

**DATED JULY 12, 2018**

**NEW ISSUE**  
**Electronic Bidding via Parity®**  
**Bank Interest Deduction Eligible**  
**BOOK-ENTRY-ONLY SYSTEM**

**RATING**  
**Moody's: " "**

*In the opinion of Bond Counsel, under existing law (i) interest on the Bonds will be excludable from gross income of the holders thereof for purposes of federal taxation and (ii) interest on the Bonds will not be a specific item of tax preference for purposes of federal taxation all subject to the qualifications described herein under the heading "Tax Exemption." The Bonds and interest thereon are exempt from income taxation and ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof (see "Tax Exemption" herein).*

**\$2,570,000\***  
**OWSLEY COUNTY SCHOOL DISTRICT FINANCE CORPORATION**  
**SCHOOL BUILDING REVENUE BONDS,**  
**SERIES OF 2018**

**Dated: August 1, 2018**

**Due: as shown below**

Interest on the Bonds is payable each February 1 and August 1, beginning February 1, 2019. The Bonds will mature as to principal on August 1, 2019, and each August 1 thereafter as shown below. The Bonds are being issued in Book-Entry-Only Form and will be available for purchase in principal amounts of \$5,000 and integral multiples thereof.

<u>Maturing</u> <u>August 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Yield</u>	<u>CUSIP</u>	<u>Maturing</u> <u>August 1</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Yield</u>	<u>CUSIP</u>
2019	\$ 75,000	%	%		2029	\$ 140,000	%	%	
2020	\$ 75,000	%	%		2030	\$ 145,000	%	%	
2021	\$ 85,000	%	%		2031	\$ 150,000	%	%	
2022	\$ 85,000	%	%		2032	\$ 155,000	%	%	
2023	\$ 85,000	%	%		2033	\$ 160,000	%	%	
2024	\$ 90,000	%	%		2034	\$ 165,000	%	%	
2025	\$ 100,000	%	%		2035	\$ 170,000	%	%	
2026	\$ 110,000	%	%		2036	\$ 180,000	%	%	
2027	\$ 115,000	%	%		2037	\$ 185,000	%	%	
2028	\$ 135,000	%	%		2038	\$ 165,000	%	%	

The Bonds are subject to redemption prior to their stated maturity as described herein.

Notwithstanding the foregoing, the Corporation reserves the right, upon thirty (30) days notice, to call the Bonds in whole or in part for redemption on any date at par upon the total destruction by fire, lightning, windstorm or other hazard of any of the building(s) constituting the Project(s) and apply casualty insurance proceeds to such purpose.

The Bonds constitute a limited indebtedness of the Owsley County School District Finance Corporation and are payable from and secured by a pledge of the gross income and revenues derived by leasing the Project on an annual renewable basis to the Owsley County Board of Education.

The Owsley County (Kentucky) School District Finance Corporation will until July 19, 2018, at 11:30 A.M., E.S.T., receive competitive bids for the Bonds at the office of the Executive Director of the Kentucky School Facilities Construction Commission, 229 West Main Street, Suite 102, Frankfort, Kentucky 40601.

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**\*As set forth in the "Official Terms and Conditions of Bond Sale," the principal amount of Bonds sold to the successful bidder is subject to a Permitted Adjustment by increasing or decreasing the amount not to exceed \$510,000.**

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**PURCHASER'S OPTION:** The Purchaser of the Bonds, within 24 hours of the sale, may specify to the Financial Advisor that any Bonds may be combined immediately succeeding sequential maturities into a Term Bond(s), bearing a single rate of interest, with the maturities set forth above (or as may be adjusted as provided herein) being subject to mandatory redemption in such maturities for such Term Bond(s).

The Bonds will be delivered utilizing the BOOK-ENTRY-ONLY-SYSTEM administered by The Depository Trust Company.

The Corporation deems this preliminary Official Statement to be final for purposes of the Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain information on the cover page hereof which has been omitted in accordance with such Rule and which will be supplied with the final Official Statement.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sales of these Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the laws of any such jurisdiction.

**OWSLEY COUNTY, KENTUCKY  
BOARD OF EDUCATION**

Joyce Campbell, Chairperson  
Fannie Couch, Member  
Bill Campbell, Member  
Andie DeBord, Member  
Gary Deaton, Member

Dr. Timothy Bobrowski, Superintendent/Secretary

**OWSLEY COUNTY SCHOOL DISTRICT  
FINANCE CORPORATION**

Joyce Campbell, President  
Fannie Couch, Member  
Bill Campbell, Member  
Andie DeBord, Member  
Gary Deaton, Member

Dr. Timothy Bobrowski, Secretary  
Jerry McIntosh, Treasurer

**BOND COUNSEL**

Step toe & Johnson PLLC  
Louisville, Kentucky

**FINANCIAL ADVISOR**

Ross, Sinclaire & Associates, LLC  
Lexington, Kentucky

**PAYING AGENT AND REGISTRAR**

Farmers State Bank  
Booneville, Kentucky

**BOOK-ENTRY-ONLY-SYSTEM**

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

This Official Statement does not constitute an offering of any security other than the original offering of the Owsley County School District Finance Corporation School Building Revenue Bonds, Series of 2018, identified on the cover page hereof. No person has been authorized by the Corporation or the Board to give any information or to make any representation other than that contained in the Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the Board since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the Corporation will pass upon the accuracy or adequacy of this Official Statement or approve the Bonds for sale.

The Official Statement includes the front cover page immediately preceding this page and all Appendices hereto.

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**OFFICIAL STATEMENT  
Relating to the Issuance of**

**\$2,570,000\***

**OWSLEY COUNTY SCHOOL DISTRICT FINANCE CORPORATION  
SCHOOL BUILDING REVENUE BONDS,  
SERIES OF 2018**

*\* Subject to Permitted Adjustment*

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth certain information pertaining to the Owsley County School District Finance Corporation (the "Corporation") School Building Revenue Bonds, Series of 2018 (the "Bonds").

The Bonds are being issued to finance improvements at Owsley County Elementary and High Schools (the "Project").

The Bonds are revenue bonds and constitute a limited indebtedness of the Corporation. The Bonds will be secured by a pledge of the rental income derived by the Corporation from leasing the Project to the Owsley County Board of Education (the "Board") on a year to year basis (see "Security" herein).

All financial and other information presented in this Official Statement has been provided by the Owsley County Board of Education from its records, except for information expressly attributed to other sources. The presentation of financial and other information is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the Board. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered more or less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents.

Copies of the Bond Resolution authorizing the issuance of the Bonds, the Participation Agreement and the Lease Agreement dated August 1, 2018, may be obtained at the office of Steptoe & Johnson PLLC, Bond Counsel, 700 N. Hurstbourne Parkway, Ste. 115, Louisville, Kentucky 40222.

**BOOK-ENTRY-ONLY-SYSTEM**

The Bonds shall utilize the Book-Entry-Only System administered by The Depository Trust Company ("DTC").

The following information about the Book-Entry only system applicable to the Bonds has been supplied by DTC. Neither the Corporation nor the Paying Agent and Registrar makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal

Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent and Registrar or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment

of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice the Corporation or the Paying Agent and Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-Entry system has been obtained from sources that the Corporation believes to be reliable but the Corporation takes no responsibility for the accuracy thereof.

## **THE CORPORATION**

The Corporation has been formed in accordance with the provisions of Sections 162.120 through 162.300 and Section 162.385 of the Kentucky Revised Statutes ("KRS"), and KRS Chapter 273 and KRS 58.180, as a non-profit, non-stock corporation for the purpose of financing necessary school building facilities for and on behalf of the Board. Under the provisions of existing Kentucky law, the Corporation is permitted to act as an agency and instrumentality of the Board for financing purposes and the legality of the financing plan to be implemented by the Board herein referred to has been upheld by the Kentucky Court of Appeals (Supreme Court) in the case of White v. City of Middlesboro, Ky. 414 S.W.2d 569.

Any bonds, notes or other indebtedness issued or contracted by the Corporation shall, prior to the issuance or incurrence thereon, be specifically approved by the Board. The members of the Board of Directors of the Corporation are the members of the Board. Their terms expire when they cease to hold the office and any successor members of the Board are automatically members of the Corporation upon assuming their public offices.

## **KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION**

The Commission is an independent corporate agency and instrumentality of the Commonwealth of Kentucky established pursuant to the provisions of Sections 157.611 through 157.640 of the Kentucky Revised Statutes, as repealed, amended, and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet need.

Pursuant to the provisions of the Act, the Regulations of the Kentucky Board of Education and the Commission, the Commission has determined that the Board is eligible for participation from the Commission in meeting the costs of construction of the Projects and has entered into a Participation Agreement with the Board whereunder the Commission agrees to pay an annual Agreed Participation equal to approximately \$134,329 to be applied to the annual debt service requirements for the Bonds herein identified each year until their retirement; provided, however, that the contractual commitment of the Commission to pay the annual Agreed Participation is limited to the biennial budget period of the Commonwealth, with the first such biennial period terminating on June 30, 2020; the right is reserved in the Commission to terminate its commitment to pay the Agreed Participation after the initial biennial period and every two years thereafter. The obligation of the Commission to make payments of the Agreed Participation shall be automatically renewed each two years for a period of two years unless the Commission shall give notice of its intention not to participate not less than sixty days prior to the end of the biennium; however, by the execution of the Participation Agreement, the Commission has expressed its present intention to continue to pay the Agreed Participation in each successive biennial budget period until the retirement of all of the Bonds, but such execution does not obligate the Commission to do so.

The General Assembly of the Commonwealth adopted the State's Budget for the biennium ending June 30, 2020. Inter alia, the Budget provides \$129,504,400 in FY 2018-19 and \$128,672,400 in FY 2019-20 to pay debt service on existing and future bond issues; \$58,000,000 of the Commission's previous Offers of Assistance made during the last biennium; and authorizes \$58,000,000 in additional Offers of Assistance for the current biennium to be funded in the Budget for the biennium ending June 30, 2022.

The 1986, 1988, 1990, 1992, 1994, 1996, 1998, 2000, 2003, 2005, 2006, 2008, 2010, 2012, 2014, 2016 and 2018 Regular Sessions of the Kentucky General Assembly appropriated funds to be used for debt service of participating school districts. The appropriations for each biennium are shown in the following table:

<u>Biennium</u>	<u>Appropriation</u>
1986-88	\$18,223,200
1988-90	14,050,700
1990-92	13,542,800
1992-94	3,075,300
1994-96	2,800,000
1996-98	4,996,000
1998-00	12,141,500
2000-02	8,100,000
2002-04	9,500,000
2004-06	14,000,000
2006-08	9,000,000
2008-10	10,968,000
2010-12	12,656,200
2012-14	8,469,200
2014-16	8,764,000
2016-18	23,019,400
2018-20	7,608,000
Total	\$180,914,300

In addition to the appropriations for new financings as shown, appropriations subsequent to that for 1986 included additional funds to continue to meet the annual debt requirements for all bond issues involving Commission participation issued in prior years.

### **BIENNIAL BUDGET FOR PERIOD ENDING JUNE 30, 2020**

The Kentucky General Assembly, during its Regular Session, adopted a budget for the biennium ending June 30, 2020 which was approved and signed by the Governor. Such budget was effective beginning July 1, 2018.

### **OUTSTANDING BONDS**

The following table shows the outstanding Bonds of the Board by the original principal amount of each issue, the current principal outstanding, the amount of the original principal scheduled to be paid with the corresponding interest thereon by the Board or the School Facilities Construction Commission, the approximate interest range; and, the final maturity date of the Bonds:

<b>Bond Series</b>	<b>Original Principal</b>	<b>Current Principal Outstanding</b>	<b>Principal Assigned to Board</b>	<b>Principal Assigned to Commission</b>	<b>Approximate Interest Rate Range</b>	<b>Final Maturity</b>
2007	\$ 755,000	\$ 410,000	\$ 84,631	\$ 670,369	4.250% - 4.300%	2027
2010-REF	\$ 695,000	\$ 220,000	\$ 529,199	\$ 165,801	2.550% - 2.550%	2021
2010 QZAB	\$ 1,000,000	\$ 1,000,000	\$ 276,000	\$ 724,000	6.125%	2027
2012-REF	\$ 1,340,000	\$ 485,000	\$ 1,331,239	\$ 8,761	2.000% - 2.375%	2024
Totals:	\$ 3,790,000	\$ 2,115,000	\$ 2,221,069	\$ 1,568,931		

### **AUTHORITY**

The Board of Directors of the Corporation has adopted a Bond Resolution which authorized among other things:

- i) the issuance of approximately \$2,570,000 of Bonds subject to a permitted adjustment of \$510,000;
- ii) the advertisement for the public sale of the Bonds;



- iii) the Official Terms and Conditions for the sale of the Bonds to the successful bidder; and,
- iv) the President and Secretary of the Corporation to execute certain documents relative to the sale and delivery of the Bonds.

**THE BONDS**

**General**

The Bonds will be dated August 1, 2018, will bear interest from that date as described herein, payable semi-annually on February 1 and August 1 of each year, commencing February 1, 2019 and will mature as to principal on August 1, 2019 and each August 1 thereafter in the years and in the principal amounts as set forth on the cover page of this Official Statement.

**Registration, Payment and Transfer**

The Bonds are to be issued in fully-registered form (both principal and interest). Farmers State Bank, Booneville, Kentucky, the Bond Registrar and Paying Agent, shall remit interest on each semiannual due date to Cede & Co., as the nominee of The Depository Trust Company. Please see Book-Entry-Only-System. Interest on the Bonds will be paid at rates to be established upon the basis of competitive bidding as hereinafter set forth, such interest to be payable on February 1 and August 1 of each year, beginning February 1, 2019 (Record Date is 15th day of month preceding interest due date).

**Redemption**

The Bonds maturing on or after August 1, 2029 are subject to redemption at the option of the Corporation prior to their stated maturity on any date falling on or after August 1, 2028, in any order of maturities (less than all of a single maturity to be selected by lot), in whole or in part, upon notice of such prior redemption being given by the Paying Agent in accordance with DTC requirements not less than thirty (30) days prior to the date of redemption, upon terms of the face amount, plus accrued interest, but without redemption premium.

<b>Redemption Date</b>	<b>Redemption Price</b>
August 1, 2028 and thereafter	100%

Notwithstanding the foregoing, the Corporation reserves the right, upon thirty (30) days notice, to call the Bonds in whole or in part for redemption on any day at par upon the total destruction by fire, lightning, windstorm or other hazard of any of the building(s) constituting the Project(s) and apply casualty insurance proceeds to such purpose.

**SECURITY**

**General**

The Bonds are revenue bonds and constitute a limited indebtedness of the Corporation. The Bonds are payable as to both principal and interest solely from the income and revenues derived from the leasing of the Projects financed from the Bond proceeds from the Corporation to the Board. The Bonds are secured by pledges of revenues on and from the site of the Project; provided, however, that the lien and pledge are on parity with similar lien and pledge securing the Corporation’s School Building Revenue Bonds previously issued to improve or refinance certain of the building(s) in which the Project are located (the “Parity Bonds”).

**The Lease; Pledge of Rental Revenues**

The Board has leased the school Project securing the Bonds for an initial period from August 1, 2018 through June 30, 2019 with the option in the Board to renew said Lease from year to year for one year at a time, at annual rentals, sufficient in each year to enable the Corporation to pay, solely from the rental due under the Lease, the principal and interest on all of the Bonds as same become due. The Lease provides further that so long as the

Board exercises its annual renewal options, its rentals will be payable according to the terms and provisions of the Lease until August 1, 2038, the final maturity date of the Bonds. Under the lease, the Corporation has pledged the rental revenue to the payment of the Bonds.

### **STATE INTERCEPT**

Under the terms of the Lease and any renewal thereof, so long as the Bonds remain outstanding and in conformance with the intent and purpose of KRS 157.627(5) and KRS 160.160(5), in the event of a failure by the Board to pay the rentals due under the Lease, and unless sufficient funds have been transmitted to the Paying Agent, or will be so transmitted, for paying said rentals when due, the Board has granted under the terms of the Lease and Participation Agreement to the Corporation and the Commission the right to notify and request the Kentucky Department of Education to withhold from the Board a sufficient portion of any undisbursed funds then held, set aside, or allocated to the Board and to request said Department or Commissioner of Education to transfer the required amount thereof to the Paying Agent for the payment of such rentals.

### **COMMISSION'S PARTICIPATION**

The Commission has determined that the Board is eligible for an average annual participation equal to approximately \$134,329 from the Commission's appropriation by the Kentucky General Assembly which will be used to meet a portion of the debt service of the Bonds. The plan for financing the Project will require the Commission to pay approximately seventy-two (72%) of the debt service of the Bonds.

The Participation Agreement to be entered into with the Board will be limited to the biennial budget period of the Commonwealth of Kentucky, with the first such biennial period terminating on June 30, 2020. The right is reserved in the Commission to terminate the commitment to pay the agreed participation every two years thereafter. The obligation of the Commission to make payments of the agreed participation shall be automatically renewed each two years thereafter unless the Commission gives notice to the Board of its intention not to participate not less than sixty days prior to the end of the biennium. However, the Commission has expressed its intention to continue to pay the agreed participation in successive biennial budget periods until the Bonds are retired, but the Commission is not required to do so.

### **THE PROJECT**

After payment of the Bond issuance costs, the Board plans to deposit the net Bond proceeds to finance improvements at Owsley County Elementary and High Schools (the "Project").

The Board has reported construction bids have been let for the Project and approval of the Kentucky Department of Education, Buildings and Grounds, to award the construction contract is expected prior to the sale and delivery of the Bonds.

Contractors for the Project are required to furnish to the Board a one hundred percent completion bond to assure their performance of the construction contract.

### **ADDITIONAL PARITY BONDS**

The Corporation has reserved the right and privilege of issuing additional bonds from time to time payable from the income and revenues of said lands and school building Project and secured by the same pledges of revenues, but only if and to the extent the issuance of such additional parity bonds are in accordance with the plans and specifications approved by the Board, Commissioner of Education, and filed in the office of the Secretary of the Corporation.

## ESTIMATED BOND DEBT SERVICE

The following table shows by fiscal year the current bond payments of the Board. The plan of financing provides for the Board to pay approximately 28% of the debt service of the Bonds.

Fiscal Year Ending June 30	Current Local Bond Payments	2018 Revenue Bonds				Local Portion	Total Local Bond Payments
		Principal Portion	Interest Portion	Total Payment	SFCC Portion		
2018	\$ 259,091						\$ 259,091
2019	\$ 123,973		\$ 45,519	\$ 45,519	\$ 32,774	\$ 12,745	\$ 136,718
2020	\$ 124,689	\$ 75,000	\$ 89,913	\$ 164,913	\$ 118,737	\$ 46,176	\$ 170,865
2021	\$ 120,276	\$ 75,000	\$ 87,663	\$ 162,663	\$ 117,117	\$ 45,546	\$ 165,822
2022	\$ 68,004	\$ 85,000	\$ 85,263	\$ 170,263	\$ 122,589	\$ 47,674	\$ 115,677
2023	\$ 65,022	\$ 85,000	\$ 82,713	\$ 167,713	\$ 120,753	\$ 46,960	\$ 111,982
2024	\$ 67,019	\$ 85,000	\$ 80,056	\$ 165,056	\$ 118,841	\$ 46,216	\$ 113,235
2025	\$ 63,799	\$ 90,000	\$ 77,213	\$ 167,213	\$ 120,393	\$ 46,820	\$ 110,619
2026	\$ 16,116	\$ 100,000	\$ 74,125	\$ 174,125	\$ 125,370	\$ 48,755	\$ 64,871
2027	\$ 13,966	\$ 110,000	\$ 70,713	\$ 180,713	\$ 130,113	\$ 50,600	\$ 64,566
2028	\$ 11,504	\$ 115,000	\$ 66,913	\$ 181,913	\$ 130,977	\$ 50,936	\$ 62,440
2029		\$ 135,000	\$ 62,538	\$ 197,538	\$ 142,227	\$ 55,311	\$ 55,311
2030		\$ 140,000	\$ 57,725	\$ 197,725	\$ 142,362	\$ 55,363	\$ 55,363
2031		\$ 145,000	\$ 52,738	\$ 197,738	\$ 142,371	\$ 55,367	\$ 55,367
2032		\$ 150,000	\$ 47,575	\$ 197,575	\$ 142,254	\$ 55,321	\$ 55,321
2033		\$ 155,000	\$ 42,044	\$ 197,044	\$ 141,872	\$ 55,172	\$ 55,172
2034		\$ 160,000	\$ 36,138	\$ 196,138	\$ 141,219	\$ 54,919	\$ 54,919
2035		\$ 165,000	\$ 30,044	\$ 195,044	\$ 140,432	\$ 54,612	\$ 54,612
2036		\$ 170,000	\$ 23,763	\$ 193,763	\$ 139,509	\$ 54,254	\$ 54,254
2037		\$ 180,000	\$ 17,200	\$ 197,200	\$ 141,984	\$ 55,216	\$ 55,216
2038		\$ 185,000	\$ 10,171	\$ 195,171	\$ 140,523	\$ 54,648	\$ 54,648
2039		\$ 165,000	\$ 3,259	\$ 168,259	\$ 121,146	\$ 47,112	\$ 47,112
<b>Totals:</b>	<b>\$ 933,460</b>	<b>\$ 2,570,000</b>	<b>\$ 1,143,280</b>	<b>\$ 3,713,280</b>	<b>\$ 2,673,562</b>	<b>\$ 1,039,718</b>	<b>\$ 1,973,178</b>

Note: Numbers rounded to the nearest \$1.00. Estimated Net Interest Cost of 3.672%

## ESTIMATED USE OF BOND PROCEEDS

The table below shows the estimated sources of funds and uses of proceeds of the Bonds, other than any portions thereof representing accrued interest:

<b>Sources:</b>	
Par Amount of Bonds	<u>\$2,570,000.00</u>
Total Sources	\$2,570,000.00
<b>Uses:</b>	
Deposit to Construction Fund	\$2,483,820.00
Underwriter's Discount (2%)	51,400.00
Cost of Issuance	<u>34,780.00</u>
Total Uses	\$2,570,000.00

## DISTRICT STUDENT POPULATION

Selected school census and average daily attendance for the Owsley County School District is as follows:

<u>Year</u>	<u>Average Daily Attendance</u>	<u>Year</u>	<u>Average Daily Attendance</u>
1990-91	893.9	2004-05	725.7
1991-92	893.4	2005-06	701.0
1992-93	906.8	2006-07	729.7
1993-94	910.6	2007-08	715.3
1994-95	904.2	2008-09	715.2
1995-96	873.4	2009-10	698.6
1996-97	824.9	2010-11	701.3
1997-98	828.1	2011-12	690.0
1998-99	828.1	2012-13	693.9
1999-00	799.6	2013-14	674.7
2000-01	799.6	2014-15	658.9
2001-02	776.0	2015-16	641.2
2002-03	770.2	2016-17	641.8
2003-04	739.9		

*Source: Kentucky State Department of Education.*

## STATE SUPPORT

***Support Education Excellence in Kentucky (SEEK).*** In determining the cost of the program to Support Education Excellence in Kentucky (SEEK), the statewide guaranteed base funding level is computed by dividing the amount appropriated by the prior year's statewide average daily attendance. The SEEK fund is a guaranteed amount of money per pupil in each school district of Kentucky. The current SEEK allotment is \$3,866 per pupil. The \$100 capital outlay allotment per each average daily attendance is included within the guaranteed amounts. Each district's base funding from the SEEK program is adjusted for the number of at-risk students, the number and types of exceptional children in the district, and cost of transporting students from and to school in the district.

***Capital Outlay Allotment.*** The per pupil capital outlay allotment for each district from the public school fund and from local sources shall be kept in a separate account and may be used by the district only for capital outlay projects approved by the State Department of Education. These funds shall be used for the following capital outlay purposes:

- a. For direct payment of construction costs.
- b. For debt service on voted and funding bonds.
- c. For payment or lease-rental agreements under which the board will eventually acquire ownership of the school plant.
- d. For retirement of any deficit resulting from over-expenditure for capital construction, if such deficit resulted from certain declared emergencies.
- e. As a reserve fund for the above named purposes, to be carried forward in ensuing budgets.

The allotment for each school board of education in the Commonwealth for fiscal year 1978-79 was \$1,800 per classroom unit. The 1979 Session of the Kentucky General Assembly approved increases in this allotment in 1979-80 to \$1,900 per classroom unit. This rate remained unchanged in 1980-81. The 1981 Session of the Kentucky General Assembly decreased the allotment per classroom to \$1,800 and this allotment rate did not change from the 1981-82 rate, until the 1990-91 school year. Beginning with 1990-91, the Capital Outlay allotment for each district is based on \$100 per average daily attendance.

The following table shows the computation of the capital outlay allotment for the Owsley County School District for certain preceding school years. Beginning 1990-91, the allotment is based on average daily attendance as required by law.

<u>Year</u>	<u>Capital Outlay Allotment</u>	<u>Year</u>	<u>Capital Outlay Allotment</u>
1990-91	89,390.0	2004-05	72,570.0
1991-92	89,340.0	2005-06	70,100.0
1992-93	90,680.0	2006-07	72,970.0
1993-94	91,060.0	2007-08	71,530.0
1994-95	90,420.0	2008-09	71,523.0
1995-96	87,340.0	2009-10	69,862.4
1996-97	82,490.0	2010-11	70,134.8
1997-98	82,810.0	2011-12	69,004.3
1998-99	82,810.0	2012-13	69,390.4
1999-00	79,960.0	2013-14	67,472.9
2000-01	79,960.0	2014-15	65,892.4
2001-02	77,600.0	2015-16	64,120.0
2002-03	77,020.0	2016-17	64,180.0
2003-04	73,990.0		

If the school district has no capital outlay needs, upon approval from the State, the funds can be used for school plant maintenance, repair, insurance on buildings, replacement of equipment, purchase of school buses and purchase of modern technological equipment for educational purposes. If any district has a special levy for capital outlay or debt service that is equal to the capital outlay allotment or a proportionate fraction thereof, and spends the proceeds of the levy for eligible purposes, the State may authorize the district to use all or a proportionate fraction of its capital outlay allotment for current expenses (school districts which use capital outlay allotments to meet current expenses are not eligible to participate in the School Facilities Construction Commission funds).

**Facilities Support Program of Kentucky.** School districts may be eligible to participate in the Facilities Support Program of Kentucky (FSPK), subject to the following requirements:

- 1) The district must have unmet needs as set forth and approved by the State Department of Education in a School Facilities Plan;
- 2) The district must commit to establish an equivalent tax rate of at least 5 cents, in addition to the 30 cents minimum current equivalent tax rate; and,
- 3) The new revenues generated by the 5 cent addition, must be placed in a restricted account for school building construction bonding.

### **LOCAL SUPPORT**

**Homestead Exemption.** Section 170 of the Kentucky Constitution was amended at the General Election held November 2, 1971, to exempt from property taxes \$6,500 of value of single unit residential property of taxpayers 65 years of age or older. The 1972 General Assembly amended KRS Chapter 132 to permit counties and school districts to adjust their local tax revenues lost through the application of this Homestead Exemption. The "Single Unit" qualification has been enlarged to subsequent sessions of the General Assembly to provide that such exemption shall apply to such property maintained as the permanent resident of the owner and the dollar amount has been construed to mean \$6,500 in terms of the purchasing power of the dollar in 1972. Every two years thereafter, if the cost of living index of the U.S. Department of Labor has changed as much as 1%, the maximum exemption shall be adjusted accordingly. Under the cost of living formula, the maximum was increased to \$37,600 effective January 1, 2017.

**Limitation on Taxation.** The 1979 Special Session of the Kentucky General Assembly enacted House Bill 44 which provides that no school district may levy a general tax rate, voted general tax rate, or voted building tax rate which would generate revenues that exceeds the previous years revenues by four percent (4%).

The 1990 Regular Session of the Kentucky General Assembly in enacting the "School Reform" legislative package amended the provisions of KRS 160.470 which prohibited school districts from levying ad valorem property taxes which would generate revenues in excess of 4% of the previous year's revenues without said levy subject to recall to permit exceptions to the referendum under (1) KRS 160.470(12) [a new section of the statute] and (2) an amended KRS 157.440.

Under KRS 160.470(12)(a) for fiscal years beginning July 1, 1990 school districts are required to levy a "minimum equivalent tax rate" of thirty cents (\$.30) for general school purposes. The equivalent tax rate is defined as the rate which results when the income collected during the prior year from all taxes (including occupational or utilities) levied by the district for school purposes divided by the total assessed value of property plus the assessment for motor vehicles certified by the State Revenue Cabinet. Failure to levy the minimum equivalent rate subjects the board of the district to removal.

The exception provided by KRS 157.440(1)(a) permits school districts to levy an equivalent tax rate as defined in KRS 160.470(12)(a) which will produce up to 15% of those revenues guaranteed by the program to support education excellence in Kentucky. Levies permitted by this section of the statute are not subject to public hearing or recall provisions as set forth in KRS 160.470.

**Local Thirty Cents Minimum.** Effective for school years beginning after June 30, 1990, the board of education of each school district shall levy a minimum equivalent tax rate of thirty cents (\$.30) for general school purposes. If a board fails to comply, its members shall be subject to removal from office for willful neglect of duty.

**Additional 15% Not Subject to Recall.** Effective with the school year beginning July 1, 1990, each school district may levy an equivalent tax rate which will produce up to 15% of those revenues guaranteed by the SEEK program. Effective with the 1990-91 school year, the State will equalize the revenue generated by this levy at one hundred fifty percent (150%) of the statewide average per pupil equalized assessment. For 1993-94 and thereafter, this level is set at \$225,000. The additional 15% rate levy is not subject to the public hearing or recall provisions.

**Assessment Valuation.** No later than July 1, 1994, all real property located in the state and subject to local taxation shall be assessed at one hundred percent (100%) of fair cash value.

**Special Voted and Other Local Taxes.** Any district may, in addition to other taxes for school purposes, levy not less than four cents nor more than twenty cents on each one hundred dollars (\$100) valuation of property subject to local taxation, to provide a special fund for the purchase of sites for school buildings and the erection, major alteration, enlargement, and complete equipping of school buildings. In addition, districts may levy taxes on tangible and intangible property and on utilities, except generally any amounts of revenues generated above that provided for by House Bill 44 is subject to voter recall.

**Local Tax Rates, Property Assessments and Revenue Collections**

<b>Tax Year</b>	<b>Combined Equivalent Rate</b>	<b>Total Property Assessment</b>	<b>Property Revenue Collections</b>
1991-92	57.8	60,615,548	350,358
1992-93	58.1	57,493,785	334,039
1993-94	58.7	60,207,433	353,418
1994-95	60.8	64,475,933	392,014
1995-96	61.1	67,717,812	413,756
1996-97	62.3	68,885,437	429,156
1997-98	63.5	69,757,470	442,960
1998-99	63.5	70,826,564	449,749
1999-00	60.9	75,847,312	461,910
2000-01	59.6	82,847,104	493,769
2001-02	60.9	84,356,800	513,733
2002-03	60.8	89,526,216	544,319
2003-04	60.8	94,373,624	573,792
2004-05	57.4	97,034,873	556,980
2005-06	59.5	102,192,990	608,048
2006-07	59.8	103,984,550	621,828
2007-08	59.5	107,324,593	638,581
2008-09	58	112,116,249	650,274
2009-10	58	115,795,040	671,611
2010-11	65.1	114,460,936	745,141
2011-12	63.3	117,225,688	742,039
2012-13	63.3	122,417,702	774,904
2013-14	60.7	122,089,838	741,085
2014-15	58.3	124,991,153	728,698
2015-16	60.7	128,592,106	780,554
2016-17	53.7	128,812,483	691,723

**Overlapping Bond Indebtedness**

The following table shows any other overlapping bond indebtedness of the Owsley County School District or other issuing agency within the County as reported by the State Local Debt Officer for the period ending June 30, 2014.

<b>Issuer</b>	<b>Original Principal Amount</b>	<b>Amount of Bonds Redeemed</b>	<b>Current Principal Outstanding</b>
Owsley County			
General Obligation	\$219,634	\$115,904	\$103,730
Health Department Revenue	\$600,000	\$0	\$600,000
City of Booneville			
Sewer & Water Revenue	\$1,979,000	\$491,500	\$1,487,500
Improvement Project Revenue	\$523,000	\$45,900	\$477,100
Special Districts			
Owsley County Extension Service	\$200,000	\$30,000	\$170,000
Owsley County Public Library	\$2,163,000	\$0	\$2,163,000
<b>Totals:</b>	<b>\$5,001,330</b>	<b>\$1,479,696</b>	<b>\$3,521,634</b>

Source: 2014 Kentucky Local Debt Report.

## SEEK Allotment

The Board has reported the following information as to the SEEK allotment to the District, and as provided by the State Department of Education. These receipts are compared to the 1989-90 fiscal year funding prior to enactment of the Kentucky Education Reform Act:

<b>SEEK</b>	<b>Base Funding</b>	<b>Local Tax Effort</b>	<b>Total State &amp; Local Funding</b>
1991-92	2,900,595	350,358	3,250,953
1992-93	3,227,615	334,039	3,561,654
1993-94	3,284,588	353,418	3,638,006
1994-95	3,452,264	392,014	3,844,278
1995-96	3,490,928	413,756	3,904,684
1996-97	3,406,357	429,156	3,835,513
1997-98	3,572,017	442,960	4,014,977
1998-99	3,674,271	449,749	4,124,020
1999-00	3,724,113	461,910	4,186,023
2000-01	3,777,457	493,769	4,271,226
2001-02	3,784,480	513,733	4,298,213
2002-03	3,806,062	544,319	4,350,381
2003-04	3,737,075	573,792	4,310,867
2004-05	3,711,575	556,980	4,268,555
2005-06	3,857,135	608,048	4,465,183
2006-07	4,013,323	621,828	4,635,151
2007-08	4,306,951	638,581	4,945,532
2008-09	4,348,409	650,274	4,998,683
2009-10	3,829,294	671,611	4,500,905
2010-11	3,899,438	745,141	4,644,579
2011-12	4,177,451	742,039	4,919,490
2012-13	4,108,862	774,904	4,883,766
2013-14	3,858,876	741,085	4,599,961
2014-15	3,765,402	728,698	4,494,100
2015-16	3,772,573	780,554	4,553,127
2016-17	3,722,312	691,723	4,414,035

- (1) Support Education Excellence in Kentucky (SEEK) replaces the minimum foundation program and power equalization funding. Capital Outlay is now computed at \$100 per average daily attendance (ADA). Capital Outlay is included in the SEEK base funding.
- (2) The Board established a current equivalent tax rate (CETR) of \$0.537 for FY 2016-17. The equivalent tax rate" is defined as the rate which results when the income from all taxes levied by the district for school purposes is divided by the total assessed value of property plus the assessment for motor vehicles certified by the Commonwealth of Kentucky Revenue Cabinet.

## State Budgeting Process

- i) Each district board of education is required to prepare a general school budget on forms prescribed and furnished by the Kentucky Board of Education, showing the amount of money needed for current expenses, debt service, capital outlay, and other necessary expenses of the school during the succeeding fiscal year and the estimated amount that will be received from all sources.
- ii) By September 15 of each year, after the district receives its tax assessment data from the Department of Revenue and the State Department of Education, 3 copies of the budget are forwarded to the State Department for approval or disapproval.



- iii) The State Department of Education has adopted a policy of disapproving a school budget if it is financially unsound or fails to provide for:
  - a) payment of maturing principal and interest on any outstanding voted school improvement bonds of the district or payment of rental in connection with any outstanding school building revenue bonds issued for the benefit of the school district; or
  - b) fails to comply with the law.

### **POTENTIAL LEGISLATION**

No assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax exemption of such interest. In addition, current and future legislative proposals, if enacted into law, may cause interest on state or local government bonds (whether issued before, on the date of, or after enactment of such legislation) to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the amount of interest on such bonds that may currently be treated as tax exempt by certain individuals. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds or obligations which present similar tax issues, will not affect the market price for the Bonds.

### **CONTINUING DISCLOSURE**

As a result of the Board and issuing agencies acting on behalf of the Board having outstanding at the time the Bonds referred to herein are offered for public sale municipal securities in excess of \$1,000,000, the Corporation and the Board will enter into a written agreement for the benefit of all parties who may become Registered or Beneficial Owners of the Bonds whereunder said Corporation and Board will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Commission Rule 15c2-12 by filing annual financial statements and material events notices with the Electronic Municipal Market Access (EMMA) System maintained by the Municipal Securities Rule Making Board.

The Board and Corporation have been late in making certain required filings under the terms of the Continuing Disclosure Agreements between the Board and the Corporation executed in connection with previous bond issues. The Board has filed Material Event Notices indicating its failure to file on a timely basis the following information:

Operating Data for FYs ending June 30, 2013 was filed on July 18, 2014.

The Board has adopted new procedures to assure timely and complete filings in the future with regard to the Rule in order to provide required financial reports and operating data or notices of material events.

Financial information regarding the Board may be obtained from Superintendent, Owsley County Board of Education, 14 Old KY. 11, Booneville, Kentucky 41314, Telephone 606-593-6363.

## TAX EXEMPTION; BANK QUALIFIED

Bond Counsel is of the opinion that:

(A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes under existing law and will not be a specific item of tax preference for purposes of Federal income taxation.

(C) As a result of designations and certifications by the Board and the Corporation, indicating the issuance of less than \$10,000,000 of tax-exempt obligations during the calendar year ending December 31, 2018, the Bonds are "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended.

The Corporation will provide the purchaser the customary no-litigation certificate, and the final approving Legal Opinions of Steptoe & Johnson PLLC, Bond Counsel and Special Tax Counsel, Louisville, Kentucky approving the legality of the Bonds. These opinions will accompany the Bonds when delivered, without expense to the purchaser.

### **Original Issue Premium**

Certain of the Bonds are being initially offered and sold to the public at a premium ("Acquisition Premium" from the amounts payable at maturity thereon. "Acquisition Premium" is the excess of the cost of a bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Bonds that bear an interest rate that is higher than the yield (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

### **Original Issue Discount**

Certain of the Bonds (the "Discount Bonds") are being initially offered and sold to the public at a discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond. The amount accrued will be based on a single rate of interest, compounded semiannually (the "yield to maturity") and, during each semi-annual period, the amount will accrue ratably on a daily basis. The OID accrued during the period that an initial purchaser of a Discount Bond at its issue price owns it is added to the purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond. In practical effect, accrued OID is treated as stated interest, that is, as excludable from gross income for federal income tax purposes.

In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

### **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened (i) restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Board or Corporation taken with respect to the issuance or sale thereof or (ii) which if successful would have a material adverse effect on the financial condition of the Board.

### **APPROVAL OF LEGALITY**

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Steptoe & Johnson PLLC, Bond Counsel. The form of the approving legal opinion of Bond Counsel will appear on each printed Bond.

### **NO LEGAL OPINION EXPRESSED AS TO CERTAIN MATTERS**

Bond Counsel has reviewed the information contained in the Official Statement describing the Bonds and the provisions of the Bond Resolution and related proceedings authorizing the Bonds, but Bond Counsel has not reviewed any of the financial data, computations, tabulations, balance sheets, financial projections, and general information concerning the Corporation or District, and expresses no opinion thereon, assumes no responsibility for same and has not undertaken independently to verify any information contained herein.

### **BOND RATING**

As noted on the cover page of this Official Statement, Moody's Investors Service has given the Bonds the indicated rating. Such rating reflects only the respective views of such organization. Explanations of the significance of the rating may be obtained from the rating agency. There can be no assurance that such rating will be maintained for any given period of time or will not be revised or withdrawn entirely by the rating agency, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### **FINANCIAL ADVISOR**

Prospective bidders are advised that Ross, Sinclair & Associates, LLC ("Ross Sinclair") has been employed as Financial Advisor in connection with the issuance of the Bonds. Ross Sinclair's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. Bidders may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.

**APPROVAL OF OFFICIAL STATEMENT**

The Corporation has approved and caused this "Official Statement" to be executed and delivered by its President. In making this "Official Statement" the Corporation relied upon information furnished to it by the Board of Education of the Owsley County School District and does not assume any responsibility as to the accuracy or completeness of any of the information in this Official Statement except as to copies of documents denominated "Official Terms and Conditions" and "Bid Form." The financial information supplied by the Board of Education is represented by the Board of Education to be correct. The Corporation deems this preliminary Official Statement to be final for purposes of Securities Exchange Commission Rule 15c2-12(b)(1) as qualified by the cover hereof.

No dealer, broker, salesman, or other person has been authorized by the Corporation, the Owsley County Board of Education or the Financial Advisor to give any information or representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except when otherwise indicated, the information set forth herein has been obtained from the Kentucky Department of Education and the Owsley County School District and is believed to be reliable; however, such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Financial Advisor or by Counsel. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to the date hereof.

This Official Statement does not, as of its date, contain any untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which the Official Statement is to be used or which is necessary in order to make the statements contained herein, in the light of the circumstances under which they were made, not misleading in any material respect.

**By /s/** \_\_\_\_\_  
**President**

**By /s/** \_\_\_\_\_  
**Secretary**

# **APPENDIX A**

## **Owsley County School District Finance Corporation School Building Revenue Bonds Series of 2018**

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### **Demographic and Economic Data**

## OWSLEY COUNTY, KENTUCKY

Booneville, the county seat of Owsley County, is located in the eastern mountain region of Kentucky, Booneville is located 84 miles southeast of Lexington, 155 miles southeast of Louisville, and 160 miles south of Cincinnati. Booneville's location in the mountains of Eastern Kentucky provides it with vast recreational opportunities in the area. Booneville had an estimated 2016 population of 76.

Owsley County covers a land area of 198 square miles and had an estimated 2016 population of 4,491 persons.

**The Economic Framework** - The total number of Owsley County residents employed in 2015 averaged 665. Construction provided 13 jobs; 193 people were employed in service occupations; information and financial services provided 29 jobs.

**Transportation** - Booneville is served by Kentucky Routes 11, 28, and 30. Route 11, north of the city, and Route 28 are AAA-rated (80,000-pound gross road limit) trucking highways. Route 11, south of Booneville, and Route 30, east of the city, are AA-rated (62,000-pound gross road limit) trucking highways. Access to the Daniel Boone Parkway, a multi-lane toll road, is 37 miles south via Route 11 and 43 miles southeast via Routes 28 and 15. The Mountain Parkway, a multi-lane highway, is accessible 31 miles north of Booneville. CSX Transportation provides the nearest rail service at Beattyville, 11 miles north of Booneville. The nearest scheduled commercial airline service is available at Blue Grass Airport near Lexington, 90 miles northwest of Booneville. Small craft air service is available at the Julian Carroll Airport in Jackson, 24 miles east, and at the East Kentucky Regional Wendell H. Ford Airport located 46 miles east of Booneville in Hazard.

**Power and Fuel** - Electric power is provided to Booneville and Owsley County by the Jackson Energy Cooperative, which receives its power from East Kentucky Power. Natural gas is presently not available in Booneville.

**Education** - Primary and secondary education is provided by the Owsley County Public School System. Twenty colleges and universities are located within 60 miles of Booneville. Vocational-technical education is provided by the Lee County Area Technology Center in Beattyville; Breathitt County ATC in Jackson; Clay County ATC in Manchester; and Leslie County ATC in Hyden. The nearest technical colleges providing post-secondary education are Hazard Technical College in Hazard; Laurel County Technical College Southeast Campus in Hazard; and Laurel County Technical College in London.

## POPULATION

The Owsley County labor market area includes Owsley County and the following additional counties: Breathitt, Clay, Jackson and Lee.

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Labor Market Area	86,919	86,575	85,832
Owsley County	4,505	4,470	4,491
Booneville	77	76	76

## LOCAL GOVERNMENT

### Structure

Booneville is governed by a mayor and four commission members. The mayor is elected to a four-year term while the commission members each serve two-year terms. Owsley County is served by a county judge/executive and three magistrates. Each county official serves a four-year term.

## Planning and Zoning

Presently, no planning and zoning agencies operate within Owsley County.

Mandatory state codes enforced - Kentucky Plumbing Code, National Electric Code, Kentucky Boiler Regulations and Standards, Kentucky Building Code (modeled after BOCA code)

## Fees and Licenses

The City of Booneville levies a business license fee of \$ 20 annually for businesses within the city. The License fee for delivery trucks are \$20 annually.

## Property Taxes

The Kentucky Constitution requires the state to tax all classes of taxable property, and state statutes allow local jurisdictions to tax only a few classes. All locally taxed property is subject to county taxes and school district taxes (either a county school district or an independent school district). Property located inside the city limits may also be subject to city property taxes.

Special local taxing Jurisdictions (fire protection districts, watershed districts, and sanitation districts) levy taxes within their operating areas (usually a small portion of community or county).

Property assessments in Kentucky are at 100% fair cash value. Accounts receivable are taxed at 85% of face value.

## EDUCATION

### Public Schools

	<b><u>Owsley County</u></b>
Total Enrollment (Fall, 2016-17)	693
Pupil-Teacher Ratio (2016-17)	15.1 - 1

### Area Colleges and Universities

<b><u>Location Name</u></b>	<b><u>Enrollment</u></b>	<b><u>Fall (2015)</u></b>
Hazard Community College	Hazard, Kentucky	3,238
Berea College	Berea, Kentucky	1,643
Eastern Kentucky University	Richmond, Kentucky	16,844
Union College	Barbourville, Kentucky	1,088
Alice Loyd College	Pippa Passes, Kentucky	616
Morehead State University	Morehead, Kentucky	10,872
University of Kentucky	Lexington, Kentucky	29,727
Bluegrass Community & Tech. Coll.	Lexington, Kentucky	10,388
Transylvania University	Lexington, Kentucky	1,053
Asbury University	Wilmore, Kentucky	1,915

## **Vocational-Technical Training**

Kentucky Tech secondary schools (Sec), called area technology centers, are operated by the Cabinet for Workforce Development and the postsecondary schools (P/S), called technical colleges, are governed by the Kentucky Community and Technical College System (KCTCS).

<b><u>Institution</u></b>	<b><u>Location</u></b>	<b><u>Enrollment (2016-2017)</u></b>
Lee County ATC	Beattyville, KY	469
Breathitt County ATC	Jackson, KY	443
Jackson County ATC	McKee, KY	477
Clay County ATC	Manchester, KY	345
Leslie County ATC	Hyden, KY	362
Rockcastle County ATC	Mt. Vernon, KY	436
Madison County ATC	Richmond, KY	808
Morgan County ATC	West Liberty, KY	635
Knott County ATC	Hindman, KY	493
Montgomery County ATC	Mt. Sterling, KY	657
Knox County ATC	Barbourville, KY	427
Corbin ATC	Corbin, KY	483
Clark County ATC	Winchester, KY	689
Bell County ATC	Pineville, KY	741
Garrard County ATC	Lancaster, KY	368
Floyd County ATC	Martin, KY	316
Letcher County ATC	Whitesburg, KY	546
Lincoln County ATC	Stanford, KY	407
Eastside Technical Center	Lexington, KY	820
Pulaski County ATC	Somerset, KY	428

## **Customized Training**

The Kentucky Tech system, through its training and development coordinators, will provide technical assistance and will identify and develop low-cost customized training programs and services for both established and prospective businesses. Businesses wanting to establish a customized training program should contact a training and development coordinator located at the Hazard Technical College.

## **Assessment Services**

Kentucky Tech Career Connections offers to business, education and government agencies testing packages for evaluating job applicants, selecting employees for promotional consideration and developing training programs within the organization. A Career Connections Assessment Center is located at the Madisonville Technical College.



**Adult Education Services**

Adult education programs are available to adults who want to develop new academic skills, improve basic skills or earn a high school equivalence diploma. In Booneville, adult education and adult literacy classes are administered through the Kentucky Valley Educational Cooperative.

**Bluegrass State Skills Corporation**

The Bluegrass State Skills Corporation (BSSC) was established in 1984 by the General Assembly of The Commonwealth of Kentucky as an independent, de jure corporation to stimulate economic development through customized business and industry specific skills training programs. The BSSC works with business and industry and Kentucky's educational institutions to establish programs of skills training. The BSSC is attached to the Cabinet for Economic Development for administrative purposes, in recognition of the relationship between economic development and skills training efforts.

The BSSC is comprised of two economic development tools: matching grants and the newly authorized Skills Training Investment Credit Act. The BSSC grant program is available to new, expanding and existing business and Industry. Eligible training activities include pre-employment skills training and assessment; entry level, skills upgrade and occupational upgrade training; train-the-trainer travel; and capacity-building. The Skills Training Investment Credit Act provides credits to existing businesses for skills upgrade training.

**MAJOR BUSINESS AND INDUSTRY**

<b><u>Firm</u></b>	<b><u>Product</u></b>	<b><u>Employees</u></b>
Booneville Sentinel	Newspaper publishing	1
Wolfe Creek Metal	Metal roofing, roll forming	3

*Source: Kentucky Cabinet for Economic Development (06/01/2018).*

**APPENDIX B**

**Owsley County School District Finance Corporation  
School Building Revenue Bonds  
Series of 2018**

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**Audited Financial Statement ending June 30, 2017**

**OWSLEY COUNTY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2017

Prepared by:

**WHITE & ASSOCIATES, PSC**  
CERTIFIED PUBLIC ACCOUNTANTS  
1407 Lexington Road  
Richmond, Kentucky 40475  
Phone (859) 624-3926 Fax (859) 625-0227

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Owsley County School District

Booneville, Kentucky

and the State Committee for School District Audits

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Owsley 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 Owsley County School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2017, on our consideration of the Owsley County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Owsley County School District's internal control over financial reporting and compliance.

*White & Associates, PSC*

Richmond, Kentucky  
November 10, 2017

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

As management of the Owsley 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 readers to consider the information presented here in conjunction with additional information found within the body of the audit.

## **FINANCIAL HIGHLIGHTS**

- The beginning fund balance for the district was \$765,405 of which \$492,902 was General Fund, \$272,503 was in the restricted funds of the following funds: Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$960,691 of which \$644,903 was General Fund, \$315,788 was in the following restricted funds: Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$503,002 for the District and \$187,214 in the General Fund.
- The General Fund Revenue totaled \$5,925,290 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$6,061,394 exclusive of other financing sources. These totals include \$1,207,565 of on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers' Retirement contributions.
- The District will continue to attain funding through Promising Neighborhoods and Gear-up Programs. These Programs are Federal grants administered through Berea College. Students will be provided resources to help them overcome barriers, so they can achieve overall success in High School, College, and life.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Owsley County School District's basic financial statements. The District's basic financial statements are comprised of 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.

**District-Wide Financial Statements** - The district-wide financial statements are designed to provide readers with a broad overview of the Owsley County School District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Owsley County School 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 Owsley County School District is improving or deteriorating.

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



Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

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

The district-wide financial statements can be found on the table of contents in this report.

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

**Notes to the Financial Statements -** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in this report.

#### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows were less than liabilities and deferred inflows by approximately \$549,518 as of June 30, 2017. The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

2017 District-Wide Governmental Net position compared to 2016 as follows:

See schedule on the next page

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

**Table 1**  
**Net Position (in Millions)**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>		<b>Total Percentage Change 2016-2017</b>
	<b>Activities</b>		<b>Activities</b>		<b>School District</b>		
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	
Assets:							
Current and Other Assets	1.17	1.37	0.16	0.17	1.33	1.54	16%
Capital Assets	4.12	4.00	0.05	0.05	4.17	4.04	-3%
<b>Total Assets</b>	<b>5.29</b>	<b>5.37</b>	<b>0.21</b>	<b>0.22</b>	<b>5.50</b>	<b>5.58</b>	1%
<b>Deferred Outflows</b>	<u>0.69</u>	<u>0.84</u>	<u>0.06</u>	<u>0.09</u>	<u>0.75</u>	<u>0.93</u>	24%
	<u>0.69</u>	<u>0.84</u>	<u>0.06</u>	<u>0.09</u>	<u>0.75</u>	<u>0.93</u>	24%
Liabilities:							
Current Liabilities	0.65	0.80	-	-	0.65	0.80	23%
Noncurrent Liabilities	5.74	5.82	0.18	0.21	5.92	6.03	2%
<b>Total Liabilities</b>	<b>6.39</b>	<b>6.62</b>	<b>0.18</b>	<b>0.21</b>	<b>6.57</b>	<b>6.83</b>	4%
<b>Deferred Inflows</b>	<u>0.62</u>	<u>0.13</u>	<u>-</u>	<u>0.01</u>	<u>0.62</u>	<u>0.14</u>	100%
	<u>0.62</u>	<u>0.13</u>	<u>-</u>	<u>0.01</u>	<u>0.62</u>	<u>0.14</u>	100%
Invested in Capital Assets							
Net of Debt	1.41	1.41	0.05	0.05	1.46	1.45	0%
Restricted	0.31	0.32	0.05	0.03	0.36	0.35	-2%
Unrestricted Net Position	(2.18)	(2.27)			(2.18)	(2.27)	4%
<b>Total Net Position</b>	<b>(0.46)</b>	<b>(0.54)</b>	<b>0.10</b>	<b>0.08</b>	<b>(0.36)</b>	<b>(0.46)</b>	29%

**GOVERNMENTAL ACTIVITIES**

Ending net position was (\$.05) million for the District. This was a decrease of \$.09 million from 2016.

See schedule next page

**Owsley County School District**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

Table 2  
Changes in Net Position  
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2016-2017
	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	
<b>Revenues:</b>							
Charges for services	\$ 0.00	\$ 0.00	\$ 0.08	\$ 0.12	\$ 0.08	\$ 0.12	48%
Operating grants and contributions	3.15	3.14	0.80	0.82	3.95	3.96	0%
Capital grants and contributions	0.40	0.35			0.40	0.35	-13%
General revenues	6.26	6.00			6.26	6.00	-4%
<b>Total revenue</b>	<b>9.81</b>	<b>9.49</b>	<b>0.88</b>	<b>0.94</b>	<b>10.69</b>	<b>10.43</b>	<b>-2%</b>
<b>Expenses:</b>							
Instruction	\$ 5.45	\$ 5.42			\$ 5.45	\$ 5.42	-1%
Student	0.40	0.40			0.40	0.40	-1%
Instructional staff	0.70	0.69			0.70	0.69	-1%
District administration	0.34	0.40			0.34	0.40	18%
School administration	0.36	0.32			0.36	0.32	-11%
Business	0.35	0.26			0.35	0.26	-26%
Plant operation & maintenance	0.80	0.78			0.80	0.78	-3%
Student transportation	0.56	0.65			0.56	0.65	16%
Food Service Operations	0.02	0.01	0.88	0.92	0.90	0.93	3%
Other instructional	0.01	0.01			0.01	0.01	0%
Community services operations	0.25	0.24			0.25	0.24	-4%
Loss on retirement of assets	0.00				0.00	-	
Land Improvements	-	0.00			-	0.00	0%
Amortization	0.00	0.01			0.00	0.01	
Depreciation	0.44	0.37	0.00	-	0.44	0.37	-16%
Interest on long-term debt	0.18	0.03			0.18	0.03	-83%
Extraordinary Item					-	-	
Transfers			0.03	0.04			
<b>Total Expenses</b>	<b>\$ 9.86</b>	<b>\$ 9.58</b>	<b>\$ 0.91</b>	<b>\$ 0.96</b>	<b>\$10.77</b>	<b>\$10.54</b>	<b>-2%</b>
<b>Change in net position</b>	<b>\$ (0.04)</b>	<b>\$ (0.09)</b>	<b>\$ (0.03)</b>	<b>\$ (0.02)</b>	<b>\$ (.08)</b>	<b>\$(0.11)</b>	<b>-45%</b>

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

**CAPITAL ASSETS**

At the end of fiscal 2017, the District had \$4.04 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$0.13 million over last year.

Capital Assets at Year-End FY2017  
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2016	2017	2016	2017	2016	2017
Land	216,605	216,605			216,605	216,605
Land Improvements	2,928	(67)			2,928	(67)
Buildings & Improvements	3,586,182	3,337,163	4,514	4,218	3,590,696	3,341,381
Technology Equipment	(83,342)	(120,089)	27,218	27,022	(56,124)	(93,067)
Vehicles	247,386	417,456			247,386	417,456
General Equipment	153,321	144,597	18,733	16,922	172,054	161,519
Construction In Progress					-	-

**DEBT**

Capital lease and general obligation debt decreased \$0.15 million from FY 2016.

Outstanding Debt at Year-End  
(in Millions)

	Government Activities	
	2016	2017
Capital Lease Obligations	\$ 0.23	\$ 0.38
General Obligation Bonds	2.49	2.21
KSBIT	0.14	0.12
Total Obligations	\$ <u>2.86</u>	\$ <u>2.71</u>

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

**THE DISTRICT'S FUNDS**

As the District completed the year, the General Fund reflected a fund balance of \$644,903, which is more than last year's fund balance of \$492,902. The unassigned portion of the fund balance at the end of fiscal year 2017 is \$635,538, compared to \$451,841 from the preceding year. The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2017:

REVENUE	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	400	51
Local Revenue Sources	1,000,428	133,430		64,406	3	120,107
State Revenue Sources	4,905,332	430,970	64,182	187,011	103,543	124,845
Federal Revenue Sources	19,530	2,707,878				698,130
Other	211,389					
Transfers	92,105	15,389			260,457	
<b>TOTALS</b>	<b>6,228,784</b>	<b>3,287,667</b>	<b>64,182</b>	<b>251,417</b>	<b>364,003</b>	<b>943,082</b>
EXPENDITURES	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	400	51
Instruction	2,956,921	2,315,300				
Student Support Services	266,284	130,458				
Instructional Staff Support Services	213,577	472,895				
District Admin Support	398,626					
School Admin Support	318,574					
Business Support Services	245,793	17,081				
Plant Operation & Management	712,873	70,827				
Student Transportation	866,181	30,921				
Food Service Operations	12,810					921,064
Community Services		244,960				
Debt Service	67,520				320,865	
Land Improvements	2,235					
Other Instructional		5,225				
Other Items						2,303
Transfers	15,389		64,916	250,536		37,110
<b>TOTALS</b>	<b>6,076,783</b>	<b>3,287,667</b>	<b>64,916</b>	<b>250,536</b>	<b>320,865</b>	<b>960,477</b>
Excess / (Deficit)	152,001	-	(734)	881	43,138	(17,395)

\*Note: This chart does not include beginning balances.

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2017

**Comments on Budget Comparisons**

- The District's total general fund revenues for the fiscal year ended June 30, 2017 net of other financing sources and uses were \$6.23 million including "On-Behalf" payments.
- General fund budget compared to actual revenue varied slightly from line item to line item.
- The total cost of all general fund programs and services was \$6.08 million including transfers.
- General fund budget expenditures to actual were \$34,199 less than budget.

**BUDGETARY IMPLICATIONS**

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2016-2017 with a 2.8% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- Continued insufficient funding of the state transportation formula.
- Collection of franchise taxes for the past three years.

Questions regarding this report should be directed to the Finance Officer, Jerry McIntosh or Superintendent, Dr. Tim Bobrowski. at (606) 593-6363 or by mail at Owsley County Board of Education, 14 Old Hwy 11, Booneville, Kentucky 41314.

Owsley County School District  
**Statement of Net Position**  
June 30, 2017

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 503,002	\$ 68,113	\$ 571,115
Receivables			
Taxes-current	2,368		2,368
Taxes-delinquent	3,955		3,955
Accounts	23,725	72,518	96,243
Intergovernmental-federal	831,512		831,512
Inventories		28,379	28,379
Capital assets:			
Land, improvements, and construction in progress	216,605		216,605
Other capital assets, net of depreciation	3,779,062	48,162	3,827,224
Total capital assets	<u>3,995,667</u>	<u>48,162</u>	<u>4,043,829</u>
Total assets	<u>5,360,229</u>	<u>217,172</u>	<u>5,577,401</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	801,378	86,841	888,219
Deferred savings from refunding bonds	43,145		43,145
Total deferred outflows of resources	<u>844,523</u>	<u>86,841</u>	<u>931,364</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>6,204,752</u>	<u>304,013</u>	<u>6,508,765</u>
<b>LIABILITIES</b>			
Accrued interest payable	13,028		13,028
Unearned revenue	418,021		418,021
Long-term liabilities:			
Due within 1 year:			
Bond obligations	280,000		280,000
Capital lease obligations	81,090		81,090
KSBIT payable	14,112		14,112
Total due within 1 year	<u>375,202</u>	<u>-</u>	<u>375,202</u>
Due in more than 1 year:			
Bond obligations	1,930,000		1,930,000
Capital lease obligations	297,935		297,935
KSBIT payable	109,452		109,452
Net pension liability	3,455,392	213,058	3,668,450
Sick leave	17,942		17,942
Total due in more than 1 year	<u>5,810,721</u>	<u>213,058</u>	<u>6,023,779</u>
Total liabilities	<u>6,616,972</u>	<u>213,058</u>	<u>6,830,030</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	137,298	11,207	148,505
<b>NET POSITION</b>			
Net Investment in capital assets	1,406,642	48,162	1,454,804
Restricted for:			
Debt Service	297,385		297,385
Capital Projects	18,403		18,403
Food Services		31,586	31,586
Unrestricted	<u>(2,271,948)</u>		<u>(2,271,948)</u>
Total net position	<u>(549,518)</u>	<u>79,748</u>	<u>(469,770)</u>
<b>TOTAL LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 6,204,752</u>	<u>\$ 304,013</u>	<u>\$ 6,508,765</u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Activities**  
Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 5,409,956	\$ -	\$ 1,907,768	\$ -	\$ (3,502,188)		\$ (3,502,188)
Support services							
Student	396,742	1,450	129,810		(265,482)		(265,482)
Instructional staff	686,472		224,607		(461,865)		(461,865)
District administration	398,626		130,427		(268,199)		(268,199)
School administration	318,574		104,234		(214,340)		(214,340)
Business	262,874		86,010		(176,864)		(176,864)
Plant operation & maintenance	783,700		256,419		(527,281)		(527,281)
Student transportation	650,362		212,792		(437,570)		(437,570)
Food services	12,810		4,191	251,193	242,574		242,574
Other instructional	5,225		1,710		(3,515)		(3,515)
Community services operations	244,960		80,149		(164,811)		(164,811)
Land improvements	2,235		731		(1,504)		(1,504)
Amortization	10,804				(10,804)		(10,804)
Depreciation	374,153				(374,153)		(374,153)
Interest on general long-term debt	35,843			103,543	67,700		67,700
Total governmental activities	<u>9,593,336</u>	<u>1,450</u>	<u>3,138,848</u>	<u>354,736</u>	<u>(6,098,302)</u>		<u>(6,098,302)</u>
Business-type activities:							
Food service operations	921,064	120,049	822,975			\$ 21,960	21,960
Depreciation	2,303					(2,303)	(2,303)
Total business-type activities	<u>923,367</u>	<u>120,049</u>	<u>822,975</u>	<u>-</u>	<u>-</u>	<u>19,657</u>	<u>19,657</u>
Total primary government	\$ <u>10,516,703</u>	\$ <u>121,499</u>	\$ <u>3,961,823</u>	\$ <u>354,736</u>	<u>(6,098,302)</u>	<u>19,657</u>	<u>(6,078,645)</u>
General revenues:							
Taxes:							
Property taxes					474,965		474,965
Motor vehicle taxes					76,844		76,844
Utility taxes					214,655		214,655
Unmined minerals tax					2,260		2,260
State and formula grants					4,924,862		4,924,862
Unrestricted investment earnings					4,294	58	4,352
Sale of equipment					250		250
Other local revenue					268,402		268,402
Operating transfers					37,110	(37,110)	-
Total general revenues and operating transfers					<u>6,003,642</u>	<u>(37,052)</u>	<u>5,966,590</u>
Change in net position					(94,660)	(17,395)	(112,055)
Net position - beginning					(454,859)	97,143	(357,716)
Net position - ending					\$ <u>(549,518)</u>	\$ <u>79,748</u>	\$ <u>(469,770)</u>

See the accompanying notes to the financial statements.



Owsley County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2017

	<b>Governmental Funds</b>				
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 187,214	\$ -	\$ 297,385	\$ 18,403	\$ 503,002
Interfund receivables	427,641				427,641
Receivables					
Taxes-current	2,368				2,368
Taxes-delinquent	3,955				3,955
Accounts	23,725				23,725
Intergovernmental-federal		831,512			831,512
Total assets	644,903	831,512	297,385	18,403	1,792,203
<b>LIABILITIES</b>					
Interfund payable		427,641			427,641
Unearned revenue		403,871			403,871
Total liabilities	-	831,512	-	-	831,512
<b>FUND BALANCE</b>					
Restricted			297,385	18,403	315,788
Committed	8,971				8,971
Assigned	394				394
Unassigned	635,538				635,538
Total fund balance	644,903	-	297,385	18,403	960,691
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 644,903</b>	<b>\$ 831,512</b>	<b>\$ 297,385</b>	<b>\$ 18,403</b>	<b>\$ 1,792,203</b>

See the accompanying notes to the financial statements.

Owsley County School District  
**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position**  
June 30, 2017

<b>Fund balances-total governmental funds</b>	\$	960,691
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>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.</p>		3,995,667
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus and amortized over the life of the bond.</p>		43,145
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Accrued interest payable		(13,028)
Bonds payable		(2,210,000)
Capital lease obligations		(379,025)
KSBIT payable		(123,564)
Sick leave liability		(17,942)
QZAB liability		(14,150)
Net pension liability		(3,455,392)
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds</p>		
Deferred outflows related to pensions		801,378
Deferred inflows related to pensions		(137,298)
		(137,298)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>(549,518)</b>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2017

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
From Local Sources					
Taxes					
Property	\$ 565,956	\$ -	\$ -	\$ 64,406	\$ 630,362
Motor vehicle	76,844				76,844
Unmined minerals	2,260				2,260
Utilities	214,655				214,655
Earnings on investments	4,291		3		4,294
Student activities	1,450				1,450
Other local revenue	134,972	133,430			268,402
Intergovernmental - state	4,905,332	430,970	103,543	251,193	5,691,038
Intergovernmental - federal	19,530	2,707,878			2,727,408
Total revenues	<u>5,925,290</u>	<u>3,272,278</u>	<u>103,546</u>	<u>315,599</u>	<u>9,616,713</u>
<b>EXPENDITURES</b>					
Instruction	2,956,921	2,315,300			5,272,221
Support services					
Student	266,284	130,458			396,742
Instructional staff	213,577	472,895			686,472
District administration	398,626				398,626
School administration	318,574				318,574
Business	245,793	17,081			262,874
Plant operation & maintenance	712,873	70,827			783,700
Student transportation	866,181	30,921			897,102
Food service operation	12,810				12,810
Land improvements	2,235				2,235
Other instructional		5,225			5,225
Community services		244,960			244,960
Debt service	67,520		320,865		388,385
Total expenditures	<u>6,061,394</u>	<u>3,287,667</u>	<u>320,865</u>	<u>-</u>	<u>9,669,926</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(136,104)	(15,389)	(217,319)	315,599	(53,213)
<b>OTHER FINANCING SOURCES (USES)</b>					
Sale of equipment	250				250
Capital lease proceeds	211,139				211,139
Operating transfers in	92,105	15,389	260,457		367,951
Operating transfers (out)	(15,389)			(315,452)	(330,841)
Total other financing sources and (uses)	<u>288,105</u>	<u>15,389</u>	<u>260,457</u>	<u>(315,452)</u>	<u>248,499</u>
<b>NET CHANGE IN FUND BALANCE</b>	152,001	-	43,138	147	195,286
<b>FUND BALANCE-BEGINNING</b>	<u>492,902</u>	<u>-</u>	<u>254,247</u>	<u>18,256</u>	<u>765,405</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 644,903</u>	<u>\$ -</u>	<u>\$ 297,385</u>	<u>\$ 18,403</u>	<u>\$ 960,691</u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities**  
 Year ended June 30, 2017

<b>Net change in fund balances-total governmental funds</b>	<b>\$</b>	<b>195,286</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		(163,695)
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		(127,413)
<p>Accounts receivable from delinquent property taxes are not recorded in the fund financial statements because they are not available for use (received within 60 days). These receivables are accrued on the statement of net position because they have been earned and are measurable.</p>		
		(155,397)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(10,804)
<p>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.</p>		
		124,083
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		3,170
QZAB liability		14,150
KSBIT liability		13,832
Noncurrent sick leave payable		12,128
		12,128
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u><u>(94,660)</u></u></b>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 374,000	\$ 374,000	\$ 565,956	\$ 191,956
Motor vehicle	95,000	95,000	76,844	(18,156)
Unmined minerals	16,000	16,000	2,260	(13,740)
Utilities	195,000	195,000	214,655	19,655
Earnings on investments			4,291	4,291
Student activities	1,000	1,000	1,450	450
Other local revenue	101,300	101,300	134,972	33,672
Intergovernmental - state	3,718,721	3,718,721	*	3,697,767
Intergovernmental - federal	14,000	14,000	19,530	5,530
Total revenues	4,515,021	4,515,021	4,717,725	202,704
<b>EXPENDITURES</b>				
Instruction	2,413,244	2,413,244	*	2,269,546
Support services				
Student	168,356	168,356	*	197,784
Instructional staff	156,679	156,679	*	152,077
District administration	334,416	334,416	*	378,582
School administration	273,285	273,285	*	240,574
Business	142,794	142,794	*	182,793
Plant operation & maintenance	661,626	661,626	*	620,143
Student transportation	644,883	644,883	*	738,769
Food service operations	3,887	3,887	*	3,806
Land/site acquisitions	2,000	2,000		2,000
Land improvements	1,000	1,000	2,235	(1,235)
Debt service	85,858	85,858	67,520	18,338
Total expenditures	4,888,028	4,888,028	4,853,829	34,199
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(373,007)	(373,007)	(136,104)	236,903
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment	1,500	1,500	250	(1,250)
Capital lease proceeds			211,139	211,139
Operating transfers in	24,000	24,000	92,105	68,105
Operating transfers (out)	(15,389)	(15,389)	(15,389)	-
Total other financing sources and (uses)	10,111	10,111	288,105	277,994
<b>NET CHANGE IN FUND BALANCE</b>	(362,896)	(362,896)	152,001	514,897
<b>FUND BALANCE-BEGINNING</b>	493,508	493,508	492,902	(606)
<b>FUND BALANCE-ENDING</b>	\$ 130,612	\$ 130,612	\$ 644,903	\$ 514,291

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,207,565.

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ 204,783	\$ 131,627	\$ 133,430	\$ 1,803
Intergovernmental - state	300,847	412,511	430,970	18,459
Intergovernmental - federal	139,049	3,192,117	2,707,878	(484,239)
Total revenues	<u>644,679</u>	<u>3,736,255</u>	<u>3,272,278</u>	<u>(463,977)</u>
<b>EXPENDITURES</b>				
Instruction	347,391	3,077,287	2,315,300	761,987
Support Services				
Student	-	128,420	130,458	(2,038)
Instructional Staff	112,883	372,390	472,895	(100,505)
Business	11,389	18,578	17,081	1,497
Plant Operation & Maintenance	26,235	10,769	70,827	(60,058)
Student Transportation	8,000	3,067	30,921	(27,854)
Community Services Operations	148,891	148,891	244,960	(96,069)
Other Instructional	5,279	5,242	5,225	17
Total expenditures	<u>660,068</u>	<u>3,764,644</u>	<u>3,287,667</u>	<u>476,977</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(15,389)	(28,389)	(15,389)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	15,389	15,389	15,389	-
Total other financing sources and (uses)	<u>15,389</u>	<u>15,389</u>	<u>15,389</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(13,000)	-	13,000
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANCE-ENDING</b>	\$ <u>-</u>	\$ <u>(13,000)</u>	\$ <u>-</u>	\$ <u>13,000</u>

See the accompanying notes to the financial statements.

Owsey County School District  
**Statement of Fund Net Position**  
**Proprietary Fund**  
June 30, 2017

	<b>School Food Services</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 68,113
Inventories	28,379
Accounts receivable	72,518
Capital assets:	
Other capital assets, net of depreciation	48,162
Total assets	<u>217,172</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	<u>86,841</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>304,013</u></u>
<b>LIABILITIES</b>	
Net pension liability	213,058
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	<u>11,207</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u><u>224,265</u></u>
<b>NET POSITION</b>	
Net Investment in capital assets	48,162
Restricted	<u>31,586</u>
Total net position	<u>79,748</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 304,013</u></u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
Year Ended June 30, 2017

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	120,049
Total operating revenues		<u>120,049</u>
<b>OPERATING EXPENSES</b>		
Depreciation		2,303
Food service operations		
Employee services		329,688
Operational expense		591,376
Total operating expenses		<u>923,367</u>
Operating income (loss)		(803,318)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		698,130
State grants		124,845
Transfers		(37,110)
Earnings from investments		58
Total nonoperating revenues (expenses)		<u>785,923</u>
<b>CHANGE IN NET POSITION</b>		(17,395)
<b>NET POSITION-BEGINNING</b>		<u>97,143</u>
<b>NET POSITION-ENDING</b>	\$	<u><u>79,748</u></u>

See the accompanying notes to the financial statements.



Owsley County School District  
**Statement of Cash Flows**  
**Proprietary Fund**  
Year Ended June 30, 2017

Enterprise Funds

**School  
Food  
Services**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	120,049
Payments to suppliers		(607,417)
Payments to employees		(329,688)
Net cash provided (used) by operating activities		(817,056)

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Purchase of capital assets		-
Net cash provided (used) by capital financing activities		-

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Indirect cost transfer		(37,110)
Operating grants and contributions		822,975
Net cash provided (used) by noncapital financing activities		785,865

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest		58
Net cash provided (used) by investing activities		58

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

(31,133)

**CASH AND CASH EQUIVALENTS-BEGINNING**

99,246

**CASH AND CASH EQUIVALENTS-ENDING**

\$ 68,113

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities:**

Operating income (loss)	\$	(803,318)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		2,303
Changes in assets and liabilities:		
Receivables		(40,501)
Deferrals		(24,038)
Deferrals		11,207
Pension liability		37,291
Inventories		-
Net cash provided (used) by operating activities	\$	(817,056)

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$63,034 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$120,000 provided by state government.

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Fund**  
June 30, 2017

		<b>SCHOOL ACTIVITY FUNDS</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	94,901
Accounts Receivable		371
Total Assets		<u>95,272</u>
<b>LIABILITIES</b>		
Accounts payable		<u>5,882</u>
Total Liabilities		<u>5,882</u>
<b>NET POSITION</b>		
Net Position - Restricted for School Activity Funds		<u>89,390</u>
Total Net Position		<u>89,390</u>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$</b>	<b><u>95,272</u></b>

See the accompanying notes to the financial statements.

OWSLEY COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

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

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

Blended Component Unit

Owsley County Board Of Education Finance Corporation

The Board authorized establishment of the Owsley County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Owsley County Board of Education.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

#### SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

### (D) Debt Service Fund

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 cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

## II. Proprietary Funds (Enterprise Funds)

### Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

## III. Fiduciary Fund Types

### Agency Funds

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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."

### 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

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

### Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end 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 expenditure/expense is reported in the year in which services are consumed.

### 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 government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of 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.

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

SEE SCHEDULE NEXT PAGE

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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 judgment, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within 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.

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 the 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.

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

- Nonspendable: Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
- Restricted Legally restricted under legislation, bond authority, or grantor contract.
- Committed Commitments of future funds for specific purposes passed by the Board.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

### Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net Position is reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### 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.

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$.460 per \$100 valuation of real property, \$.467, including exonerations, per \$100 valuation for business personal property and \$.578 per \$100 valuation for motor vehicles.

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

### Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Contributions of Capital

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

### Interfund Receivables/Payables

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.

### Interfund Transfers

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

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports two types of deferred outflows – contributions to the CERS pension system after the measurement period and the unrecognized portion of a deferred loss on the refinancing of long-term debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until appropriate period. The District reports one type of deferred outflows related to the net difference projected and actual earnings on pension plan investments.

### Pensions

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

### Bond Issuance Costs

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Estimates

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

### Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

### New Pronouncements

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

In March 2016, the GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements that arose during the implementation of GASB Statement No. 68. GASB 82 is effective for the District beginning with its year ending June 30, 2017. The adoption of this standard did not have a material effect on the District's financial statements.

## **NOTE B – CASH AND CASH EQUIVALENTS**

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and instrumentalities; savings and loan associations insured by an agency of the United States up to the

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240(4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$666,016. The bank balance for the same time was \$1,138,566.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund (held by Fiscal Agents), School Construction Fund, School Food Service Fund, and School Activity Fund.

**NOTE C – CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Land	\$ 216,605	\$ -	\$ -	\$ 216,605
Land improvements	157,923	-	-	157,923
Buildings	8,542,944	-	-	8,542,944
Technology equipment	1,931,585	-	-	1,931,585
Vehicles	1,891,523	246,740	-	2,138,263
General equipment	431,630	-	-	431,630
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total at historical cost	\$ <u>13,172,211</u>	\$ <u>246,740</u>	\$ <u>-</u>	\$ <u>13,418,951</u>
Less: Accumulated depreciation				
Land improvements	\$ 154,995	\$ 2,994	\$ -	\$ 157,990
Buildings	4,956,762	249,019	-	5,205,781
Technology equipment	2,014,927	36,747	-	2,051,674
Vehicles	1,644,137	76,669	-	1,720,807
General equipment	<u>278,309</u>	<u>8,724</u>	<u>-</u>	<u>287,033</u>
Total accumulated depreciation	\$ <u>9,049,131</u>	\$ <u>374,153</u>	\$ <u>-</u>	\$ <u>9,423,285</u>
Governmental Activities				
Capital Assets-net	\$ <u>4,123,080</u>	\$ <u>(127,413)</u>	\$ <u>-</u>	\$ <u>3,995,667</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<u>Business-Type Activities</u>	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
Buildings and Improvements	\$ 7,400	\$ -	\$ -	\$ 7,400
Technology equipment	103,156	-	-	103,156
General equipment	<u>225,886</u>	<u>-</u>	<u>-</u>	<u>225,886</u>
Total at historical cost	\$ <u>336,442</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>336,442</u>
Less: Accumulated depreciation				
Buildings and Improvements	\$ 2,886	\$ 296	\$ -	\$ 3,182
Technology equipment	75,938	196	-	76,134
General equipment	<u>207,153</u>	<u>1,811</u>	<u>-</u>	<u>208,964</u>
Total accumulated depreciation	\$ <u>285,978</u>	\$ <u>2,303</u>	\$ <u>-</u>	\$ <u>288,280</u>
Business-Type Activities				
Capital Assets-net	\$ <u>50,465</u>	\$ <u>(2,303)</u>	\$ <u>-</u>	\$ <u>48,162</u>

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

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

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Owsley County School District Finance Corporation aggregating \$2,210,000 and \$280,000 is the portion due within one year.

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2017 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2016 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017 Outstanding Balance</u>
2007	755,000	6/1/2027	3.9 - 4.3%	480,000	-	35,000	445,000
2010R	695,000	2/1/2021	.75 - 2.55%	335,000	-	55,000	280,000
2010	1,000,000	12/1/2027	6.125%	1,000,000	-	-	1,000,000
2012R	1,340,000	10/1/2024	1.0 - 2.375%	<u>670,000</u>	<u>-</u>	<u>185,000</u>	<u>485,000</u>
Totals				\$ <u>2,485,000</u>	\$ <u>-</u>	\$ <u>275,000</u>	\$ <u>2,210,000</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to 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:

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>Federal</u> <u>Rebate</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>INTEREST</u>	<u>TOTAL</u>	<u>TOTAL</u>
2018	231,397	15,806	48,603	79,994	(56,300)	\$ 280,000	\$ 39,500
2019	99,635	12,449	50,365	78,234	(56,300)	150,000	34,383
2020	102,769	10,032	52,231	76,366	(56,300)	155,000	30,098
2021	100,828	7,560	54,172	74,425	(56,300)	155,000	25,685
2022	51,087	5,029	38,913	72,409	(56,300)	90,000	21,138
2023-2027	1,158,949	7,529	221,051	335,565	(281,500)	1,380,000	61,595
2028	-	-	-	30,625	(28,150)	0	2,475
	<u>\$ 1,744,665</u>	<u>\$ 58,405</u>	<u>\$ 465,335</u>	<u>\$ 747,618</u>	<u>\$ (591,150)</u>	<u>\$ 2,210,000</u>	<u>\$ 214,873</u>

A qualified zone academy bond (QZAB) was issued in 2003 in the amount of \$500,000 to be used for construction. The bond required an initial payment of \$287,750 which retired the bond. The difference of \$212,250 was recorded as unearned revenue. Over the 15 year life of the bond, \$14,150 will be recorded as revenue per year to reduce unearned revenue to zero over the life of the bond. At June 30, 2017, there was \$28,300 remaining in unearned revenue for the QZAB bond.

The 2010 issued bond is a QZAB bond that requires payments to an escrow fund that will draw interest and retire the bond December 1, 2027. The District had accumulated \$251,628 in the escrow fund as of June 30, 2017.

**NOTE E – CAPITAL LEASES**

The following is an analysis of the leased property under capital lease:

<u>KISTA Issue</u>	<u>Original</u> <u>Amount</u>	<u>Maturity</u> <u>Dates</u>	<u>Interest</u> <u>Rates</u>	<u>2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017</u>
				<u>Outstanding</u> <u>Balance</u>			<u>Outstanding</u> <u>Balance</u>
2008 KISTA	153,110	3/1/2018	3.0 - 3.75%	29,189	-	14,327	14,862
2009 KISTA	158,239	3/1/2019	2.0 - 3.9%	46,579	-	16,986	29,593
2011 KISTA	190,065	3/1/2021	1.0 - 4.0%	93,717	-	19,094	74,623
2012 KISTA	99,782	3/1/2022	2.0 - 2.625%	58,623	-	9,815	48,808
2017 KISTA	211,139	3/1/2027	2.550%	-	211,139	-	211,139
				<u>\$ 228,108</u>	<u>\$ 211,139</u>	<u>\$ 60,222</u>	<u>\$ 379,025</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2017:

Fiscal Year Ended <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 81,090	\$ 10,970	\$ 92,060
2019	68,620	8,370	76,990
2020	47,354	6,282	53,636
2021	46,940	4,900	51,840
2022	29,978	3,450	33,428
2023-2027	105,043	7,903	112,946
	<u>\$ 379,025</u>	<u>\$ 41,874</u>	<u>\$ 420,899</u>

Total minimum lease payments	\$ 420,899
Less: Amount representing interest	(41,874)

Present Value of Net Minimum Lease Payments	\$ 379,025
--	------------

The assets acquired through the capital leases are as follows:

	<u>Governmental Activities</u>
Buses	\$ 792,312
Less Accumulated Depreciation	(448,038)
Total	<u>\$ 344,274</u>

**NOTE F – OTHER LONG TERM OBLIGATIONS**

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. The activity during fiscal year 2017 for accumulated sick leave is as follows:

	<u>2016 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017 Outstanding Balance</u>
Sick Leave	\$ 30,070	\$ -	\$ 12,128	\$ 17,942
Totals	<u>\$ 30,070</u>	<u>\$ -</u>	<u>\$ 12,128</u>	<u>\$ 17,942</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

The District elected to finance the worker’s compensation insurance deficit (KSBIT) with the now defunct Kentucky School Board Insurance Trust through the Kentucky Interlocal School Transportation Association (KISTA). The activity during fiscal year 2017 for the worker’s compensation deficit is as follows:

<u>KISTA Issues</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2016 KISTA Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>2017 KISTA Outstanding</u>
KSBIT	\$ 149,028	8/1/2024	2.0 - 3.25%	\$ 137,396.00	\$	\$ 13,832	\$ 123,564

The minimum payments are as follows:

<u>Fiscal Year Ended June 30th</u>	<u>Local Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2018	14,112	\$ 3,240	\$ 17,352
2019	14,407	2,944	17,351
2020	14,721	2,631	17,352
2021	15,105	2,247	17,352
2022	15,566	1,786	17,352
2023-2024	49,653	2,403	52,056
	<u>\$ 123,564</u>	<u>\$ 15,252</u>	<u>\$ 138,816</u>

**NOTE G – OPERATING LEASES**

The District has commitments under operating lease agreements for office equipment provided for the minimum future rent payments as of June 30, 2017 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Payment</u>
2018	\$ 34,413
2019	26,793
2020	24,029
2021	15,571
2022	1,883
<b>Total</b>	<u>\$ 102,689</u>

Expenditures for equipment under operating leases for the year ending June 30, 2017 totaled \$34,480.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE H – RETIREMENT PLANS

#### Kentucky Teachers Retirement System

*Plan description*—Teaching certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the KTRS has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 16.105% of salaries for local school district employees hired before July 1, 2008 and 17.105% for those hired after July 1, 2008. For local school district employees whose salaries are federally funded, the employer contributes 15.855% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### KTRS - Medical Insurance Plan

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

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

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2017 the District did not report a liability for the District's proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

SEE SCHEDULE NEXT PAGE

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

District's proportionate share of KTRS net pension liability	\$	-
Commonwealth's proportionate share of the KTRS net pension liability associated with the district		<u>28,805,085</u>
	\$	<u><u>28,805,085</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 that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June, 30, 2016, the District's proportion was 0.098%.

For the year ended June 30, 2016, the District recognized pension expense of \$1,281,045 and revenue of \$1,281,045 for support provided by the State.

*Actuarial Methods and 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:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, open
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	4.2%
Municipal Bond Index Rate	3.01%
Inflation	3.5%
Salary Increase	4.0-8.2%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
Total	100.0%	

*Discount Rate:* The discount rate used to measure the total pension liability was 4.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 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 separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 4.2%, as well as what the Commonwealth’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.2%) or 1-percentage-point higher (5.2%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	3.20%	4.20%	5.20%
State's proportionate share of net pension liability	35,337,689.06	28,805,085.00	23,443,617.78

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### County Employees Retirement System

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

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

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

*Contributions:* Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2017, employers were required to contribute 18.68% of the member’s salary. During the year ending June 30, 2017, the District contributed \$332,997 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

### CERS-Medical Insurance Plan

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

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

SEE SCHEDULE ON FOLLOWING PAGE

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Contributions - Employer contributions compared to the actuarially required contributions are outlined in the following table for CERS Post - Employment Health Care Benefits:

	<u>2017</u>		<u>2016</u>		<u>2015</u>
<b>CERS NONHAZARDOUS PLAN</b>					
Actuarially Required Contributions	\$ 83,432	\$	87,820	\$	89,647
Contributions Recognized by Plan	<u>83,432</u>		<u>87,820</u>		<u>89,647</u>
Difference	\$ -	\$	\$ -	\$	\$ -
Covered Payroll	\$ 1,775,140	\$	1,781,344	\$	1,837,021
Contributions as a Percentage of Payroll	4.70%		4.93%		4.88%

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2016 was as follows:

	<u>000's omitted</u>
Total medical benefit obligation	\$ 2,988,121
Net position available for benefits at actuarial value	<u>(1,979,811)</u>
Unfunded medical benefit obligation	<u>\$ 1,008,310</u>

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

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2016 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2016. At June 30, 2016, the District's proportion was 0.07451%.

For the year ended June 30, 2017, the District recognized pension expense of \$188,155. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

SEE SCHEDULE ON FOLLOWING PAGE

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
	<u>                    </u>	<u>                    </u>
Differences between expected and actual		
experience	\$ 16,015	\$ -
Changes of assumptions	194,335	-
Net difference between projected and actual		
earnings on pension plan investments	344,872	-
Changes in proportion and differences		
between District contributions and proportionate		
share of contributions	-	148,505
District contributions subsequent to the		
measurement date	<u>332,997</u>	<u>-</u>
	<u>\$ 888,219</u>	<u>\$ 148,505</u>

The \$332,997 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.

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

	<b>Year Ended June 30,</b>
	<u>                    </u>
2018	\$ 101,680
2019	101,680
2020	101,680
2021	<u>101,678</u>
	<u>\$ 406,718</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The following represents the changes in assumptions from the prior valuation to the valuation performed as of June 30, 2016:

- The assumed investment rate of return remained at 7.5%.
- The assumed rate of inflation remained at 3.25%.
- The assumed rate of wage inflation remained at .75%.
- Payroll growth assumption remained at 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

*Discount rate:* The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the District’s proportionate share of net pension liability to changes in the discount rate:* The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	4,571,655	3,668,450	2,894,480

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

*Payables to the pension plan:* At June 30, 2017, there are no payables to CERS.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE I – COMMITMENTS**

The District has committed \$8,971 in the general fund for future payouts for accrued sick leave.

**NOTE J – RESTRICTED BALANCES**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service	\$ 297,385	Escrow for 2010 QZAB Bond
FSPK	16,098	School Facilities Construction Commission
Capital Outlay	2,305	School Facilities Construction Commission
Food Service	31,586	Food Service Operations
School Activity	\$ 89,390	School Activities

**NOTE K – CONTINGENCIES**

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

**NOTE L – LITIGATION**

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time.

**NOTE M – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE N – RISK MANAGEMENT**

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE O – DEFICIT FUND AND OPERATING BALANCES**

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (94,660)
Business-type Activities/Proprietary Fund	(17,395)
School Activity Fund	(31,165)
Capital Outlay	\$ (734)

In addition, the governmental activities net position had a deficit balance of \$(549,518).

**NOTE P - COBRA**

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

**NOTE Q – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS	\$ 15,389
Capital Outlay Fund	General Fund	Capital Outlay	49,601
FSPK Fund	General Fund	Operating Expenses	5,394
Food Service	General Fund	Indirect Costs	37,110
Capital Outlay Fund	Debt Service Fund	Debt Payments	15,315
FSPK Fund	Debt Service Fund	Debt Payments	\$ 245,142

**NOTE R – ON-BEHALF PAYMENTS**

For fiscal year 2017, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

SEE SCHEDULE ON FOLLOWING PAGE

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 Schedule A)	\$ 473,963
Health Insurance	1,018,083
Life Insurance	1,790
Administrative Fee	14,225
HRA/Dental/Vision	38,675
Federal Reimbursements	(265,691)
Technology	46,520
SFCC Debt Service Payments	<u>103,543</u>
Total	\$ <u>1,431,108</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

### NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 10, 2017, the date the financial statements were available to be issued.

OWSLEY COUNTY SCHOOL DISTRICT  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
For the Year Ended June 30, 2017

	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)	Reporting Fiscal Year (Measurement Date) 2015 (2014)
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>			
Districts' proportion of the net pension liability	0.0745%	0.0787%	0.8107%
District's proportionate share of the net pension liability	\$ 3,668,450	\$ 3,381,594	\$ 2,630,000
State's proportionate share of the net pension liability associated with the District	-	-	-
Total	<u>\$ 3,668,450</u>	<u>\$ 3,381,594</u>	<u>\$ 2,630,000</u>
District's covered payroll	\$ 1,781,344	\$ 1,837,021	\$ 1,868,725
District's proportionate share of the net pension liability as a percentage of its covered payroll	205.94%	184.08%	140.74%
Plan fiduciary net position as a percentage of the total pension liability	59.00%	59.97%	66.80%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>			
Districts' proportion of the net pension liability	0.098%	0.096%	0.115%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	<u>28,805,085</u>	<u>22,342,282</u>	<u>23,525,024</u>
Total	<u>\$ 28,805,085</u>	<u>\$ 22,342,282</u>	<u>\$ 23,525,024</u>
District's covered payroll	\$ 3,748,513	\$ 3,740,731	\$ 3,594,092
District's proportionate share of the net pension liability as a percentage of its covered payroll	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

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

See the accompanying notes to the required supplementary information.

OWSLEY COUNTY SCHOOL DISTRICT  
**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS**  
For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM:</b>				
Contractually required contribution	\$ 332,997	\$ 303,898	\$ 326,056	\$ 353,002
Contributions in relation to the contractually required contribution	<u>332,997</u>	<u>303,898</u>	<u>326,056</u>	<u>353,002</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 1,775,140	\$ 1,781,344	\$ 1,837,021	\$ 1,868,725
District's proportionate share of the net pension liability as a percentage of it's covered payroll	18.76%	17.06%	17.75%	18.89%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 3,551,293	\$ 3,748,513	\$ 3,740,731	\$ 3,594,092
District's proportionate share of the net pension liability as a percentage of it's covered payroll	0.00%	0.00%	0.00%	0.00%

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

**OWSLEY COUNTY SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the year ended June 30, 2017

**(1) CHANGES OF ASSUMPTIONS**

KTRS

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

CERS

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016:

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

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

KTRS

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

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

OWSLEY COUNTY SCHOOL DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
For the year ended June 30, 2017

CERS

The actuarially determine contribution rates are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0 % average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

**(3) CHANGES OF BENEFITS**

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

Owsley County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2017

		<b>Other Governmental Funds</b>		
		<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Assets</b>				
Cash and Cash Equivalents	\$	2,305	\$ 16,098	\$ 18,403
Total Assets		2,305	16,098	18,403
<b>Fund Balances</b>				
Restricted		2,305	16,098	18,403
Total Fund Balances	\$	2,305	\$ 16,098	\$ 18,403

See the accompanying notes to the financial statements.



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

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Revenues</b>			
From Local Sources			
Taxes			
Property	\$ -	\$ 64,406	\$ 64,406
Intergovernmental - State	64,182	187,011	251,193
Total Revenues	64,182	251,417	315,599
<b>Expenditures</b>			
Building Acquisitions & Construction			-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	64,182	251,417	315,599
<b>Other Financing Sources (Uses)</b>			
Transfers In			-
Transfers Out	(64,916)	(250,536)	(315,452)
Total Other Financing Sources (Uses)	(64,916)	(250,536)	(315,452)
<b>Net change in fund balances</b>	(734)	881	147
<b>Fund Balance beginning</b>	3,039	15,217	18,256
<b>Fund Balance ending</b>	\$ 2,305	\$ 16,098	\$ 18,403

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Balance Sheet of Fiduciary Fund - School Activity Funds**  
 June 30, 2017

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>OWSLEY COUNTY HIGH SCHOOL</b>	<b>OWSLEY COUNTY ELEMENTARY</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 69,585	\$ 25,316	\$ 94,901
Accounts receivable	-	371	371
Total Assets	69,585	25,687	95,272
<b>LIABILITIES</b>			
Accounts payable	4,969	913	5,882
Total Liabilities	4,969	913	5,882
<b>FUND BALANCE</b>			
Student activities	64,616	24,774	89,390
Total Liabilities & Fund Balances	\$ 69,585	\$ 25,687	\$ 95,272

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**School Activity Funds**  
For the year ended June 30, 2017

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>OWSLEY COUNTY HIGH SCHOOL</b>	<b>OWSLEY COUNTY ELEMENTARY</b>	<b>TOTAL</b>
<b>REVENUES</b>			
Student revenues	\$ 201,372	\$ 44,589	\$ 245,961
<b>EXPENSES</b>			
Student activities	230,599	46,527	277,126
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(29,227)	(1,938)	(31,165)
<b>FUND BALANCES BEGINNING</b>	93,843	26,712	120,555
<b>FUND BALANCES ENDING</b>	\$ 64,616	\$ 24,774	\$ 89,390

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Owsley County High School**  
For the year ended June 30, 2017

	<b>FUND BALANCE BEGINNING</b>	<b>REVENUES</b>	<b>EXPENSES</b>	<b>FUND BALANCE ENDING</b>
ARCHERY CLUB	\$ 1,083	\$ 3,166	\$ 3,856	\$ 393
BAND FUND	1,878	3,060	2,985	1,953
BASEBALL BOYS	-	2,546	2,455	91
BETA CLUB	-	5,957	5,957	-
BOYS BASKETBALL	6,250	9,761	10,211	5,800
TEACHERS	2,528	3,380	5,118	790
CHEERLEADERS	688	3,418	3,472	634
CHESS CLUB	199	472	363	308
CLASS OF 2017	10,177	46,930	57,046	61
SENIOR CLASS 2018	549	1,957	96	2,410
SENIORS	400	5,276	2,597	3,079
CLASSROOM CREATIONS	875	333	333	875
CONCESSIONS SALES	-	17,211	16,678	533
D. WILSON MEMORIAL SCH	1,000	-	-	1,000
M&R DIS ACTIVITY FUND	225	250	-	475
SURPLUS MONEY	1,840	-	-	1,840
DESTINATION I.	-	373	-	373
FFA	86	15,977	15,876	187
FARMERS MARKET	383	5,436	4,606	1,213
FBLA	635	936	1,036	535
FILM CLUB	-	300	50	250
GENERAL ATHLETICS	5,215	17,294	22,230	279
GIRLS BASKETBALL	3,278	7,504	8,011	2,771
GOLF	2,612	825	3,295	142
LIBRARY	1,249	6,198	5,722	1,725
MS BOYS BASKETBALL	1,393	7,930	6,540	2,783
MS GIRLS BASKETBALL	663	4,661	5,243	81
MISC	4,382	5,439	6,815	3,006
ACADEMICS HIGH SCHOOL	729	-	350	379
LABTOPS	50	7,209	7,259	-
SNACK	12,161	5,851	10,443	7,569
SOFTBALL	1,797	2,950	4,289	458
SCHOLARSHIPS	2,799	-	270	2,529
TECHNOLOGY	9,631	743	4,043	6,331
TRACK	1,100	6,163	5,825	1,438
VOLLEYBALL	1,925	1,229	2,099	1,055
YEARBOOK	-	10	-	10
CD	16,063	627	5,430	11,260
<b>TOTALS</b>	<b>\$ 93,843</b>	<b>\$ 201,372</b>	<b>\$ 230,599</b>	<b>\$ 64,616</b>

See the accompanying notes to the financial statements.

Owsley County School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2017

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Passed Through to Subrecipients</b>	<b>Program or Award Amount</b>	<b>Expenditures</b>
US Department of Agriculture					
Passed Through State Department of Education					
* <b>School Breakfast Program</b>	10.553				
Fiscal Year 16		7760005 16	\$ -	N/A	\$ 36,775
Fiscal Year 17		7760005 17	-	N/A	129,216
* <b>National School Lunch Program</b>	10.555				
Fiscal Year 16		7750002 16	-	N/A	78,813
Fiscal Year 17		7750002 17	-	N/A	275,042
* <b>Summer Food Service Program For Children</b>	10.559				
Fiscal Year 16		7690024 16	-	N/A	3,098
Fiscal Year 17		7690024 17	-	N/A	1,142
* <b>Summer Food Service Program For Children</b>	10.559				
Fiscal Year 16		7740023 16	-	N/A	29,730
Fiscal Year 17		7740023 17	-	N/A	10,962
Child Nutrition Cluster Subtotal					<u>564,778</u>
<b>Fruit &amp; Vegetable Program</b>	10.582				
Fiscal Year 16		7720012 16	-	N/A	5,060
Fiscal Year 17		7720012 17	-	N/A	20,058
					<u>25,118</u>
<b>Child Nutrition Discretionary Grant</b>	10.579				
Fiscal Year 14		7840027 14	-	N/A	28,468
Passed Through State Department of Agriculture					
<b>Food Donation-Commodities</b>	10.565				
Fiscal Year 17		510.4950	-	N/A	63,034
Total US Department of Agriculture					<u>681,399</u>
US Department of Education					
Passed Through State Department of Education					
* <b>Title I Grants to Local Educational Agencies</b>	84.010A				
Fiscal Year 16		3100002 16	-	604,237	198,750
Fiscal Year 17		3100002 17	-	572,348	366,445
					<u>565,195</u>
<b>Special Education Grants to States</b>	84.027A				
Fiscal Year 16		3810002 16	-	182,548	11,028
Fiscal Year 17		3810002 17	-	187,351	127,568
<b>Special Education - Preschool Grants</b>	84.173A				
Fiscal Year 16		3800002 16	-	21,365	19,220
Fiscal Year 17		3800002 17	-	21,365	5,856
Special Education Cluster Subtotal					<u>163,672</u>
<b>Vocation Education - Basic Grants to States</b>	84.048				
Fiscal Year 16		3710002 16	-	474	474
Fiscal Year 17		3710002 17	-	9,939	9,939
					<u>10,413</u>
<b>Rural Education</b>	84.358B				
Fiscal Year 15		3140002 15	-	15,093	8,975
Fiscal Year 16		3140002 16	-	13,785	10,871
					<u>19,846</u>
<b>Tech Prep</b>	84.243				
Fiscal Year 16		363C	-	2,300	2,300
<b>Improving Teacher Quality State Grants</b>	84.367A				
Fiscal Year 16		3230002 16	-	102,751	19,176
Fiscal Year 17		3230002 17	-	101,357	77,294
					<u>96,470</u>
Passed Through Berea College					
<b>Innovative Approaches to Literacy</b>	84.215G				
Fiscal Year 17		610C	-	1,513,085	64,730
Fiscal Year 17-KEDC		577C	-	323,296	111,196
					<u>175,926</u>
Passed Through Berea College					
<b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334A				
Fiscal Year 16G		379BG	-	206,915	20,728
Fiscal Year 17G		379CG	-	229,600	208,345
					<u>229,073</u>
Passed Through Kentucky Valley Educational Cooperative					
<b>Race to the Top-Early Learning Challenge</b>	84.412A				
Fiscal Year 17		475C	-	15,000	15,000
Passed Through Kentucky Valley Educational Cooperative					
<b>Race to the Top - District</b>	84.416A				
Fiscal Year 17		B416A140080	-	84,127	84,127
Passed Through Berea College					
<b>Promise Neighborhood Step Grant</b>	84.215P				
Fiscal Year 17		U215N110015	-	44,762	39,921
Total US Department of Education					<u>1,401,942</u>
National Endowment for the Arts					
<b>Promotion of the Arts Partnership Agreements</b>	45.025				
Fiscal Year 17		16-6100-2002	-	8,500	8,500
Total National Endowment for the Arts					<u>8,500</u>
Appalachian Regional Commission					
<b>Pathways to Careers</b>	23.009				
Fiscal Year 17		KY-17904-CI-302-17	-	25,000	25,000
Total Appalachian Regional Commission					<u>25,000</u>
US Department of Commerce					

See the accompanying notes to the schedule of expenditures of federal awards.

Owsley County School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2017

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Passed Through to Subrecipients</b>	<b>Program or Award Amount</b>	<b>Expenditures</b>
Passed through Bluegrass Pride <b>Pride Grant-Wetlands Project</b>	11.420				
Fiscal Year 17		270CH	-	2,750	1,556
Total US Department of Commerce					<u>1,556</u>
US Department of Labor Passed Through Middle Kentucky Community Action Partnership <b>WIA Year Round Youth Program</b>	17.259				
Fiscal Year 17		DTR14001-001	-	10,110	10,110
Total US Department of Labor					<u>10,110</u>
US Department of Health and Human Services <b>Head Start</b>	93.600				
Fiscal Year 16		04CH2596	-	354,296	188,802
Fiscal Year 17		04CH2596	-	699,498	516,857
<b>Early Head Start</b>	93.600				
Fiscal Year 16A		04CH4797	-	258,835	122,781
Fiscal Year 17A		04CH4797	-	517,670	374,873
					<u>1,203,313</u>
Total US Department of Health and Human Services					<u>1,203,313</u>
<b>Total Expenditure of Federal Awards</b>					<b>\$ <u>3,331,820</u></b>

\* Major program

OWSLEY COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2017

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Owsley County School District under the 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 the Owsley County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**NOTE B – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. For the year ended June 30, 2017, the District received food commodities totaling \$63,034.

**NOTE D – INDIRECT COST RATE**

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

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

To the Board of Education of the Owsley County School District

Booneville, Kentucky

and the State Committee for School District Audits

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits, as defined in the *Auditor Responsibilities* and state *Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Owsley 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 Owsley County School District's basic financial statements, and have issued our report thereon dated November 10, 2017.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Owsley County School District in a separate letter dated November 10, 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White & Associates, PSC*

Richmond, Kentucky  
November 10, 2017

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

To the Board of Education of the Owsley County School District  
Booneville, Kentucky

and the Committee for School District Audits

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

We have audited the Owsley County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Owsley County School District's major federal programs for the year ended June 30, 2017. Owsley County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

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

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

the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Owsley County School District's internal control over compliance.

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

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

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

***White & Associates, PSC***

Richmond, Kentucky

November 10, 2017

OWSLEY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2017

**SUMMARY OF AUDITOR’S RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in the Uniform Guidance?	No
Major Programs	Title I [CFDA 84.010A] Child Nutrition Cluster [10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$750,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No findings at the major federal award programs level.

OWSLEY COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2017

There were no prior audit findings.

**MANAGEMENT LETTER POINTS**

Owsley County School District  
Booneville, Kentucky

In planning and performing our audit of the financial statements of the Owsley County School District for the year ended June 30, 2017, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 10, 2017. This letter does not affect our report dated November 10, 2017, on the financial statements of the Owsley County School District. The conditions observed are as follows:

OWSLEY COUNTY ELEMENTARY

No conditions.

OWSLEY COUNTY HIGH SCHOOL

1-17

Statement of Condition: Instances of purchases being made for more than the amount approved on the Purchase Order.

Recommendation for Correction: Purchases should only be made for the amounts approved of on the Purchase Order.

Management Response to the Recommendation: The Owsley County Superintendent/Finance Director will communicate to the High School Principal that a corrective action plan will be put in place that all purchases should be made for only the amounts approved on the purchase order.

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

All prior year conditions have been implemented and corrected. Mr. Bobrowski, Superintendent, is the person responsible for initiation of the corrective action plan for the above comments which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
November 10, 2017

**APPENDIX C**

**Owsley County School District Finance Corporation  
School Building Revenue Bonds  
Series of 2018**

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**Continuing Disclosure Agreement**



## CONTINUING DISCLOSURE UNDERTAKING AGREEMENT

This Continuing Disclosure Undertaking Agreement ("Agreement") made and entered into as of the 1st day of August, 2018, by and between the Board of Education of Owsley County, Kentucky School District ("Board"); the Owsley County School District Finance Corporation, an agency and instrumentality of the Board ("Corporation") and the Registered and Beneficial Owners of the Bonds hereinafter identified as third party beneficiaries to this Agreement. For the purposes of this Agreement "Beneficial Owner" means the person or entity treated as the owner of the Bonds for federal income tax purposes and "Registered Owner" means the person or entity named on the registration books of the bond registrar.

### WITNESSETH:

WHEREAS, the Corporation has acted as issuing agency for the Board pursuant to the provisions of Section 162.385 of the Kentucky Revised Statutes ("KRS") and the Corporation's Bond Resolution in connection with the authorization, sale and delivery of \$2,570,000 of the Corporation's School Building Revenue Bonds, Series of 2018, dated as of August 1, 2018 ("Bonds"), which Bonds were offered for sale under the terms and conditions of a Final Official Statement ("FOS") prepared by Ross, Sinclair & Associates, LLC, Lexington, Kentucky ("Financial Advisor") and approved by the authorized representatives of the Board and the Corporation, and

WHEREAS, the Securities and Exchange Commission ("SEC"), pursuant to the Securities and Exchange Act of 1934, has amended the provisions of SEC Rule 15c2-12 relating to financial disclosures by the issuers of municipal securities under certain circumstances ("Rule"), and

WHEREAS, it is intended by the parties to this Agreement that all terms utilized herein shall have the same meanings as defined by the Rule, and

WHEREAS, the Board is an "obligated person" as defined by the Rule and subject to the provisions of said Rule, and

WHEREAS, failure by the Board and the Corporation to observe the requirements of the Rule will inhibit the subsequent negotiation, transfer and exchange of the Bonds with a resulting diminution in the market value thereof to the detriment of the Registered and Beneficial Owners of said Bonds and the Board;

NOW, THEREFORE, in order to comply with the provisions of the Rule and in consideration of the purchase of the Bonds by the Registered and Beneficial Owners, the parties hereto agree as follows:

### 1. ANNUAL FINANCIAL INFORMATION

The Board agrees to provide the annual financial information contemplated by Rule 15c2-12(b)(5)(i) relating to the Board for its fiscal years ending June 30 of each year to (a) the Municipal Securities Rulemaking Board ("MSRB"), or any successor thereto for purposes of its Rule, through the continuing disclosure service portal provided by the MSRB's Electronic Municipal Market Access ("EMMA") system as described in 1934 Act Release No. 59062, or any similar system that is acceptable to the Securities and Exchange Commission and (b) the State Information Depository ("SID"), if any (the Commonwealth of Kentucky has not established a SID as of the date of this Agreement) within nine (9) months of the close of each fiscal year.

For the purposes of the Rule "annual financial information" means financial information and operating data provided annually, of the type included in the FOS with respect to the Board in accordance with guidelines established by the National Federation of Municipal Analysts, and shall include annual audited financial statements for the Board in order that the recipients will be provided with ongoing information regarding revenues and operating expenses of the Board and the information provided in the FOS under the headings "OUTSTANDING BONDS", "BOND DEBT SERVICE", "DISTRICT STUDENT POPULATION", "LOCAL SUPPORT - Local Tax Rates, Property Assessment and Revenue Collections and SEEK Allotment". If audited financial statements are not available when the annual financial information is filed, unaudited financial statements shall be included, to be followed by audited financial statements when available.

The audited financial statements shall be prepared in accordance with Generally Accepted Accounting Principles, Generally Accepted Auditing Standards or in accordance with the appropriate sections of KRS or Kentucky Administrative Regulations.

The parties hereto agree that this Agreement is entered into among them for the benefit of those who become Registered and Beneficial Owners of the Bonds as third party beneficiaries to said Agreement.

## **2. MATERIAL EVENTS NOTICES**

Under the Rule, Section 15c2-12(b)(5)(i)(C), the following fifteen (15) events must be disclosed within ten (10) business days following the occurrence of said event to MSRB via EMMA and the SID, if any:

- (1) Principal/interest payment delinquency;
- (2) Nonpayment related default, if material;
- (3) Unscheduled draw on debt service reserve reflecting financial difficulties;
- (4) Unscheduled draw on credit enhancement reflecting financial difficulties;
- (5) Substitution of credit or liquidity provider, or its failure to perform;
- (6) Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the securities, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond call, if material;
- (9) Defeasance;
- (10) Tender offers;
- (11) Release, substitution or sale of property securing the repayment of the security, if material;
- (12) Rating change;
- (13) Merger, consolidation, acquisition or sale of all or substantially all assets of an obligated person, other than in the ordinary course of business, and the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to such action, other than pursuant to its terms, if material;
- (14) Bankruptcy, insolvency, receivership or similar event; and
- (15) Successor, additional or change in trustee, if material.

Notice of said material events shall be given to the entities identified in this Section by the Board on a timely basis (within ten (10) business days of the occurrence). Notwithstanding the foregoing, the provisions of the documents under which the Bonds are authorized and issued do not provide for a debt service reserve, credit enhancements or credit or liquidity providers.

In accordance with Rule Section 15c2-12(b)(5)(i)(D), the Board agrees that in the event of a failure to provide the Annual Financial Information and Operating Data required under Section 1 of this Agreement, it will notify MSRB via EMMA of such failure in a timely manner.

The Finance Officer of the Board shall be the responsible person for filing the annual financial information, operating data and/or notices of the events set forth above within the time prescribed in this Agreement. The Board shall cause the Finance Officer to institute an internal tickler system as a reminder of the obligations set forth herein. By December 1 of each fiscal year and each 30 days thereafter the Finance Officer will contact the auditor for the Board to determine when the audited financial statements will be finalized. The Finance Officer will impress upon the auditor the necessity of having such audited financial report on or before March 15. Within 5 days of receipt of such audited financial report the finance officer will cause the annual financial information to be filed as required by this Agreement.

### **3. SPECIAL REQUESTS FOR INFORMATION**

Upon the request of any Registered or Beneficial Owner of the Bonds or the original purchaser of the Bonds or any subsequent broker-dealer buying or selling said Bonds on the secondary market ("Underwriters"), the Board shall cause financial information or operating data regarding the conduct of the affairs of the Board to be made available on a timely basis following such request.

### **4. DISCLAIMER OF LIABILITY**

The Board and the Corporation hereby disclaim any liability for monetary damages for any breach of the commitments set forth in this Agreement and remedies for any breach of the Board's continuing disclosure undertaking shall be limited to an action for specific performance or mandamus in a court of competent jurisdiction in Kentucky following notice and an opportunity to cure such a breach.

### **5. FINAL OFFICIAL STATEMENT**

That the Final Official Statement prepared by the Financial Advisor and approved by the authorized representatives of the Board and the Corporation is hereby incorporated in this Agreement as fully as if copied herein and the "annual financial information" required under Section 1 hereof shall in summary form update the specific information set forth in said FOS.

### **6. DURATION OF THE AGREEMENT**

This Agreement shall be in effect so long as any of the Bonds remain outstanding and unpaid; provided, however, that the right is reserved in the Board to delegate its responsibilities under the Agreement to a competent agent or trustee, or to adjust the format of the presentation of annual financial information so long as the intent and purpose of the Rule to present adequate and accurate financial information regarding the Board is served.

### **7. AMENDMENT; WAIVER**

Notwithstanding any other provision of this Agreement, the Board may amend this Agreement, and any provision of this Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 1, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders of the Bonds in the same manner as provided in the Bond Resolution for amendments to the Bond Resolution with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Registered Owners or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Agreement, the Board shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Board. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under Section 15c2-12(b)(5)(i)(C) of the Rule, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

## 8. DEFAULT

In the event of a failure of the Board to comply with any provision of this Agreement, the Corporation may and, at the request of any Underwriter or any Registered Owner or Beneficial Owner of Bonds, shall take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Board to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an event of default under the Bond Resolution, and the sole remedy under this Agreement in the event of any failure of the Board to comply with this Agreement shall be an action to compel performance.

In witness whereof the parties hereto have executed this Agreement as of the date first above written.

**BOARD OF EDUCATION OF  
OWSLEY COUNTY, KENTUCKY**

\_\_\_\_\_  
Chairman

Attest:

\_\_\_\_\_  
Secretary

**OWSLEY COUNTY (KENTUCKY) SCHOOL  
DISTRICT FINANCE CORPORATION**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Secretary

**APPENDIX D**

**Owsley County School District Finance Corporation  
School Building Revenue Bonds  
Series of 2018**

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**Official Terms and Conditions of Bond Sale**

**OFFICIAL  
TERMS AND CONDITIONS OF BOND SALE**

**\$2,570,000\***  
**Owsley County School District Finance Corporation**  
**School Building Revenue Bonds, Series of 2018**  
**Dated August 1, 2018**

**SALE: July 19, 2018 AT 11:30 A.M., E.D.S.T.**

As advertised in The Courier-Journal, published in Louisville, Kentucky, the Owsley County School District Finance Corporation ("Corporation") will until July 19, 2018, at the hour of 11:30 A.M., E.D.S.T., in the office of the Executive Director of the Kentucky School Facilities Construction Commission, 229 West Main Street, Suite 102, Frankfort, Kentucky 40601-1879, receive competitive bids for the revenue bonds herein described. To be considered, bids must be submitted on an Official Bid Form and must be delivered to the Corporation at the address indicated on the date of sale no later than the hour indicated. Bids may be submitted manually or by facsimile or electronically via PARITY. Bids will be considered by the Corporation and may be accepted without further action by the Corporation's Board of Directors.

Subject to a Permitted Adjustment\* increasing or decreasing the issue by up to \$510,000.

**OWSLEY COUNTY SCHOOL  
DISTRICT FINANCE CORPORATION**

The Corporation has been formed in accordance with the provisions of Sections 162.120 through 162.300 and Section 162.385 of the Kentucky Revised Statutes ("KRS"), and KRS Chapter 273 and KRS 58.180, as a non-profit, non-stock corporation for the purpose of financing necessary school building facilities for and on behalf of the Board of Education of the Owsley County School District (the "Board"). Under the provisions of existing Kentucky law, the Corporation is permitted to act as an agency and instrumentality of the Board for financing purposes and the legality of the financing plan to be implemented by the Bonds herein referred to has been upheld by the Kentucky Court of Appeals (Supreme Court) in the case of White v. City of Middlesboro, Ky. 414 S.W.2d 569.

**STATUTORY AUTHORITY, PURPOSE OF ISSUE AND SECURITY**

These Bonds are authorized pursuant to KRS 162.120 through 162.300, 162.385, and KRS 58.180 and are issued in accordance with a Resolution of the Corporation's Board of Directors. Said Bonds are revenue bonds and constitute a limited indebtedness of the Corporation payable from rental revenues derived by the Corporation from the Board under the Lease identified below. Said Bonds are being issued to finance improvements to Owsley County High School and Owsley County Elementary School (collectively, the "Project") and are secured by a pledge of the revenues from the rental of the school building to the Board under the Lease on a year to year basis; the first rental period ending June 30, 2019; provided, however, that the lien and pledge are on parity with similar lien and pledge securing the Corporation's School Building Revenue Bonds previously issued to improve or refinance improve certain of the building(s) in which the Project are located (the "Parity Bonds").

The rental of the Project from the Corporation to the Board is to be effected under a certain Lease Agreement by and between the Corporation and the Board (the "Lease"), whereunder the Project is leased to the Board for the initial period ending June 30, 2019, with an option in the Board to renew the Lease each year at rentals sufficient to provide for the principal and interest requirements on the Bonds as they become due, plus the costs of insurance, maintenance, depreciation, and bond issuance and administration expenses; the Board being legally obligated only for the initial rental period and for one year at a time thereafter each time the Lease is renewed.

Under the terms of the Lease and any renewal thereof, so long as the Bonds remain outstanding and in conformance with the intent and purpose of KRS 157.627(5) and KRS 160.160(5), in the event of a failure by the Board to pay the rentals due under the Lease, and unless sufficient funds have been transmitted to the Paying Agent, or will be so transmitted, for paying said rentals when due, the Board has granted under the terms of the Lease and Participation Agreement to the Corporation and the Commission the right to notify and request the Kentucky Department of Education to withhold from

the Board a sufficient portion of any undisbursed funds then held, set aside, or allocated to the Board and to request said Department or Commissioner of Education to transfer the required amount thereof to the Paying Agent for the payment of such rentals.

Although the Board is obligated to pay the Corporation annual rentals in the full amount of the principal and interest requirements for the Bonds for each year in which the Lease is renewed, the Board has entered into the Lease in reliance upon a certain Participation Agreement by and between the Board and the Kentucky School Facilities Construction Commission (the "Commission"). Under the terms of the Participation Agreement, the Commission has agreed to pay annually directly to the Paying Agent for the Bonds a stated Agreed Participation equal to approximately \$134,329 to be applied to the annual debt service requirements for the Bonds herein identified until their retirement, subject to the constitutional restrictions limiting the commitment to the biennium; said annual amount is to be applied only to the principal and interest requirements of the Bonds so long as the Board renews the Lease. Under the Lease, the Board has pledged and assigned all of its rights under the Participation Agreement in and to the Agreed Participation to the Corporation in order to secure the Bonds and has agreed to pay that portion of the rentals in excess of said Agreed Participation for each year in which the Lease is renewed.

### **KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION**

The Commission is an independent corporate agency and instrumentality of the Commonwealth of Kentucky established pursuant to the provisions of Sections 157.611 through 157.640 of the Kentucky Revised Statutes, as repealed, amended, and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet need.

Pursuant to the provisions of the Act, the Regulations of the Kentucky Board of Education and the Commission, the Commission has determined that the Board is eligible for participation from the Commission in meeting the costs of construction of the Projects and has entered into a Participation Agreement with the Board whereunder the Commission agrees to pay an annual Agreed Participation equal to approximately \$134,329 to be applied to the annual debt service requirements for the Bonds herein identified each year until their retirement; provided, however, that the contractual commitment of the Commission to pay the annual Agreed Participation is limited to the biennial budget period of the Commonwealth, with the first such biennial period terminating on June 30, 2020; the right is reserved in the Commission to terminate its commitment to pay the Agreed Participation after the initial biennial period and every two years thereafter. The obligation of the Commission to make payments of the Agreed Participation shall be automatically renewed each two years for a period of two years unless the Commission shall give notice of its intention not to participate not less than sixty days prior to the end of the biennium; however, by the execution of the Participation Agreement, the Commission has expressed its present intention to continue to pay the Agreed Participation in each successive biennial budget period until the retirement of all of the Bonds, but such execution does not obligate the Commission to do so.

The General Assembly of the Commonwealth adopted the State's Budget for the biennium ending June 30, 2018. Inter alia, the Budget provides \$121,610,900 in FY 2016-17 and \$134,544,300 in FY 2017-18 to pay debt service on existing and future bond issues; \$100,000,000 of the Commission's previous Offers of Assistance made during the last biennium; and authorizes \$91,000,000 in additional Offers of Assistance for the current biennium to be funded in the Budget for the biennium ending June 30, 2020.

### **ADDITIONAL PARITY BONDS**

The Corporation has reserved the right and privilege of issuing additional bonds from time to time payable from the income and revenues of said lands and school building Project and secured by a statutory mortgage lien and pledge of revenues, but only if and to the extent the issuance of such additional parity bonds are in accordance with the plans and specifications which have been approved by the Board, Commissioner of Education, and filed in the office of the Secretary of the Corporation and a Lease shall be entered into whereunder the annual rental payments during the life of such additional bonds shall be increased by the amount of the annual principal and interest requirements of such additional bonds.

## BOND MATURITIES, PRIOR REDEMPTION PROVISIONS AND PAYING AGENT

All such Bonds shall be in denominations in multiples of \$5,000 within the same maturity, bear interest from August 1, 2018, payable on February 1, 2019, and semi-annually thereafter and shall mature as to principal on August 1 in each of the years as follows:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2019	\$ 75,000	2029	\$140,000
2020	75,000	2030	145,000
2021	85,000	2031	150,000
2022	85,000	2032	155,000
2023	85,000	2033	160,000
2024	90,000	2034	165,000
2025	100,000	2035	170,000
2026	110,000	2036	180,000
2027	115,000	2037	185,000
2028	135,000	2038	165,000

\*Subject to a Permitted Adjustment of the amount of Bonds awarded as further described herein, applied in any or all maturities.

The Bonds maturing on or after August 1, 2029 are subject to redemption at the option of the Corporation prior to their stated maturities on any date falling on or after August 1, 2028, in any order of maturities (less than all of a single maturity to be selected by lot), in whole or in part, upon notice of such prior redemption being given by the Paying Agent in accordance with DTC requirements not less than thirty (30) days prior to the date of redemption, upon terms of the face amount, plus accrued interest, but without redemption premium.

Notwithstanding the foregoing, the Corporation reserves the right, upon thirty (30) days notice, to call the Bonds in whole or in part on any date at par for redemption upon the total destruction by fire, lightning, windstorm or other hazard of any building constituting the Projects and apply casualty insurance proceeds to such purpose.

The Bonds are to be issued in fully registered form (both principal and interest). Farmer's State Bank, Booneville, Kentucky, has been designated as the Bond Registrar and Paying Agent, shall remit interest on each semiannual due date to Cede & Co. Principal and interest will be payable through the Book-Entry-Only-System administered by The Depository Trust Company: Please see "BOOK-ENTRY-ONLY-SYSTEM" below. Interest on the Bonds will be paid at rates to be established upon the basis of competitive bidding as hereinafter set forth, such interest to be payable on August 1 and February 1 of each year, beginning February 1, 2019 (Record Date is the 15th day of month preceding interest due date).

### BIDDING CONDITIONS AND RESTRICTIONS

(A) Bids must be made on Official Bid Form, contained in Information for Bidders available from the undersigned or Ross, Sinclair & Associates, LLC, Lexington, Kentucky, by visiting [www.rsamuni.com](http://www.rsamuni.com) submitted manually, by facsimile or electronically via PARITY®.

(B) Electronic bids for the Bonds must be submitted through PARITY® and no other provider of electronic bidding services will be accepted. Subscription to the PARITY® Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY® conflict with the terms of the Official Terms and Conditions of Bond Sale, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY® shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY®. The use of PARITY® facilities are at the sole risk of the prospective bidders. For further information regarding PARITY®,



potential bidders may contact PARITY®, telephone (212) 404-8102. Notwithstanding the foregoing, non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

(C) The bid shall be not less than \$2,518,600 (98% of par), plus accrued interest. Interest rates shall be in multiples of 1/8 or 1/20 of 1% or both. Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. Interest rates must be on an ascending scale, in that the interest rate stipulated in any year may not be less than that stipulated for any preceding maturity. There is no limit on the number of different interest rates.

(D) The maximum permissible net interest cost for the Bonds shall not exceed "The Bond Buyer's" Index of 20 Municipal Bonds as established on the Thursday immediately preceding the sale of said Bonds plus 1.50%.

(E) The determination of the best purchase bid for said Refunding Bonds shall be made on the basis of all bids submitted for exactly \$2,570,000 principal amount of Bonds offered for sale hereunder, but the Corporation may adjust the principal amount of Bonds upward or downward by \$510,000 (the "Permitted Adjustment") which may be awarded to such best bidder may be a minimum of \$2,060,000 or a maximum of \$3,080,000. In the event of such Permitted Adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price of which such adjusted principal amount of Bonds will be sold will be the same price per \$5,000 of Bonds as the price per \$5,000 for the \$2,570,000 of Bonds bid.

(F) If three (3) or more bids for the Bonds are received as a result of this competitive sale, the successful purchaser will be required to certify on or before the issue date the reasonably expected initial offering price to the public for each Maturity of the Bonds which prices are the prices for each Maturity of the Bonds used by the successful purchaser in formulating its bid to purchase the Bonds.

If less than three (3) bids for the Bonds are received as a result of this competitive sale, the successful purchaser, by submitting a bid pursuant to a published Notice of Sale, has agreed in writing that they will certify on or before the issue date (and provide reasonable supporting documentation for such Certification, such as a copy of the Pricing wire or equivalent communication) for each Maturity of the Bonds (i) the first price at which at least 10% of each Maturity of the Bonds was sold to the Public, or (ii) that they will neither offer nor sell any of the Bonds of each Maturity to any person at a price that is higher than the Initial Offering Price for such maturity during the Holding Period for such Maturity.

Bids will not be subject to cancellation or withdrawal by the bidder in the event that three bids are not received and the Issuer determines to apply the hold-the-offering-price rule.

For purposes of the above the following terms are defined as follows:

(a)*Holding Period* means, with respect to a Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the successful purchaser has sold at least 10% of such Maturity to the Public at prices that are no higher than the Initial Offering Price for such Maturity.

(b)*Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(c)*Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

(d)*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is July 19, 2018.

(e)*Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public

(including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

(G) The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each term bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on August 1 in accordance with the maturity schedule setting the actual size of the issue.

(H) CUSIP identification numbers will be printed on the Bonds at the expense of the Corporation. The purchaser shall pay the CUSIP Service Bureau Charge. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for said Bonds in accordance with the terms of any accepted proposal for the purchase of said Bonds.

(I) The Corporation will provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. A Final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements.

(J) Bids need not be accompanied by a certified or bank cashier's good faith check, BUT the successful bidder will be required to wire transfer an amount equal to 2% of the amount of the principal amount of Bonds awarded to the order of the Corporation by the close of business on the day following the award. Said good faith amount which will be forfeited as liquidated damages in the event of a failure of the successful bidder to take delivery of such Bonds when ready. The good faith amount (without interest) will be applied to the purchase price upon delivery of the Bonds. The successful bidder shall not be required to take up and pay for said Bonds unless delivery is made within 45 days from the date the bid is accepted.

(K) Delivery will be made utilizing the DTC Book-Entry-Only-System.

(L) The Corporation reserves the right to reject any and all bids or to waive any informality in any bid. The Bonds are offered for sale subject to the principal and interest not being subject to Federal or Kentucky income taxation or Kentucky ad valorem taxation on the date of their delivery to the successful bidder, in accordance with the Final Approving Legal Opinion of Steptoe & Johnson PLLC, Bond Counsel, Louisville, Kentucky, which Opinion will be qualified in accordance with the section hereof on TAX EXEMPTION.

(M) The Corporation and the Board agree to cooperate with the successful bidder in the event said purchaser desires to purchase municipal bond insurance regarding the Bonds; provided, however, that any and all expenses incurred in obtaining said insurance shall be solely the obligation of the successful bidder should the successful bidder so elect to purchase such insurance.

## **STATE SUPPORT OF EDUCATION**

The 1990 Regular Session of the General Assembly of the Commonwealth enacted a comprehensive legislative package known as the Kentucky Education Reform Act ("KERA") designed to comply with the mandate of the Kentucky Supreme Court that the General Assembly provide for an efficient and equitable system of schools throughout the State.

KERA became fully effective on July 13, 1990. Elementary and Secondary Education in the Commonwealth is supervised by the Commissioner of Education as the Chief Executive Officer of the State Department of Education ("DOE"), an appointee of the reconstituted State Board for Elementary and Secondary Education (the "State Board"). Some salient features of KERA are as follows:

KRS 157.330 establishes the fund to Support Education Excellence in Kentucky ("SEEK") funded from biennial appropriations from the General Assembly for distribution to school districts. The base funding guaranteed to each school district by SEEK for operating and capital expenditures is determined in each fiscal year by dividing the total annual SEEK appropriation by the state-wide total of pupils in average daily attendance ("ADA") in the preceding fiscal year; the ADA for each district is subject to adjustment to reflect the number of at risk students (approved for free lunch programs under state and federal guidelines), number and types of exceptional children, and transportation costs.

KRS 157.420 establishes a formula which results in the allocation of funds for capital expenditures in school districts at \$100 per ADA pupil which is included in the SEEK allotment (\$4,000) for the current biennium which is required to be segregated into a Capital Outlay Allotment Fund which may be used only for (1) direct payment of construction costs; (2) debt service on voted and funding bonds; (3) lease rental payments in support of bond issues; (4) reduction of deficits resulting from over expenditures for emergency capital construction; and (5) a reserve for each of the categories enumerated in 1 through 4 above.

KRS 160.470(12)(a) requires that effective for fiscal years beginning July 1, 1990 each school district shall levy a minimum equivalent tax rate of \$.30 for general school purposes. The equivalent tax rate is defined as the rate which results when the income collected during the prior year from all taxes levied by the district (including utilities gross receipts license and special voted) for school purposes is divided by the total assessed value of property, plus the assessment for motor vehicles certified by the Revenue Cabinet of the Commonwealth. Any school district board of education which fails to comply with the minimum equivalent tax rate levy shall be subject to removal from office.

KRS 160.470(12)(2) provides that for fiscal years beginning July 1, 1990 each school district may levy an equivalent tax rate which will produce up to 15% of those revenues guaranteed by the SEEK program. Any increase beyond the 4% annual limitation imposed by KRS 132.017 is not subject to the recall provisions of that Section. Revenue generated by the 15% levy is to be equalized at 150% of the state-wide average per pupil equalized assessment.

KRS 157.440(2) permits school districts to levy up to 30% of the revenue guaranteed by the SEEK program, plus the revenue produced by the 15% levy, but said additional tax will not be equalized with state funds and will be subject to recall by a simple majority of those voting on the question.

KRS 157.620(1) also provides that in order to be eligible for participation from the Kentucky School Facilities Construction Commission for debt service on bond issues the district must levy a tax which will produce revenues equivalent to \$.05 per \$100 of the total assessed value of all property in the district (including tangible and intangible property and motor vehicles) in addition to the minimum \$.30 levy required by KRS 160.470(12). A district having a special voted tax which is equal to or higher than the required \$.05 tax, must commit and segregate for capital purposes at least an amount equal to the required \$.05 tax. Those districts which levy the additional \$.05 tax are also eligible for participation in the Kentucky Facilities Support ("KFS") program for which funds are appropriated separately from SEEK funds and are distributed to districts in accordance with a formula taking into account outstanding debt and funds available for payment from both local and state sources under KRS 157.440(1)(b).

KRS 160.460 provides that as of July 1, 1994 all real property located in the Commonwealth subject to local taxation shall be assessed at 100% of fair cash value.

## **BIENNIAL BUDGET FOR PERIOD ENDING JUNE 30, 2020**

The Kentucky General Assembly, during its Regular Session, adopted a budget for the biennium ending June 30, 2020 which was approved and signed by the Governor. Such budget is effective beginning July 1, 2018.

## **POTENTIAL LEGISLATION**

No assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax exemption of such interest. In addition, current and future legislative proposals, if enacted into law, may cause interest on state or local government bonds (whether issued before, on the date of, or after enactment of such legislation) to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the amount of interest on such bonds that may currently be treated as tax exempt by certain individuals. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds or obligations which present similar tax issues, will not affect the market price for the Bonds.

## **CONTINUING DISCLOSURE**

As a result of the Board and issuing agencies acting on behalf of the Board offering for public sale municipal securities in excess of \$1,000,000, the Corporation and the Board will enter into a written agreement for the benefit of all parties who may become Registered or Beneficial Owners of the Bonds whereunder said Corporation and Board will agree to comply with the provisions of the Municipal Securities Disclosure Rules set forth in Securities and Exchange Commission Rule 15c2-12 by filing annual financial statements and material events notices with the Electronic Municipal Market Access (EMMA) System maintained by the Municipal Securities Rule Making Board.

Financial information regarding the Board may be obtained from Superintendent, Owsley County Board of Education, 14 Old KY. 11, Booneville, Kentucky 41314, Telephone 606-593-6363.

## **TAX EXEMPTION; BANK QUALIFIED**

Bond Counsel is of the opinion that the Bonds are "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended, and therefore advises as follows:

(A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes under existing law and interest on the Bonds will not be a specific item of tax preference for purposes of the Federal alternative minimum tax.

(C) As a result of certifications by the Board and the Corporation, indicating the issuance of less than \$10,000,000 of tax-exempt obligations during the calendar year ending December 31, 2018, the Bonds may be treated by financial institutions as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

## **BOOK-ENTRY-ONLY-SYSTEM**

The Bonds shall utilize the Book-Entry-Only-System administered by The Depository Trust Company ("DTC").

DTC will act as securities depository for the Bonds. The Bonds initially will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond Certificate will be issued, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interest") are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial

Owners. Beneficial Owners will not receive certificates representing their Beneficial Ownership interests in Bonds, except in the event that use of the book-entry system for the Securities is discontinued. Transfers of ownership interest in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co., effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments of the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' account on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payment to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Trustee, as appropriate. The requirements for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered by the Bond Registrar.

NEITHER THE ISSUER, THE BOARD NOR THE BOND REGISTRAR/PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR/PAYING AGENT AS BEING AN OWNER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO

RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

**OWSLEY COUNTY (KENTUCKY)  
SCHOOL DISTRICT FINANCE CORPORATION**

by s/ Dr. Timothy Bobrowski  
Secretary

**APPENDIX E**

**Owsley County School District Finance Corporation  
School Building Revenue Bonds  
Series of 2018**

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**Official Bid Form**

**OFFICIAL BID FORM  
(Bond Purchase Agreement)**

The Owsley County School District Finance Corporation ("Corporation" or "Issuer"), will until 11:30 A.M., E.D.S.T., on July 19, 2018, receive in the office of the Executive Director of the Kentucky School Facilities Construction Commission, Suite 102, 229 W. Main Street, Frankfort, Kentucky 40601, (telephone 502-564-5582; fax 888-979-6152) competitive bids for its \$2,570,000 School Building Revenue Bonds, Series of 2018, dated August 1, 2018; maturing August 1, 2019 through 2038 ("Bonds").

We hereby bid for said \$2,570,000\* principal amount of Bonds, the total sum of \$ \_\_\_\_\_ (not less than \$2,518,600) plus accrued interest from August 1, 2018 payable February 1, 2019 and semiannually thereafter at the following annual rates, (rates on ascending scale in multiples of 1/8 or 1/20 of 1%; number of interest rates unlimited) and maturing as to principal on August 1 in the years as follows:

<u>Year</u>	<u>Amount*</u>	<u>Rate</u>	<u>Year</u>	<u>Amount*</u>	<u>Rate</u>
2019	\$ 75,000	_____ %	2029	\$140,000	_____ %
2020	75,000	_____ %	2030	145,000	_____ %
2021	85,000	_____ %	2031	150,000	_____ %
2022	85,000	_____ %	2032	155,000	_____ %
2023	85,000	_____ %	2033	160,000	_____ %
2024	90,000	_____ %	2034	165,000	_____ %
2025	100,000	_____ %	2035	170,000	_____ %
2026	110,000	_____ %	2036	180,000	_____ %
2027	115,000	_____ %	2037	185,000	_____ %
2028	135,000	_____ %	2038	165,000	_____ %

\* Subject to Permitted Adjustment

We understand that this bid may be accepted for as much as \$3,080,000 of Bonds or as little as \$2,060,000 of Bonds, at the same price per \$5,000 Bond, with the variation in such amount occurring in any maturity or all maturities, which will be determined by the Secretary of the Corporation at the time of acceptance of the best bid.

We further understand that by submitting a bid we agree as follows:

If three (3) or more bids for the Bonds are received as a result of this competitive sale, the successful purchaser will be required to certify on or before the issue date the reasonably expected initial offering price to the public as of the Sale Date for each Maturity of the Bonds which prices are the prices for each Maturity of the Bonds used by the successful purchaser in formulating its bid to purchase the Bonds.

If less than three (3) bids for the Bonds are received as a result of this competitive sale, the successful purchaser, by submitting a bid pursuant to a published Notice of Sale, has agreed in writing that they will certify on or before the issue date (and provide reasonable supporting documentation for such Certification, such as a copy of the Pricing wire or equivalent communication) for each Maturity of the Bonds (i) the first price at which at least 10% of each Maturity of the Bonds was sold to the Public, or (ii) that they will neither offer nor sell any of the Bonds of each Maturity to any person at a price that is higher than the Initial Offering Price for such maturity during the Holding Period for such Maturity.

Bids will not be subject to cancellation or withdrawal by the bidder in the event that three bids are not received and the Issuer determines to apply the hold-the-offering-price rule.

For purposes of the above the following terms are defined as follows:

(a)*Holding Period* means, with respect to a Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the successful purchaser has sold at least 10% of such Maturity to the Public at prices that are no higher than the Initial Offering Price for such Maturity.

(b)*Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(c)*Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

(d)*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is July 19, 2018.

(e)*Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

Electronic bids for the Bonds must be submitted through PARITY® and no other provider of electronic bidding services will be accepted. Subscription to the PARITY® Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY® conflict with the terms of the Official Terms and Conditions of Sale of Bonds, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY® shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of



the electronic bidding facilities provided and maintained by PARITY®. The use of PARITY® facilities are at the sole risk of the prospective bidders. For further information regarding PARITY®, potential bidders may contact PARITY®, telephone (212) 404-8102. Notwithstanding the foregoing, non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

The successful bidder may elect to notify the Financial Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption on August 1 in accordance with the maturity schedule setting the actual size of the issue.

The DTC Book-Entry-Only-System will be utilized on delivery of this issue.

It is understood that the Corporation will furnish the final approving Legal Opinion of Steptoe & Johnson PLLC Bond Counsel, Louisville, Kentucky.

No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Bonds awarded by the close of business on the date following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery. Wire transfer procedures should be arranged through Farmer's State Bank, Booneville, Kentucky, Attn: \_\_\_\_\_ (606-593-5151).

Bids must be submitted only on this form and must be fully executed.

If we are the successful bidder, we agree to accept and make payment for the Bonds in Federal Funds within forty-five (45) days of the award and upon acceptance by the Issuer's Financial Advisor this Official Bid Form shall become the Bond Purchase Agreement.

Respectfully submitted,

\_\_\_\_\_  
Bidder

By \_\_\_\_\_  
Authorized Officer

\_\_\_\_\_  
Address

Total interest cost from August 1, 2018 to final maturity	\$ _____
Plus discount or less any premium	\$ _____
Net interest cost (Total interest cost plus discount)	\$ _____
Average interest rate or cost	_____ %

The above computation of net interest cost and of average interest rate or cost is submitted for information only and is not a part of this Bid.

Accepted by Ross, Sinclair & Associates, LLC, as Financial Advisor and Agent for the Owsley County School District Finance Corporation for \$ \_\_\_\_\_ amount of Bonds at a price of \$ \_\_\_\_\_ as follows:

<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>
2019	_____,000	_____ %	2029	_____,000	_____ %
2020	_____,000	_____	2030	_____,000	_____
2021	_____,000	_____	2031	_____,000	_____
2022	_____,000	_____	2032	_____,000	_____
2023	_____,000	_____	2033	_____,000	_____
2024	_____,000	_____	2034	_____,000	_____
2025	_____,000	_____	2035	_____,000	_____
2026	_____,000	_____	2036	_____,000	_____
2027	_____,000	_____	2037	_____,000	_____
2028	_____,000	_____	2038	_____,000	_____

Dated: July 19, 2018

ROSS, SINCLAIRE & ASSOCIATES, LLC,  
as Agent for the Owsley County  
School District Finance Corporation