,549	(1,549)
Community Service	613,442	613,442	642,016	(28,574)
	<u>8,266,900</u>	<u>8,266,900</u>	<u>8,571,984</u>	<u>(305,084)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(158,571)</u>	<u>(158,571)</u>	<u>(132,892)</u>	<u>25,679</u>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Operating transfers in	160,000	160,000	137,370	(22,630)
Operating transfers out	<u>(4,273)</u>	<u>(4,273)</u>	<u>(4,478)</u>	<u>(205)</u>
Total Other Financing Sources	<u>155,727</u>	<u>155,727</u>	<u>132,892</u>	<u>(22,835)</u>
Change in fund balance	(2,844)	(2,844)	-	2,844
Fund Balance, Beginning of Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ (2,844)</u></u>	<u><u>\$ (2,844)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,844</u></u>

See Independent Auditors' Report

**Henderson County School District**  
**Combining Balance Sheet - Non-Major Governmental Funds**  
**As of June 30, 2017**

	<b>FSPK Fund</b>	<b>SEEK Capital Outlay Fund</b>	<b>Debt Service Fund</b>	<b>District 21 Activity Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b><u>ASSETS AND RESOURCES:</u></b>					
Cash and cash equivalents	\$ 28,112	\$ 1,001	\$ -	\$ 16,517	\$ 45,630
Accounts receivable	-	-	-	400	400
Total Assets and Resources	<u>\$ 28,112</u>	<u>\$ 1,001</u>	<u>-</u>	<u>\$ 16,917</u>	<u>\$ 46,030</u>
<b><u>LIABILITIES:</u></b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 6,919	\$ 6,919
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,919</u>	<u>6,919</u>
<b><u>FUND BALANCES:</u></b>					
Restricted	28,112	1,001	-	9,998	39,111
Unassigned	-	-	-	-	-
Total Fund Balances	<u>28,112</u>	<u>1,001</u>	<u>-</u>	<u>9,998</u>	<u>39,111</u>
Total Liabilities and Fund Balances	<u>\$ 28,112</u>	<u>\$ 1,001</u>	<u>\$ -</u>	<u>\$ 16,917</u>	<u>\$ 46,030</u>

See Independent Auditors' Report

**Henderson County School District**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-Major Governmental Funds**  
**For the fiscal year ended June 30, 2017**

	<b>FSPK Fund</b>	<b>SEEK Capital Outlay Fund</b>	<b>Debt Service Fund</b>	<b>District 21 Activity Fund</b>	<b>Total Non-major Governmental Funds</b>
<b>REVENUES:</b>					
From local sources:					
Taxes:					
Property	\$ 3,034,840	\$ -	\$ -	\$ -	\$ 3,034,840
Other	-	-	-	100,626	100,626
Earnings on investments	8,754	6,423	6	-	15,183
Intergovernmental - State	1,337,752	660,790	573,911	-	2,572,453
Intergovernmental - Federal	-	-	-	-	-
Total Revenues	<u>4,381,346</u>	<u>667,213</u>	<u>573,917</u>	<u>100,626</u>	<u>5,723,102</u>
<b>EXPENDITURES:</b>					
Instruction	-	-	-	61,644	61,644
Instruction staff	-	-	-	17,405	17,405
Plant operation and maintenance	-	-	-	16,785	16,785
Debt service	-	-	2,563,586	-	2,563,586
Total Expenditures	<u>-</u>	<u>-</u>	<u>2,563,586</u>	<u>95,834</u>	<u>2,659,420</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,381,346</u>	<u>667,213</u>	<u>(1,989,669)</u>	<u>4,792</u>	<u>3,063,682</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in	-	-	1,989,669	-	1,989,669
Operating transfers out	(4,941,859)	(1,525,196)	-	-	(6,467,055)
Bond proceeds	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>(4,941,859)</u>	<u>(1,525,196)</u>	<u>1,989,669</u>	<u>-</u>	<u>(4,477,386)</u>
Change in fund balance	(560,513)	(857,983)	-	4,792	(1,413,704)
Fund balance, beginning of year	<u>588,625</u>	<u>858,984</u>	<u>-</u>	<u>5,206</u>	<u>1,452,815</u>
Fund balance, end of year	<u>\$ 28,112</u>	<u>\$ 1,001</u>	<u>\$ -</u>	<u>\$ 9,998</u>	<u>\$ 39,111</u>

See Independent Auditors' Report

**Henderson County School District**  
**Statement of Receipts, Disbursements, and Fund Balance - Elementary and Middle Schools -Activity Funds**  
**For the year ended June 30, 2017**

<b>SCHOOL ACTIVITY FUNDS:</b>	<b>Cash Balance July 1, 2016</b>	<b>Receipts For Year</b>	<b>Disbursements For Year</b>	<b>Cash Balance June 30, 2017</b>	<b>Accounts Receivable</b>	<b>Accounts Payable</b>	<b>Fund Balance June 30, 2017</b>
Bend Gate Elementary	\$ 5,123	\$ 27,554	\$ 26,135	\$ 6,542	\$ -	\$ -	\$ 6,542
Cairo Elementary	20,413	28,888	32,090	17,211	-	-	17,211
Central Learning Center	1,074	5,834	6,310	598	-	-	598
Chandler Elementary	12,740	38,946	39,132	12,554	-	-	12,554
East Heights Elementary	29,583	50,878	43,241	37,220	-	-	37,220
Jefferson Elementary	15,192	26,248	27,863	13,577	-	-	13,577
Niagara Elementary	13,760	25,616	26,587	12,789	-	-	12,789
South Heights Elementary	6,993	52,332	52,674	6,651	-	-	6,651
Spottsville Elementary	9,369	31,852	27,823	13,398	-	-	13,398
Thelma B. Johnson ELC	2,477	12,179	6,485	8,171	-	-	8,171
North Middle School	59,309	199,991	195,741	63,559	-	-	63,559
South Middle School	45,351	306,684	292,208	59,827	-	-	59,827
<b>Totals</b>	<b>\$ 221,384</b>	<b>\$ 807,002</b>	<b>\$ 776,289</b>	<b>\$ 252,097</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 252,097</b>

See Independent Auditors' Report

**Henderson County School District**  
**Statement of Receipts, Disbursements, and Fund Balance-Henderson County High School-Activity Funds**  
**For the fiscal year ended June 30, 2017**

<u>Accounts</u>	<b>Balance July 1, 2016</b>	<b>Receipts For Year</b>	<b>Disbursements For Year</b>	<b>Cash Balance June 30, 2017</b>	<b>Accounts Receivable</b>	<b>Accounts Payable</b>	<b>Fund Balance June 30, 2017</b>
<b>Henderson County High School:</b>							
Athletic	\$ 81,328	\$ 263,121	\$ 255,826	\$ 88,623	\$ -	\$ 8,724	\$ 79,899
Band	46,258	92,661	79,486	59,433	-	-	59,433
Bookstore	10,265	10,389	12,036	8,618	-	-	8,618
Clubs	167,409	441,227	472,624	136,012	-	284	135,728
General Fund	102,505	199,286	196,392	105,399	-	-	105,399
Industrial Technology	137	500	50	587	-	-	587
Media	93,048	28,630	15,365	106,313	-	-	106,313
Memorial Funds	326	1,250	540	1,036	-	-	1,036
School concessions	1,425	5,160	4,402	2,183	-	706	1,477
Supplies	1,651	20,411	20,736	1,326	-	-	1,326
Speech and drama	6,681	13,535	4,240	15,976	-	-	15,976
Student council	1,600	1,500	269	2,831	-	-	2,831
Textbooks	2,572	50,615	50,401	2,786	-	-	2,786
Scholarship Funds	26,826	28,122	33,975	20,973	-	-	20,973
<b>Totals</b>	<b>\$ 542,031</b>	<b>\$ 1,156,407</b>	<b>\$ 1,146,342</b>	<b>\$ 552,096</b>	<b>\$ -</b>	<b>\$ 9,714</b>	<b>\$ 542,382</b>

See Independent Auditors' Report

**Henderson County School District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**Kentucky Teachers Retirement System**  
As of the Measurement Date for the Last Three Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	<u>301,816,489</u>	<u>264,542,143</u>	<u>222,594,552</u>
Total	<u>\$ 301,816,489</u>	<u>\$ 264,542,143</u>	<u>\$ 222,594,552</u>
District's covered-employee payroll	\$ 35,630,694	\$ 35,915,858	\$ 33,946,994
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	35.20%	42.50%	45.59%

\*This table will present ten years of information as it becomes available.

**Henderson County School District  
Schedule of District Contributions  
Kentucky Teachers Retirement System  
For the Last Three Fiscal Years\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 36,502,212	\$ 35,630,694	\$ 35,915,858
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%

\*This table will present ten years of information as it becomes available.

**Henderson County School District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**County Employees Retirement System**  
As of the Measurement Date for the Last Three Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.408610%	0.436502%	0.437600%
District's proportionate share of the net pension liability	\$ 20,118,396	\$ 18,767,532	\$ 14,197,000
District's covered-employee payroll	\$ 9,939,050	\$ 10,338,682	\$ 10,200,575
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	202.42%	181.53%	139.18%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

\*This table will present ten years of information as it becomes available.

**Henderson County School District  
Schedule of District Contributions  
County Employees Retirement System  
For the Last Three Fiscal Years\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,379,474	\$ 1,234,430	\$ 1,318,182
Contributions in relation to the statutorily required contribution	<u>(1,379,474)</u>	<u>(1,234,430)</u>	<u>(1,318,182)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 9,888,703	\$ 9,939,050	\$ 10,338,682
Contributions as a percentage of covered-employee payroll	13.95%	12.42%	12.75%

\*This table will present ten years of information as it becomes available.

**Henderson County School District  
Notes to the Required Supplementary Information  
For the fiscal year ended June 30, 2017**

**Kentucky Teachers' Retirement System**

*Changes of assumptions:* The following changes in actuarial assumptions were made for amounts reported in fiscal year 2017:

	<u>FY 2017</u>	<u>Prior Period</u>
Municipal Bond Index Rate	3.01%	3.82%
Single Equivalent Interest Rate	4.20%	4.88%

There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 68, the Single Equivalent Interest Rate was calculated using the Municipal Bond Index Rate as of the measurement date.

**County Employees' Retirement System**

*Changes of assumptions:* The following changes in actuarial assumptions were made for amounts reported in fiscal year 2017: None.

## **Henderson County School District**

Independent Auditors' Report on Compliance For Each Major Program and on  
Internal Control Over Compliance Required by the Uniform Guidance

Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

Schedule of Expenditures of Federal Awards

For the fiscal year ended June 30, 2017

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## **Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance**

Members of the Board of Education  
Henderson County School District  
Henderson, Kentucky

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

We have audited Henderson 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 Henderson County School District's major federal programs for the year ended June 30, 2017. Henderson County School District's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditors' Responsibility**

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

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

### **Opinion on Each Major Federal Program**

In our opinion, Henderson County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of Henderson 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 Henderson 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 Henderson 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 control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance 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 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 the 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.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the Henderson County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report dated November 03, 2017, which contained an unmodified opinion on these financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates

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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects, in relation to the basic financial statements as a whole.

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Myriad Co Group, LLC". The signature is written in a cursive, flowing style.

Henderson, Kentucky  
November 03, 2017  
January 10, 2018 (reissuance date)



**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Members of the Board of Education  
Henderson County School District  
Henderson, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in the *Independent Auditors' Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Henderson County School District's basic financial statements and have issued our report thereon dated November 03, 2017.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

We also noted certain other matters that we reported to management of Henderson County School District in a separate letter dated November 03, 2017.

### **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 internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Myriad CPA Group, LLC".

Henderson, Kentucky  
November 03, 2017  
January 10, 2018 (reissuance date)

**Henderson County School District  
Schedule of Expenditures of Federal Awards  
For the fiscal year ended June 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
<b><u>United States Department of Agriculture:</u></b>			
<i>Passed Through the Commonwealth of Kentucky</i>			
<i>Department of Education</i>			
<b>Child Nutrition Cluster</b>			
Cash Assistance			
School Breakfast Program	10.553	7760005	\$ 853,332
National School Lunch Program	10.555	7750002	2,503,220
Summer Food Service Program for Children	10.559	7690024	7,408
Summer Food Service Program for Children	10.559	7740023	71,512
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502	277,967
<b>Total Child Nutrition Cluster</b>			<b><u>3,713,439</u></b>
Child and Adult Care Food Program	10.558	7790021	27,949
Child and Adult Care Food Program	10.558	7800016	693
<b>Total Child and Adult Care Food Program</b>			<b><u>28,642</u></b>
State Administrative Expenses for Child Nutrition	10.560	7850012	941
Child Nutrition Discretionary Grants Limited Availability	10.579	7840027	18,693
Fresh Fruit and Vegetable Program	10.582	7720012	3,400
<b>Total United States Department of Agriculture</b>			<b><u>3,765,115</u></b>
<b><u>United States Department of Defense:</u></b>			
ROTC	12.000		88,611
<b>Total United States Department of Defense</b>			<b><u>88,611</u></b>
<b><u>United States Department of Education:</u></b>			
<i>Passed Through the Commonwealth of Kentucky</i>			
<i>Department of Education</i>			
<b>Special Education Cluster (IDEA)</b>			
Special Education - Grants to States	84.027	3810002-15	242,155
Special Education - Grants to States	84.027	3810002-16	1,357,481
Special Education - Preschool Grants	84.173	3800002-15	20,700
Special Education - Preschool Grants	84.173	3800002-16	24,839
<b>Total Special Education Cluster</b>			<b><u>1,645,175</u></b>

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
<b>United States Department of Education - Continued:</b>			
<i>Passed Through the Commonwealth of Kentucky</i>			
<i>Department of Education - Continued</i>			
Title I Grants to Local Educational Agencies	84.010	3100002-14	12,139
Title I Grants to Local Educational Agencies	84.010	3100002-15	432,229
Title I Grants to Local Educational Agencies	84.010	3100002-16	1,543,481
Title I Grants to Local Educational Agencies	84.010	3100202-13	17
Title I Grants to Local Educational Agencies	84.010	3100202-16	122,658
<b>Total Title I Grants to Local Educational Agencies</b>			<b>2,110,524</b>
Migrant Education - State Grant Program	84.011	3110002-15	1,839
Career and Technical Education - Basic Grants to States	84.048	3710002-15	8,590
Career and Technical Education - Basic Grants to States	84.048	3710002-16	60,417
<b>Total Career and Technical Education - Basic Grants to States</b>			<b>69,007</b>
Education for Homeless Children and Youth	84.196	3990002-15	3,788
Education for Homeless Children and Youth	84.196	3990002-16	77,320
<b>Total Education for Homeless Children and Youth</b>			<b>81,108</b>
21st Century Community Learning Centers	84.287	3400002-14	56,046
21st Century Community Learning Centers	84.287	3400002-15	11,921
21st Century Community Learning Centers	84.287	3400002-16	143,460
<b>Total 21st Century Community Learning Centers</b>			<b>211,427</b>
English Language Acquisition State Grants	84.365	3300002-14	8,252
English Language Acquisition State Grants	84.365	3300002-15	10,897
<b>Total English Language Acquisition State Grants</b>			<b>19,149</b>
Improving Teacher Quality State Grants	84.367	3230002-15	121,785
Improving Teacher Quality State Grants	84.367	3230002-16	256,282
<b>Total Improving Teacher Quality State Grants</b>			<b>378,067</b>
<b>Total United States Department of Education</b>			<b>4,516,296</b>
<b>United States Department of Health and Human Services:</b>			
<i>Passed Through the Commonwealth of Kentucky</i>			
<i>Department of Education</i>			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	2400002-14	29,651
<b>Total United States Department of Health and Human Services</b>			<b>29,651</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 8,399,673</b>

**HENDERSON COUNTY SCHOOL DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended June 30, 2017**

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**Note 1           Basis of Presentation:**

The accompanying schedule of expenditures of federal awards includes the federal award activity of Henderson County School District under programs of the federal government for the year ended June 30, 2017. 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 Henderson County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Henderson County School District.

**Note 2           Summary of Significant Accounting Policies:**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 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.

**Note 3           Indirect Cost Rate:**

Henderson County School District has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**Note 4           Commodities Donation:**

Nonmonetary assistance for donated commodities is reported at the fair value of the commodities disbursed.

**Henderson County School District  
Schedule of Findings and Questioned Costs  
For the fiscal year ended June 30, 2017**

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**I. Summary of Audit Results:**

	<u>Results</u>
a. Type of auditors' report issued on financial statements.	Unmodified
b. Internal control over financial reporting:	
* Material weakness identified?	No
* Significant deficiencies identified that are not considered to be material weaknesses?	Yes
c. Non-compliance material to financial statements noted?	No
d. Internal control over major programs:	
* Material weakness identified?	No
* Significant deficiencies identified that are not considered to be material weaknesses?	None reported
e. Type of auditors' report issued on compliance for major program?	Unmodified
f. Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	No
g. Identification of major federal programs:	
84.010 - Title 1 Grants to Local Educational Agencies	\$ 2,110,524
84.027, 84.172 - Special Education Cluster	\$ 1,645,175
84.367 - Improving Teacher Quality State Grants	\$ 378,067
h. Dollar threshold used to distinguish between Type A and Type B programs.	\$ 750,000
i. Does the Henderson County School District qualify as a low risk auditee?	No

**II. Findings - Financial Statement Audit**

None: There were no findings resulting from the financial statement audit of Henderson County School District for the fiscal year ended June 30, 2017.

**III. Findings and Questioned Costs - Major Federal Program Audit:**

None: There were no material findings or questioned costs related to the major federal programs of Henderson County School District for the fiscal year ended June 30, 2017.

#### **IV. Summary Schedule of Prior Audit Findings:**

##### **2016-001 Accounting For Cash Receipts and Receivables Related to Daycare Operations:**

###### **Condition:**

During our testing of the day care cash receipts process, we noted that at one school cash receipt books were not maintained in good order, with receipts not being issued in a sequential manner, receipts not being issued to parents for each payment received on a consistent basis, credits issued to parents without any documentation as to why the credit was being issued and without any supervisory approval for the credit. Additionally, not all attendance reports, documenting the attendance of the child as well as the signing out of the child when picked up by the parent, were retained during the fiscal year. Also, written agreements, where the parent agrees to be responsible for the charges and related conditions stipulated by the District, could not be located.

Secondly, there was not in place a supervisory review of the accounts receivable aging reports for each location and we noted obvious errors in the reports.

###### **Criteria:**

Good internal control requires that appropriate documentation be maintained to support the charge for each day care transaction in the form of a signed agreement, and for each payment received from a parent, a receipt should be issued and the receipts should be issued sequentially to account for all activity.

###### **Cause:**

The individual in charge of the cash receipts accounting for the day care operations was not reviewing the accounts receivable aging or the activity reports. Upon further inquiry we learned that staff involved in the day care operations had not been adequately trained on the Pro Care system used to account for attendance, billing, and cash receipt activity.

###### **Effect:**

Risk of misappropriation of cash receipts could occur, and not be detected by management due to the lack of receipts and other supporting documentation related to the transactions.

###### **Recommendation:**

Management should consider development of a written procedure related to the enrollment of children in the day care program which addresses the tracking of attendance and departure of children, billing and collection of payments, and the authorization of credit to the parent's account. Additional procedures should be implemented in the central office related to reviewing the billing activity as well as monitoring the accounts receivable balances on a regular basis to ensure all delinquent charges are addressed in a prompt fashion to increase the likelihood of collection. A policy should also be developed that stipulates when services should be suspended for non-payment and the point in time when a parent's account will be subjected to collection procedures.

**Management Response:**

Management concurs with this recommendation and has scheduled training for staff involved in the daycare operations related to Pro Care, the software used to manage the daycare operations. Additionally, management of the District is in the process of developing written procedures to be followed by each daycare as well as accounting procedures to be performed on a daily, weekly, and monthly basis.

**Questioned Costs:**

None.

**Current Status:**

Management has strengthened controls over this area by providing training to staff related to its Pro Care application used to account for day care activities. Additionally, controls have been implemented to ensure receipts are issued sequentially and on a consistent basis to parents.

## **2016-002 Improving Accounting Procedures - Student Activity Funds:**

### **Condition:**

During our testing of the receipts and disbursements cycles of the student activity funds for the District, we noted several instances where staff failed to follow procedures promulgated by the Kentucky Department of Education's *Accounting Procedures for Kentucky School Activity Funds* (The Redbook). The following conditions were noted from our sample:

- One instance where the multiple receipt form was not used;
- Five checks for which dual signatures were not present;
- Six instances where purchase orders were not used; and
- One instance where the receipt was missing.

This finding was originally reported in fiscal year 2014-15 as finding 2015-002.

### **Criteria:**

Kentucky Department of Education regulations require that the Redbook guidelines related to standard procedures and standard forms be adhered to when accounting for the receipt and disbursement of activity funds.

### **Cause:**

Employees charged with the responsibility for the activity funds failed to follow procedures mandated by the Redbook.

### **Effect:**

Risk is present that funds could be misappropriated, misspent, or not properly accounted for due to the standard prescribed procedures of the Redbook not being followed.

### **Recommendation:**

Management should again re-emphasize additional training for staff responsible for managing and performing accounting functions for activity funds.

### **Management Response:**

Management concurs with this recommendation and at the time of the audit has already communicated to responsible staff the procedures as they relate to the Redbook. From the heightened awareness of risk and responsibility, we have engaged a highly qualified consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds. We feel the above findings noted are indicative of improvements in this area over that of previous years; however, we will continue to engage a consultant on a periodic basis as deemed necessary. We feel that with our efforts expended recently in this area, compliance with required procedures will improve.

**Questioned Costs:**

None.

**Current Status:**

Basically the same conditions are present for the 2016-17 audit (refer to our separate letter to management dated November 03, 2017). Management intends to provide additional training and emphasize to staff the importance of following the requirements of the KDE Redbook.

**2016-003 Segregation of Duties - Accounts Payable Process:**

**Condition:**

During our testing of controls over the cash disbursement cycle, we noted that the individual responsible for preparing the checks also was assigned the responsibility for mailing the checks. This condition does not allow for proper control over the disbursement function.

**Criteria:**

Good internal control over the disbursement cycle requires that the individual responsible for preparing the checks should not be responsible for preparing the checks for mailing and delivering them to be mailed. The preparation of checks for mailing should be done by an employee not involved in the accounting area.

**Cause:**

Staff and management were unaware this was a weakness.

**Effect:**

Risk is present that funds could be misappropriated due the lack of segregation of duties over the accounts payable process.

**Recommendation:**

Management should assign the responsibility for preparation of checks for mailing and delivery to the post office to someone other than the accounts payable staff.

**Management Response:**

Management concurs and will determine how best to segregate this task.

**Questioned costs:**

None.

**Current Status:**

Corrective action was taken. Another employee besides the accounts payable staff mails checks.

**2016-004 Obtaining Federal I-9 Forms from All Employees:**

**Condition:**

During our testing of controls over the payroll system, we noted that there were no I-9 Forms on any of the employees of the District. Upon further inquiry we learned it was likely that all of these forms were inadvertently discarded by the janitor.

**Criteria:**

Federal law requires that each employee complete an I-9 Form to verify that they are American citizens via providing a copy of their Social Security Card and drivers license or other suitable photo identification.

**Cause:**

From inquiry of payroll personnel, we learned it was likely that all of these forms were inadvertently discarded by the janitor during renovations last year of the office area where the payroll office is located.

**Effect:**

The District is not in compliance with applicable Federal laws requiring all individuals complete an I-9 Form and provide photo identification.

**Recommendation:**

Management should obtain I-9 Forms for all current employees as soon as possible.

**Management Response:**

Management concurs and is in the process of obtaining the required documentation from all current employees.

**Questioned costs:**

None.

**Current Status:**

This situation has been corrected by obtaining Form I-9's for all District employees.



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To the Board of Education  
Henderson County School District  
Henderson, Kentucky

Ladies and Gentlemen:

The following recommendations resulted from our audit of the Henderson County School District for the fiscal year ended June 30, 2017. We have developed these recommendations to assist the District in improving financial operations as well as the related internal controls over various operational areas.

**Improving Procedures Over School Activity Funds:**

During our testing of the receipts and disbursements cycles of the student activity funds for the District, we noted several instances where staff failed to follow procedures promulgated by the Kentucky Department of Education's *Accounting Procedures for Kentucky School Activity Funds* (The Redbook). The following conditions were noted from our sample:

- Nine instances where the multiple receipt form was not used;
- Eight receipts for which dual signatures were not present;
- Eleven checks for which dual signatures were not present;
- Five instances where purchase orders were not issued;
- Nine purchase orders for which dual signatures were not present;
- One purchase order that did not agree with the check issued for payment;
- Once instance where funds were not deposited in a timely fashion;
- One instance where the deposit receipt was missing;
- Twelve instances where there were no approvals on the invoice prior to payment being issued;
- Two instances where invoices were not present to support the check issued;
- Six instances where deposit slips did not have any indication of review via initials of responsible party;
- Two ticket reports were missing the beginning ticket number to adequately account for all tickets sold at the event;

**Recommendation:**

We recommend as we did in the prior year, that management continue to provide training to ensure compliance with the procedures mandated by the Kentucky Department of Education as they relate to activity fund financial practices. Management of the District may also consider having someone within the District review activity in each fund on a monthly basis or perhaps engage a consultant as was previously done to perform an internal audit of activity fund operations and provide training.

**Management Response:**

Management concurs with this recommendation and at the time of the audit has already communicated to responsible staff the procedures as they relate to the Redbook. From the heightened awareness of risk and responsibility, we will continue to provide yearly “Redbook” trainings from a highly qualified consultant. We will again engage the consultant to conduct monthly Activity Fund report reviews as well as perform an annual internal audit of each school's activity funds. We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the “Redbook” will be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.

## **2016-17 Activity Fund Findings by School:**

### **A. B. Chandler Elementary School:**

- During our testing of the cash receipts of this fund, one instance was noted where the multiple receipt forms were not used as required; therefore, segregation of duties was not evident. Secondly, by not using this form, it is difficult to determine the source of the money.
- One invoice was noted as lacking evidence of approval prior to payment being issued.

### **Central Learning Center:**

- During our testing of the cash disbursements, we noted one instance where dual signatures were not present on the check.
- One instance was noted where a purchase order did not agree with the check issued for payment.
- One instance was noted for which there was no invoice present to support the corresponding check.
- One instance was noted where the deposit receipt was missing.

### **Jefferson Elementary School:**

- During testing of disbursements, there were five instances where the purchase order did not have dual signatures.
- Our testing of the cash receipts detected three instances where the multiple receipt form was not used.
- Five instances were noted where the deposit slip was not signed.
- Five instances were noted where deposit slips did not have any indication of review via initials of responsible party.

### **South Middle School:**

- During testing of disbursements, there was one instance where only one signature was present on a check.

### **Spottsville Elementary School:**

- During testing of disbursements, there was one instance where only one signature was present on a check.

**South Heights Elementary:**

- Four instances were noted where dual signatures were not present on checks.
- Four instances were noted where there was no indication of approval on the invoice prior to issuance of the corresponding checks.

**East Heights Elementary:**

- One instance was noted where dual signatures were not present on the check.

**Niagra Elementary:**

- One instance was noted where the financial report was not signed.

**North Middle School:**

- One instance was noted where dual signatures were not present on the receipt.
- One instance was noted where dual signatures were not present on the check.
- One instance was noted where the purchase did not have dual signatures.
- One instance was noted where the financial report was not signed.
- Two instances were noted of events where the beginning ticket was not present with the form to properly account for all ticket sales.

**Henderson County High School:**

- One instance was noted where a deposit was not made in a timely manner.
- One instance was noted where the financial report was not signed.

**Cairo Elementary:**

- One instance was noted where the multiple receipt form was missing.
- One instance was noted where there was no purchase order.
- One instance was noted where the purchase order did not have dual signatures.
- One instance noted where there was no indication of the approval of an invoice prior to issuance of the related check.

**Thelma B. Johnson Center:**

- Our testing of receipts in the activity fund noted four instances where the multiple receipt form was not used making it difficult to verify the source of funds as well as the accuracy of the deposit/receipt via a secondary signature.
- One instance was noted where dual signatures were not present on the check.

**Thelma B. Johnson Center (continued):**

- One instance was noted where dual signatures were not present on a receipt.
- During testing of disbursements, there were four instances where no purchase order was present.
- One instance was noted where the purchase order did not have dual signatures.
- Five instances were noted where there was no evidence of approval of an invoice prior to issuance of a check.
- One instance was noted where deposit slips did not have any indication of review via initials of responsible party.

**Bend Gate School:**

- Five instances were noted where dual signatures were not present on the receipt.
- Two instances were noted where dual signatures were not present on the check.
- One instance was noted where the purchase order did not have dual signatures.
- One instance was noted where there was no evidence of approval of the invoice prior to issuance of a check.
- One instance was noted where there was no invoice present to support the corresponding check.

## **Status of Prior Year Comments and Recommendations**

### **Improving Financial Reporting and Monitoring Over Day Care Operations:**

We noted the following conditions of the Day Care Operations:

#### **Numerous Daycare Operations Accounts Receivable Aging Report Errors:**

Numerous account balances on the accounts receivable operation were found to be in error as there were extremely old credits as well as old charges, making it difficult to determine what the actual accounts receivable balance for each school day care program should be as of June 30, 2016. These parent accounts receivable errors appear to go back several years.

#### **Recommendation:**

It is recommended that each accounts receivable aging report for each school be reviewed as of June 30, 2016 by managerial, day care, and finance staff for the purpose of identifying account balances outstanding and related credits requiring adjustments. All adjustments to the parent's accounts should be reviewed and approved by the day care operations manager as well as the finance director prior to being posted into the system. This would provide a base amount as of July 1, 2016 to allow the District to start posting financial activity on the accrual basis of accounting.

#### **Status:**

This situation has been corrected by management for the fiscal year ended June 30, 2017.

#### **Lack of Documentation and Supervisory Approval of Credits and Bad Debt Adjustments:**

There did not appear to be a standard process in place to grant credit to a parent in the instance of vacation or sick days, as well as to ensure the number of days credit allowed do not exceed 5 days in total for the year. We also noted there was no secondary approval of the credit granted, and we noted that the center day care operator can credit a parent's account without obtaining supervisory approval prior to posting the credit. There is not a standard policy and procedure relating to the process to be followed when a parent's account balance is deemed to be uncollectible.

#### **Recommendation:**

We recommend that a process be developed by which a standard credit authorization form is utilized to document the reason for a credit being granted to a parent. This form should be signed by a secondary individual, ideally the individual responsible for all day care operations. These forms should be stored with monthly activity reports from the Pro Care system as support for the credits listed on the report and forwarded to the finance department for final review and disposition.

#### **Status:**

This situation has been corrected by management for the fiscal year ended June 30, 2017.

Balancing of Pro Care Billing and Collection Reports to the General Ledger:

Reports generated by the day care attendance and billing application, ProCare, were not being reviewed by personnel assigned the primary responsibility for supervision of the day care operations. Additionally, there was no evidence that the financial activity reported on the ProCare reports was being reconciled into the general ledger of the Munis system, other than the amount deposited in the bank. Ideally, these reports should be used as a managerial tool to monitor the operations of the programs, as well as, the source documents used in posting accounts receivable, revenues, collection, and credit activity to the general ledger of the District.

Recommendation:

It is recommended that the Pro Care billing and collection reports be used as the source documents to record entries into the general ledger for charges and collections, and these reports should be reconciled to the bank deposit as well as the general ledger. These reports should also be reviewed by the supervisory staff assigned the oversight responsibility of the District's day care operations, as well as the day care manager, and lastly by an individual in the finance area of the District. Also, the recommended revision to the accounting procedures to utilize the accrual basis of accounting over day care operations will require the addition of several general ledger accounts to the Munis system to report child care receivable for each location as well as a contra-revenue account for credits generated at each location.

Implementation of the aforementioned procedures will enhance the financial reporting and monitoring over the District's day care operations.

Status:

This situation has been corrected by management for the fiscal year ended June 30, 2017.

Consider Providing In Depth Pro Care Training for Day Care and Financial Staff:

We noted from inquiry of finance staff that they were not entirely familiar with the operations of Pro Care application which is the attendance and billing system for the day care operations of the District. It was also noted that there was no consistency between each center as to how charges were reflected in the Pro Care system. The system has various reports that management should consider reviewing.

Recommendation:

We recommend that management consider training for day care and financial staff as to the operations of the Pro Care software. Such training should include an overview of the manner of tracking attendance, classification of charges and payments, and management of the accounts receivable balances.

Status:

This situation has been corrected by management for the fiscal year ended June 30, 2017, as training was provided to staff as to the proper operations of the application.

Evaluate the Implementation of Pro Care Check In Solutions:

Pro Care Solutions also has a check-in module that is automated and can streamline the daily tasks required of the day care center staff to check in and check out children. The hardware and software also allow for payments to be made electronically.

Recommendation:

We recommend that management explore the benefits of implementing the Pro Care Check In application to determine if it would be beneficial in the day care attendance management and financial reporting process.

Status:

Management did not feel the cost of implementation provided the benefits. Monitoring over the day care operations has been strengthened and management ensures receipt books are used in a consecutive fashion and each parent is provided a receipt.

Improving Procedures Over School Activity Funds:

We noted several conditions where procedures mandated by the Kentucky Department of Education over school activity funds was not followed. A summary by school of the findings related to the activity funds is below:

- Missing multiple receipt form, one instance.
- Dual signatures on checks were not present, four instances.
- Purchases orders were found to be missing from six disbursements tested.
- One instance was noted where the funds collected were not deposited in a timely fashion.
- One instance where a deposit slip was missing.

Recommendation:

We recommend that management continue to provide training to ensure compliance with the procedures mandated by the Kentucky Department of Education as they relate to activity fund financial practices. Management of the District may also consider having someone within the District review activity in each fund on a monthly basis or perhaps engage a consultant as was previously done to perform an internal audit of activity fund operations and provide training.

Status:

These conditions continue to exist in fiscal year 2016-2017. Management is committed to continually improve the handling of activity funds.



Myriad CPA Group, LLC  
Henderson, Kentucky  
November 03, 2017