

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2019

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Harlan County School District
Harlan, KY
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 Harlan County School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Harlan 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 Harlan County School District, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund, for the year then ended in 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, Schedules of the District's Proportionate Share of the Net Pension and OPEB Liability and Schedule of Contributions for CERS and KTRS and Medical and Life and Health Insurance Plans comparison information 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 Harlan 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 12, 2019, on our consideration of the Harlan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harlan County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harlan County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 12, 2019

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

As management of the Harlan 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, 2019. 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 \$6,153,508 of which \$3,720,471 was General Fund, \$2,433,037 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$11,588,764 of which \$4,997,668 was General Fund, \$6,591,096 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund. The ending fund balance for restricted funds this year was much greater due to receiving bond money in the amount of \$3,920,000 for the energy savings construction project.
- The ending cash balance was \$3,210,413 for General Fund.
- The General Fund Revenue (excluding transfers) totaled \$34,625,818 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures (excluding transfers) total \$32,621,169.
- 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.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Harlan County School District's basic financial statements. The District's basic financial statements are comprised of three components: 1) district-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 Harlan 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 Harlan 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 Harlan County School District is improving or deteriorating.

The statement of activities presents information showing how the Harlan 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.

The district-wide financial statements outline functions of the Harlan 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 exceeded liabilities by approximately \$6.5 million as of June 30, 2019. 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.

2019 District-Wide Governmental Net position compared to 2018 as follows:

Table 1
Net Position (in millions)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2018	2019	2018	2019	2018	2019	2018-19
Assets:							
Current and Other Assets	6.70	12.56	1.34	1.14	8.04	13.70	70%
Capital Assets	54.88	54.58	0.32	.26	55.20	54.84	-6%
Total Assets	61.58	67.14	1.66	1.40	63.24	68.54	8%
Deferred Outflows	6.76	5.98	.30	.26	7.06	6.24	-13%
Total Assets & Deferred Outflows	68.34	73.12	1.96	1.66	70.30	74.78	6%
Liabilities:							
Current Liabilities	4.85	5.37	.18	.05	5.03	5.42	7%
Noncurrent Liabilities	58.89	58.43	.96	1.04	59.85	59.47	-7%
Total Liabilities	63.74	63.80	1.15	1.09	64.89	64.89	0%
Deferred Inflows	1.76	3.26	.09	.12	1.85	3.38	82%
Total Liabilities & Deferred Inflows	65.49	67.06	1.24	1.21	66.73	68.27	2.3%
Invested in Capital Assets							
Net of Debt	18.88	17.89	0.32	.26	19.21	18.15	-5.8%
Restricted	2.43	6.59	0.40	.19	2.83	6.78	139%
Unrestricted Net Position	(18.12)	(18.43)			(18.12)	(18.43)	1.7%
Total Net Position	3.20	6.05	0.72	.45	3.92	6.5	66%

GOVERNMENTAL ACTIVITIES

Ending net position was \$6.50 million for the District.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2018-2019
	2018	2019	2018	2019	2018	2019	
Revenues:							
Charges for services	\$ 0.00	\$.00	\$.57	\$.48	\$.57	\$.48	-18%
Operating grants and contributions	15.63	6.90	3.39	3.33	19.02	10.23	-85%
Capital grants and contributions	3.2	3.30	.000	0.00	3.2	3.3	3%
General revenues	25.56	35.73	0.00	0.00	25.56	35.73	39%
Total revenue	44.39	45.93	3.96	3.81	48.35	49.74	3%
Expenses:							
Instruction	\$25.09	24.52			\$ 25.09	24.52	-2%
Student	2.02	2.12			2.02	2.12	4%
Instructional staff	1.56	1.51			1.56	1.51	3%
District administration	1.30	1.18			1.30	1.18	-10%
School administration	2.10	2.11			2.10	2.11	.4%
Business	.62	.61			.62	.61	-1%
Plant operation & maintenance	3.97	4.29			3.97	4.29	8%
Student transportation	2.68	2.63			2.68	2.63	-2%
Other instructional	0.00	0			0.00	0	0%
Community services operations	.52	.56			0.52	.56	7%
Building/Land Improvements	.02	.02			0.02	.02	0%
Amortization	.18	.18			0.18	.18	0%
Depreciation	1.99	2.28	.05	.06	2.04	2.34	14%
Interest on long-term debt	.90	1.08			.90	1.08	20%
Food Service Operations			3.78	3.89	3.78	3.89	3%
Extraordinary Item							0%
Debt Service							0%
Transfers			.18	.20	.18	.20	11%
Total Expenses	\$42.95	\$ 43.08	\$ 4.0	\$ 4.15	\$ 46.95	\$ 47.23	.5%
Change in net position	\$1.45 \$	2.86 \$	-.04 \$	-.28\$	1.41 \$	2.58 \$	83%

CAPITAL ASSETS

After depreciation, at the end of fiscal 2019, the District had \$ 54.84 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.35 million over last year.

Capital Assets at Year-End FY2019
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Land	1,947,472	2,014,472	-	-	1,947,472	2,014,472
Land and Improvements	355,698	290,608	-	-	355,698	290,608
Buildings & Improvements	49,208,478	47,922,854	-	-	49,208,479	47,922,854
Technology Equipment	489,717	500,683	1458	208	491,175	500,891
Vehicles	2,571,704	3,030,721	96,109	73,931	2,667,813	3,104,652
General Equipment	35,656	27,893	224,053	188,969	259,709	216,862
Construction In Progress	267,066	794,205	-	-	267,066	794,205

DEBT

Capital lease and general obligation debt increased \$.72 million from FY 2018.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2018	2019
Capital Lease Obligations	\$.74	\$.63
General Obligation Bonds	<u>35.04</u>	<u>36.06</u>
Total Obligations	\$ <u>35.78</u>	\$ <u>36.69</u>

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$4,997,668, which is more than last year's fund balance of \$3,720,471. The unassigned portion of the fund balance at the end of fiscal year 2019 is \$4,051,034 compared to \$3,020,254 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, 2019:

*Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	6,134,340	47,491		858,586			518,264
State Revenue Sources	28,390,561	1,523,815	334,577	968,957		1,992,217	551,362
Federal Revenue Sources	100,917	5,377,943					2,782,087
Other	5492				3,920,000		20,874
Transfers	203,502				1,691,094	1,951,000	4,000
TOTALS	34,834,812	6,949,249	334,577	1,827,543	5,611,094	3,943,217	3,876,587
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	18,312,360	5,156,374					
Student Support Services	1,988,182	130,211					
Instructional Staff Support Services	763,386	742,858					
District Admin Support	1181839						
School Admin Support	2,112,985						
Business Support Services	482,132	131,301					
Plant Operation & Management	4,221,625	105,825					
Student Transportation	3,437,445	95,678					
Food Service Operations							3,948,432
Community Services		560,254					
Debt Service	121,216				60,087	3,943,217	
Payment of Escrow							
Building Improvements		26,748			838,054		
Loss on Capital Assets							
Transfers	936,445			2,375,072	1		203,501
TOTALS	33,557,615	6,949,249	334,577	2,375,072	898,142	3,943,217	4,151,933
Excess / (Deficit)	1,277,197	0	0	(547,529)	4,712,952	0	(275,346)

Comments on Budget Comparisons

- The District's total general fund balance for the fiscal year ended June 30, 2019, is \$4,997,668 which is more than last year's fund balance of \$3,720,471.
- The districts total revenue, including "On-behalf" payments for general fund fiscal year ending June 30, 2019 was \$34,625,818, net of other financing sources, transfers and uses. Transfers into general fund were \$203,501.
- General fund budget compared to actual revenue varied slightly from line item to line item. The delinquent property tax budget line item was off by a large amount due to coal company assets not being reported in 2017-18. Thus, paying it in delinquent taxes for 2019-20. Also, property tax and PSC property tax was off by a slightly larger amount due to property tax rates being increased for the 2019-20 school year.
- The total cost of all general fund programs and services was \$33.55 million including transfers and "on-behalf" payments.

BUDGETARY IMPLICATIONS

By policy, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2019-2020 with a 7.09% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the "shared" KTRS and employer contribution rates for CERS, initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, reduced property tax collections, reduced unmined mineral tax collections and additional anticipated reductions in funding continues to press the district's ability to continue programs.
- Continued insufficient funding of the state transportation formula
- Continued maintenance on nine district school buildings

Questions regarding this report should be directed to the Finance Officer, Jody Gilliam or Superintendent, Brent Roark at (606) 573-4330 or by mail at Harlan County Board of Education, 251 Ball Park Road, Harlan, Kentucky 40831.

Harlan County School District
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 8,905,883	\$ 786,273	\$ 9,692,156
Investments	2,739,112	250,000	2,989,112
Receivables			
Taxes	338,681		338,681
Accounts	573,163		573,163
Inventories		99,518	99,518
Capital assets:			
Land and construction in progress	2,741,677		2,741,677
Other capital assets, net of depreciation	51,839,759	263,108	52,102,867
Total capital assets	<u>54,581,436</u>	<u>263,108</u>	<u>54,844,544</u>
Total assets	<u>67,138,275</u>	<u>1,398,899</u>	<u>68,537,174</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	3,401,904	209,765	3,611,669
Deferred outflows related to OPEB	1,479,643	53,925	1,533,568
Deferred savings from refunding bonds	1,098,278		1,098,278
Total deferred outflows of resources	<u>5,979,825</u>	<u>263,690</u>	<u>6,243,515</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>73,118,100</u>	<u>1,662,589</u>	<u>74,780,689</u>
LIABILITIES			
Accounts payable and accrued expenses	504,166	53,893	558,059
Accrued interest payable	488,560		488,560
Unearned revenue	142,048		142,048
Accrued salaries and benefit payable	321,861	20	321,881
Long-term liabilities:			
Due within 1 year:			
Bond obligations	3,180,000		3,180,000
Capital lease obligations	113,085		113,085
KSBIT payable	34,855		34,855
Total due within 1 year	<u>3,327,940</u>	<u>-</u>	<u>3,327,940</u>
Due in more than 1 year:			
Bond obligations	32,879,815		32,879,815
Capital lease obligations	520,465		520,465
KSBIT payable	34,855		34,855
Net pension liability	13,026,457	803,224	13,829,681
Net OPEB liability	11,722,413	234,152	11,956,565
Workers compensation liability	586,732		586,732
Sick leave	246,881		246,881
Total due in more than 1 year	<u>59,017,618</u>	<u>1,037,376</u>	<u>60,054,994</u>
Total liabilities	<u>63,802,193</u>	<u>1,091,289</u>	<u>64,893,482</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	1,185,727	73,113	1,258,840
Deferred inflows related to OPEB	2,078,788	48,576	2,127,364
Total deferred inflows of resources	<u>3,264,515</u>	<u>121,689</u>	<u>3,386,204</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>67,066,708</u>	<u>1,212,978</u>	<u>68,279,686</u>
NET POSITION			
Net investment in capital assets	17,888,071	263,108	18,151,179
Restricted for:			
Capital projects	6,587,839		6,587,839
District activities	3,257		3,257
Food services		186,503	186,503
Unrestricted (deficit)	<u>(18,427,775)</u>		<u>(18,427,775)</u>
Total net position	<u>6,051,392</u>	<u>449,611</u>	<u>6,501,003</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 73,118,100</u>	<u>\$ 1,662,589</u>	<u>\$ 74,780,689</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Activities
Year Ended June 30, 2019

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
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 24,518,972	\$ -	\$ 4,496,437	\$ -	\$ (20,022,535)		\$ (20,022,535)
Support Services							
Student	2,118,394	449	339,394		(1,778,551)		(1,778,551)
Instructional Staff	1,506,244		241,320		(1,264,924)		(1,264,924)
District Administration	1,181,839		189,346		(992,493)		(992,493)
School Administration	2,112,985		338,527		(1,774,458)		(1,774,458)
Business	613,433		98,280		(515,153)		(515,153)
Plant Operation & Maintenance	4,289,795	5,492	687,280	1,303,534	(2,293,489)		(2,293,489)
Student Transportation	2,630,349		421,415		(2,208,934)		(2,208,934)
Community Services Operations	560,254		89,760		(470,494)		(470,494)
Amortization	178,498				(178,498)		(178,498)
Depreciation*	2,283,389				(2,283,389)		(2,283,389)
Interest on general long-term debt	1,085,470			1,992,218	906,748		906,748
Total governmental activities	<u>43,079,622</u>	<u>5,941</u>	<u>6,901,758</u>	<u>3,295,752</u>	<u>(32,876,171)</u>		<u>(32,876,171)</u>
Business-type activities:							
Food service operations	3,889,919	480,752	3,333,450			\$ (75,717)	(75,717)
Depreciation	58,513					(58,513)	(58,513)
Total business-type activities	<u>3,948,432</u>	<u>480,752</u>	<u>3,333,450</u>	<u>-</u>	<u>-</u>	<u>(134,230)</u>	<u>(134,230)</u>
Total primary government	<u>\$ 47,028,054</u>	<u>\$ 486,693</u>	<u>\$ 10,235,208</u>	<u>\$ 3,295,752</u>	<u>(32,876,171)</u>	<u>(134,230)</u>	<u>(33,010,401)</u>
General revenues:							
Taxes:							
Property taxes					4,143,218		4,143,218
Motor vehicle taxes					592,521		592,521
Utility taxes					1,398,033		1,398,033
Unmined minerals tax					226,049		226,049
State and formula grants					28,491,478		28,491,478
Unrestricted investment earnings					413,118	20,874	433,992
Other local revenue					267,479	37,511	304,990
Transfers					199,501	(199,501)	-
Total general revenues and transfers					<u>35,731,397</u>	<u>(141,116)</u>	<u>35,590,281</u>
Change in net position					2,855,226	(275,346)	2,579,880
Net position - beginning					3,196,166	724,957	3,921,123
Net position - ending					<u>\$ 6,051,392</u>	<u>\$ 449,611</u>	<u>\$ 6,501,003</u>

*Unallocated depreciation that excludes depreciation which is included in the direct expenses of various programs, if any.

See the accompanying notes to the financial statements.

Harlan County School District
Balance Sheet
Governmental Funds
June 30, 2019

	Governmental Funds						Total
	General	Special Revenue	FSPK	Construction	Debt Service	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 3,210,413		\$ 388,875	\$ 5,301,506	\$ -	\$ 5,089	\$ 8,905,883
Investments	1,586,821		1,152,291				2,739,112
Interfund receivables	366,914						366,914
Receivables							
Taxes-current	239,278						239,278
Taxes-delinquent	99,403						99,403
Accounts	616	572,547					573,163
Total assets	5,503,445	572,547	1,541,166	5,301,506	-	5,089	12,923,753
LIABILITIES							
Accounts payable	183,916	63,585		256,665			504,166
Interfund payable		366,914					366,914
Accrued salaries & benefits payable	119,059						119,059
Payroll taxes payable	202,802						202,802
Unearned revenue		142,048					142,048
Total liabilities	505,777	572,547	-	256,665	-	-	1,334,989
FUND BALANCE							
Restricted			1,541,166	5,044,841		5,089	6,591,096
Committed	623,441						623,441
Assigned	323,193						323,193
Unassigned	4,051,034						4,051,034
Total fund balance	4,997,668	-	1,541,166	5,044,841	-	5,089	11,588,764
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,503,445	\$ 572,547	\$ 1,541,166	\$ 5,301,506	\$ -	\$ 5,089	\$ 12,923,753

See the accompanying notes to the financial statements.

Harlan County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2019

Fund balances-total governmental funds	\$	11,588,764
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		54,581,436
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		1,098,278
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		
Accrued interest payable		(488,560)
Bonds payable		(36,059,815)
KSBIT payable		(69,710)
Capital lease payable		(633,550)
Self insurance payable		(586,732)
Sick leave liability		(246,881)
Net pension liability		(13,026,457)
Net OPEB liability		(11,722,413)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions		3,401,904
Deferred outflows of resources related to OPEB		1,479,643
Deferred inflows of resources related to pensions		(1,185,727)
Deferred inflows of resources related to OPEB		(2,078,788)
		(2,078,788)
Net position of governmental activities	\$	6,051,392
		6,051,392

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>FSPK</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
From Local Sources							
Taxes							
Property	\$ 3,290,758	\$ -	\$ 852,460	\$ -	\$ -	\$ -	\$ 4,143,218
Motor vehicle	592,521						592,521
Unmined minerals	226,049						226,049
Utilities	1,398,033						1,398,033
Earnings on investments	401,547	5,445	6,126				413,118
Other local revenue	225,432	42,047					267,479
Student activities						449	449
Intergovernmental - state	28,390,561	1,523,815	968,957		1,992,218	334,577	33,210,128
Intergovernmental - federal	100,917	5,377,943					5,478,860
Total revenues	<u>34,625,818</u>	<u>6,949,250</u>	<u>1,827,543</u>	<u>-</u>	<u>1,992,218</u>	<u>335,026</u>	<u>45,729,855</u>
EXPENDITURES							
Instruction	18,312,360	5,156,374				5,214	23,473,948
Support Services							
Student	1,988,182	130,212					2,118,394
Instructional Staff	763,386	742,858					1,506,244
District Administration	1,181,839						1,181,839
School Administration	2,112,985						2,112,985
Business	482,132	131,301					613,433
Plant Operation & Maintenance	4,221,625	105,825				2,599	4,330,049
Student Transportation	3,437,444	95,678					3,533,122
Community Services Operations		560,254					560,254
Building Improvements		26,748		838,054			864,802
Debt Service	121,216			60,088	3,943,218		4,124,522
Total expenditures	<u>32,621,169</u>	<u>6,949,250</u>	<u>-</u>	<u>898,142</u>	<u>3,943,218</u>	<u>7,813</u>	<u>44,419,592</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,004,649	-	1,827,543	(898,142)	(1,951,000)	327,213	1,310,263
OTHER FINANCING SOURCES (USES)							
Sale or comp for loss of assets	5,492						5,492
Bond principal proceeds				3,920,000			3,920,000
Operating transfers in	203,501			1,691,094	1,951,000		3,845,595
Operating transfers (out)	(936,445)		(2,375,072)			(334,577)	(3,646,094)
Total other financing sources and (uses)	<u>(727,452)</u>	<u>-</u>	<u>(2,375,072)</u>	<u>5,611,094</u>	<u>1,951,000</u>	<u>(334,577)</u>	<u>4,124,993</u>
NET CHANGE IN FUND BALANCE	1,277,197	-	(547,529)	4,712,952	-	(7,364)	5,435,256
FUND BALANCE-BEGINNING	<u>3,720,471</u>	<u>-</u>	<u>2,088,695</u>	<u>331,889</u>	<u>-</u>	<u>12,453</u>	<u>6,153,508</u>
FUND BALANCE-ENDING	<u>\$ 4,997,668</u>	<u>\$ -</u>	<u>\$ 1,541,166</u>	<u>\$ 5,044,841</u>	<u>\$ -</u>	<u>\$ 5,089</u>	<u>\$ 11,588,764</u>

See the accompanying notes to the financial statements.

Harlan 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, 2019

Net change in fund balances-total governmental funds	\$	5,435,256
<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		(967,828)
<p>Governmental funds report district OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as pension expense.</p>		
District OPEB contributions less costs of benefits earned net employee contributions		(395,648)
<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>		
		(294,355)
<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>		
		(178,498)
<p>The premium paid on the sale of bonds is reported as revenue by current financial resources but is unearned, therefore it is deferred and amortized over the life of the bond on the statement of net position.</p>		
		20,231
<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>		
		(722,730)
<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		(178,449)
Self insurance payable		175,539
KSBIT payable		34,855
Noncurrent sick leave payable		(73,147)
		(73,147)
Change in net position of governmental activities	\$	<u><u>2,855,226</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 2,190,000	\$ 2,190,000	\$ 3,290,758	\$ 1,100,758
Motor vehicle	500,000	500,000	592,521	92,521
Unmined minerals	285,000	285,000	226,049	(58,951)
Utilities	1,450,000	1,450,000	1,398,033	(51,967)
Earnings on investments	10,000	10,000	401,547	391,547
Other local revenue			225,432	225,432
Intergovernmental - state	19,785,457	19,785,457	* 19,952,555	167,098
Intergovernmental - federal	50,000	50,000	100,917	50,917
Total revenues	<u>24,270,457</u>	<u>24,270,457</u>	<u>26,187,812</u>	<u>1,917,355</u>
EXPENDITURES				
Instruction	13,221,256	13,221,256	* 12,393,865	827,391
Support Services				
Student	1,510,745	1,510,745	* 1,417,505	93,240
Instructional Staff	759,283	759,283	* 631,457	127,826
District Administration	1,353,054	1,353,054	* 1,143,493	209,561
School Administration	1,443,770	1,443,770	* 1,574,602	(130,832)
Business	501,922	501,922	* 427,461	74,461
Plant Operation & Maintenance	3,748,133	3,748,133	* 3,767,912	(19,779)
Student Transportation	2,905,469	2,905,469	* 2,705,652	199,817
Debt Service	112,500	112,500	121,216	(8,716)
Total expenditures	<u>25,556,132</u>	<u>25,556,132</u>	<u>24,183,163</u>	<u>1,372,969</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(1,285,675)	(1,285,675)	2,004,649	3,290,324
OTHER FINANCING SOURCES (USES)				
Sale or comp for loss of assets			5,492	5,492
Operating transfers in	150,000	150,000	203,501	53,501
Operating transfers (out)			(936,445)	(936,445)
Total other financing sources and (uses)	<u>150,000</u>	<u>150,000</u>	<u>(727,452)</u>	<u>(877,452)</u>
NET CHANGE IN FUND BALANCE	(1,135,675)	(1,135,675)	1,277,197	2,412,872
FUND BALANCE-BEGINNING	<u>3,094,102</u>	<u>3,094,102</u>	<u>3,720,471</u>	<u>626,369</u>
FUND BALANCE-ENDING	<u>\$ 1,958,427</u>	<u>\$ 1,958,427</u>	<u>\$ 4,997,668</u>	<u>\$ 3,039,241</u>

* 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 \$8,438,006.

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Earnings on investments	\$	\$ -	\$ 5,445	\$ 5,445
Other local revenue			42,047	42,047
Intergovernmental - state	1,574,207	1,862,144	1,523,815	(338,329)
Intergovernmental - federal	5,400,183	5,400,183	5,377,943	(22,240)
Total revenues	<u>6,974,390</u>	<u>7,262,327</u>	<u>6,949,250</u>	<u>(313,077)</u>
EXPENDITURES				
Instruction	5,463,011	5,750,948	5,156,374	594,574
Support Services				
Student	144,394	144,394	130,212	14,182
Instructional Staff	706,960	706,960	742,858	(35,898)
Business			131,301	(131,301)
Student Transportation	12,770	12,770	95,678	(82,908)
Community Services Operations	560,256	560,256	560,254	2
Plant Operations & Maintenance	86,000	86,000	105,825	(19,825)
Building Improvements			26,748	(26,748)
Total expenditures	<u>6,973,391</u>	<u>7,261,328</u>	<u>6,949,250</u>	<u>312,078</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	999	999	-	(999)
OTHER FINANCING SOURCES (USES)				
Operating transfers in				-
Operating transfers out				-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	999	999	-	(999)
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ 999</u>	<u>\$ 999</u>	<u>\$ -</u>	<u>\$ (999)</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Net Position
Proprietary Fund
June 30, 2019

	<u>School Food Services</u>
ASSETS	
Cash and cash equivalents	\$ 786,273
Investments	250,000
Inventories	99,518
Capital assets:	
Other capital assets, net of depreciation	263,108
Total assets	<u>1,398,899</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	209,765
Deferred outflows related to OPEB	53,925
Total deferred outflows of resources	<u>263,690</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>1,662,589</u></u>
LIABILITIES	
Accounts payable	53,893
Accrued salaries & benefits payable	20
Net pension liability	803,224
Net OPEB liability	234,152
Total liabilities	<u>1,091,289</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	73,113
Deferred inflows related to OPEB	48,576
Total deferred inflows of resources	<u>121,689</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>1,212,978</u>
NET POSITION	
Net Investment in capital assets	263,108
Restricted	186,503
Total net position	<u>449,611</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 1,662,589</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
Year Ended June 30, 2019

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	480,752
Other revenue from local sources		37,511
Total operating revenues		<u>518,263</u>
OPERATING EXPENSES		
Depreciation		58,513
Food service operations		
Employee services		1,679,606
Operational expenses		2,210,313
Total operating expenses		<u>3,948,432</u>
Operating income (loss)		<u>(3,430,169)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,782,088
State grants		551,362
Transfers		(199,501)
Earnings from investments		20,874
Total nonoperating revenues (expenses)		<u>3,154,823</u>
CHANGE IN NET POSITION		(275,346)
NET POSITION-BEGINNING		<u>724,957</u>
NET POSITION-ENDING	\$	<u>449,611</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2019

Enterprise Fund

**School
Food
Services**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$	518,263
Payments to suppliers		(2,216,553)
Payments to employees		(1,679,606)
Net cash provided (used) by operating activities		<u>(3,377,896)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds		(199,501)
Operating grants and contributions		3,333,450
Net cash provided (used) by noncapital financing activities		<u>3,133,949</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest		20,874
Net cash provided (used) by investing activities		<u>20,874</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (223,073)

CASH AND CASH EQUIVALENTS-BEGINNING 1,009,346

CASH AND CASH EQUIVALENTS-ENDING \$ 786,273

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

Operating income (loss)	\$	(3,430,169)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		58,513
Changes in assets and liabilities:		
Inventory		(19,495)
Deferrals		41,032
Deferrals		29,474
Pension liability		85,120
OPEB liability		(12,484)
Payables		(129,887)
Net cash provided (used) by operating activities	\$	<u>(3,377,896)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$163,819 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 \$529,023 provided by state government.

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2019

	<u>School Activity Funds</u>
ASSETS	
Cash and cash equivalents	\$ 417,488
Accounts receivable	<u>5,045</u>
Total Assets	<u><u>422,533</u></u>
LIABILITIES	
Accounts payable	4,623
Due to student groups	<u>417,910</u>
Total Liabilities	<u><u>\$ 422,533</u></u>

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Harlan 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 Harlan 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 Harlan 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

The Board authorized establishment of the Harlan 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 Harlan 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 statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) District Activity Fund

The District Activity Fund is a Special Revenue Fund type and is used to account for funds collected at individual schools for operation costs of the schools or school district that allows for more flexibility in the expenditures of those funds.

(D) 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. This is a major fund of the District.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are stated at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying value, which reasonably estimates fair value.

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.

Land and construction in progress are not depreciated. The other property, plant and equipment of the district are depreciated using the straight-line method over the following estimated useful lives:

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 and OPEB 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, committed, and assigned resources first, then unassigned resources as they are needed.

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 are 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, 2019, to finance the General Fund operations were \$.548 per \$100 valuation of real property, \$.548 per \$100 valuation for business personal property and \$.464 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of 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)

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The amounts of such services and donated commodities are recorded in the accompanying financial statements at their estimated fair market values.

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 three types of deferred outflows – contributions to the CERS’s pension and OPEB plans 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 the appropriate period. The District reports two types of deferred inflows related to the net difference projected and actual earnings on pension and OPEB 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Postemployment Benefits Other Than OPEBs (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS), and the County Retirement System of Kentucky (CERS), and additions to/deductions from TRS's/CERS's fiduciary net position have been determined on the same basis as they are reported by TRS/CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Bond and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

New Pronouncements

GASB issued Statement No. 83, *Certain Asset retirement Obligations*, effective for the District's fiscal year ending June 30, 2019.

GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, effective for the District's fiscal year ending June 30, 2019.

The adoption of GASB Statement Numbers 83 and 88 did not have an impact on the District's financial position or results of operations.

The District will adopt the following new accounting pronouncements in future years:

GASB issued Statement No. 84, *Fiduciary Activities*, effective for the District's fiscal year ending June 30, 2020.

GASB issued Statement No. 87, *Leases*, effective for the District's fiscal year ending June 30, 2021.

GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for the District's fiscal year ending June 30, 2020.

The impact of these pronouncements on the District's financial statement has not been determined.

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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 \$10,109,644. The bank balance for the same time was \$11,855,155.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Program (FSPK/Building) Fund, Special Revenue (Grant) Fund, Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

Investments
June 30, 2019

Investments	Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	10 or More
Market Linked Certificate of Deposits	N/R	\$ 312,600	\$ -	\$ 312,600	\$ -
Certificate of Deposit	N/R	100,125	100,125	-	-
Certificate of Deposit	N/R	250,310	250,310	-	-
Certificate of Deposit	N/R	250,748	250,748	-	-
Certificate of Deposit	N/R	5,013	5,013	-	-
Federal Home Ln Mtg Corp Debt	Aaa	2,062,551	-	2,062,551	-
Total		2,981,347	\$ 606,196	\$ 2,375,151	\$ -
Money Market Funds		7,765			
Total Investments		\$ 2,989,112			

Risks and Uncertainties – the District invest in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level or risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

Interest Rate Risk – the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

Credit Risk – Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery of purchase obligations backed by the full fair and credit of the United States or its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District’s investments are in Market Linked Certificate of Deposits, 13%, Federal Natl Mtg Assn Medium Term NTS, 30%, and Federal Home Ln Mtg Corp Debt, 57%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Custodial Credit Risk – the District’s certificate of deposit investments are 100% FDIC insured and the balance of the investments are secured as US Government Bonds.

Fair Value Measurement – The District’s investments are measured and reported at fair value and classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in market that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources.

Investments by Fair Value Level:

	Fair Value		Level 1
Certificates of Deposit	\$ 918,796	\$	918,796
U.S. Bonds	<u>2,062,551</u>		<u>2,062,551</u>
Total Investments by Fair Value Level	<u>2,981,348</u>		<u>2,981,348</u>
Money Market Funds	<u>7,765</u>		<u>7,765</u>
Total Investments	<u>\$ 2,989,112</u>	\$	<u>2,989,112</u>

NOTE C – CAPITAL ASSETS

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

SEE TABLE ON FOLLOWING PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Land	\$ 1,947,472	\$ 67,000	\$ -	\$ 2,014,472
Land improvements	1,301,811		-	1,301,811
Buildings	74,024,349	310,916	-	74,335,265
Technology equipment	4,089,758	181,205	-	4,270,964
Vehicles	9,076,932	902,773	299,575	9,680,130
General equipment	636,270	-	-	636,270
Construction in progress	267,066	838,055	310,916	794,205
Total at historical cost	<u>\$ 91,343,657</u>	<u>\$ 2,299,950</u>	<u>\$ 610,491</u>	<u>\$ 93,033,116</u>
Less: Accumulated depreciation				
Land improvements	\$ 946,113	\$ 65,091	\$ -	\$ 1,011,203
Buildings	24,815,870	1,596,540	-	26,412,410
Technology equipment	3,600,041	170,239	-	3,770,280
Vehicles	6,505,228	443,756	299,575	6,649,409
General equipment	600,614	7,762	-	608,376
Total accumulated depreciation	<u>\$ 36,467,866</u>	<u>\$ 2,283,389</u>	<u>\$ 299,575</u>	<u>\$ 38,451,680</u>
Governmental Activities				
Capital Assets-net	<u>\$ 54,875,791</u>	<u>\$ 16,561</u>	<u>\$ 310,916</u>	<u>\$ 54,581,436</u>
<u>Business-Type Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Technology equipment	77,540	-	-	77,540
Vehicles	110,896	-	-	110,896
General equipment	1,001,030	-	3,649	997,381
Total at historical cost	<u>\$ 1,189,466</u>	<u>\$ -</u>	<u>\$ 3,649</u>	<u>\$ 1,185,817</u>
Less: Accumulated depreciation				
Technology equipment	76,082	1,250	-	77,332
Vehicles	14,786	22,179	-	36,965
General equipment	776,977	35,084	3,649	808,412
Total accumulated depreciation	<u>\$ 867,845</u>	<u>\$ 58,513</u>	<u>\$ 3,649</u>	<u>\$ 922,709</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 321,621</u>	<u>\$ (58,513)</u>	<u>\$ -</u>	<u>\$ 263,108</u>

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

NOTE D – DEBT OBLIGATIONS

Bonds

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 Harlan County School District Finance Corporation.

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 Fiscal Court 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, maturity dates, and outstanding balances, at June 30, 2019 are summarized below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2018</u>			<u>2019</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2000B	\$ 775,000	12/1/2020	4.5 - 5.2%	\$ 160,000	\$ -	\$ 55,000	\$ 105,000
2012R	2,990,000	6/1/2024	.90 - 2.0%	1,785,000	-	290,000	1,495,000
2015R	26,635,000	8/1/2026	2.0 - 3.0%	21,810,000	-	1,665,000	20,145,000
2016R	4,225,000	8/1/2030	2-2.5%	4,010,000	-	185,000	3,825,000
2008	2,880,000	8/1/2018	2.0 - 3.2%	355,000	-	355,000	-
2009R	1,400,000	2/1/2019	2.2 - 3.35%	285,000	-	285,000	-
2012B R	1,955,000	12/1/2024	1.0 - 2.125%	1,235,000	-	110,000	1,125,000
2011	2,085,000	6/1/2031	3.2 - 4.25%	2,015,000	-	10,000	2,005,000
2012	2,350,000	6/1/2033	3.375%	2,320,000	-	5,000	2,315,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	895,000	-	50,000	845,000
2012	229,900	6/1/2022	2.0 - 3.0%	117,000	-	19,000	98,000
2009R	492,220	12/1/2018	1.0-3.25%	57,367	-	57,367	-
2019	3,920,000	5/1/2029	3.0-3.125%	-	3,920,000	-	3,920,000
				\$35,044,367	\$ 3,920,000	\$ 3,086,367	\$ 35,878,000
Add:	Premium			245,007	-	27,448	217,559
Less:	Discount			(43,881)	-	(8,137)	(35,744)
Totals				\$35,245,493	\$ 3,920,000	\$ 3,105,678	\$ 36,059,815

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

<u>Fiscal</u> <u>Year Ended</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,537,224	\$ 1,642,776	\$ 604,487	\$ 291,959	\$ 3,180,000	\$ 896,446
2021	1,584,977	1,655,023	579,008	257,232	3,240,000	836,240
2022	1,621,194	1,646,806	546,007	222,986	3,268,000	768,994
2023	1,665,642	1,659,358	512,020	189,427	3,325,000	701,448
2024	1,703,644	1,691,356	476,126	155,144	3,395,000	631,269
2025-2029	8,375,614	4,454,386	1,661,850	252,303	12,830,000	1,914,153
2030-2034	4,683,627	376,373	574,980	18,130	5,060,000	593,110
2035-2039	1,580,000	-	146,800	-	1,580,000	146,800
	\$ 22,751,922	\$ 13,126,078	\$ 5,101,279	\$ 1,387,181	\$ 35,878,000	\$ 6,488,460

Workers Compensation Liability

The District participates in a self insurance plan for worker’s compensation. The District provides coverage up to the retention factor of \$450,000 per occurrence. Claims in excess of that amount are

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

covered 100% by an outside insurer for workers' compensation claims. The activity during fiscal year 2019 for workers compensation liability is as follows:

	2018	Claims & Changes	Claims	2019
	Outstanding	In Estimates	Payments	Outstanding
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Workers Compensation Liability	\$ 762,271	\$ 18,260	\$ 193,799	\$ 586,732
Totals	\$ 762,271	\$ 18,260	\$ 193,799	\$ 586,732

KSBIT

The District elected to take advantage of the 0% interest option repayment plan for the worker's compensation with the now defunct Kentucky School Board Insurance Trust. The repayment plan required the District to pay 25% of the worker's compensation deficit during fiscal year 2018 with the remaining balance to be repaid over the next six years. The activity during fiscal year 2019 for the worker's compensation deficit is as follows:

<u>Insurance Fund</u>	2018	2019
	Outstanding	Outstanding
	<u>Balance</u>	<u>Balance</u>
	<u>Additions</u>	<u>Retirements</u>
KSBIT	\$ 104,565	\$ 69,710
	\$ -	\$ 34,855

The minimum payments are as follows:

	Year Ended
	June 30,
2020	34,855
2021	34,855
Total	\$ 69,710

Accumulated Sick Leave

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 the fiscal year 2019 for accumulated sick leave is as follows:

	2018	2019
	Outstanding	Outstanding
	<u>Balance</u>	<u>Balance</u>
	<u>Additions</u>	<u>Retirements</u>
Sick Leave	\$ 173,734	\$ 246,881
	\$ 73,147	\$ -
Totals	\$ 173,734	\$ 246,881

Net Pension & OPEB Liability

The net pension liability is \$13,026,457 for governmental activities and \$803,224 for business-type activities for a total of \$13,829,681 as of June 30, 2019. (See Note G for additional information) The net OPEB liability is \$11,722,413 for governmental activities and \$234,152 for business-type activities for a total of \$11,956,565 as of June 30, 2019. (See Note I for additional information)

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Description</u>	<u>2018 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019 Outstanding Balance</u>	<u>Amount Due in 1 Year</u>
Bonds, Net Premium and Discount	\$ 35,245,493	\$ 3,920,000	\$ 3,105,678	\$ 36,059,815	3,180,000
Capital Lease (See Note E)	745,373	-	111,823	633,550	113,085
Worker's Compensation Liability	762,271	18,260	193,799	586,732	-
KSBIT	104,565	-	34,855	69,710	34,855
Sick Leave	173,734	73,147	-	246,881	-
Net Pension Liability	13,520,848	308,833	-	13,829,681	-
Net OPEB Liability	13,296,790	-	1,340,225	11,956,565	-
Totals	<u>\$ 63,849,074</u>	<u>\$4,320,240</u>	<u>\$4,786,380</u>	<u>\$ 63,382,934</u>	<u>3,327,940</u>

NOTE E – CAPITAL LEASE PAYABLE

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

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2018 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019 Outstanding Balance</u>
2012	\$ 176,231	3/1/2022	2.0 - 2.625%	\$ 68,542	\$ -	\$ 18,084	\$ 50,458
2013	433,036	3/1/2023	2.0%	211,525	-	43,780	167,745
2018	465,306	3/1/2028	2-3%	465,306	-	49,959	415,347
Totals				<u>\$ 745,373</u>	<u>\$ -</u>	<u>\$ 111,823</u>	<u>\$ 633,550</u>

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, 2019:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total Payments</u>
2020	113,085	8,275	121,360
2021	104,692	14,242	118,934
2022	99,187	11,637	110,824
2023	84,941	9,106	94,047
2024	47,322	6,240	53,562
2025-2028	184,323	10,710	195,033
	<u>\$ 633,550</u>	<u>\$ 60,209</u>	<u>\$ 693,759</u>

Total minimum lease payments \$ 693,759
Less: Amount representing interest (60,209)

Present Value of Net Minimum
Lease Payments \$ 633,550

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The assets acquired through the capital leases are as follows:

	Governmental Activities
Buses	\$ 1,035,965
Less accumulated depreciation	(339,476)
Total	<u>\$ 696,489</u>

NOTE F – COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provided for the minimum future rental payments as of June 30, 2019 are as follows:

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2020	80,973
2021	10,428
2022	6,915
Total	<u>\$ 98,316</u>

Expenditures for equipment under operating leases for the year ended June 30, 2019 totaled \$105,473.

NOTE G – RETIREMENT PLANS

The District’s employees are provided with two pension plans, based on each position’s college degree requirement. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification.

Teachers Retirement System Kentucky (TRS)

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, 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 system 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. TRS 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.

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 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Funding policy—In order to fund the post-retirement healthcare benefit, seven and one half percent (7.50%) of the gross annual payroll of members is contributed. Three point seventy-five percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) 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 TRS

At June 30, 2019 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 TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of KTRS net pension liability	\$	-
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>57,699,901</u>
	\$	<u><u>57,699,901</u></u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June, 30, 2019, the District’s proportion was 0.4404%.

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

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	27.4 years

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	7.50%
Municipal Bond Index Rate	3.89%
Projected Salary Increase	3.50 – 7.30%, includes wage inflation of 3.50%
Investment Rate of Return	7.5%, includes price inflation of 3.00%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Municipal Bond Index Rate increased to 3.89%.
- Single Equivalent Interest Rate increased to 7.50%.

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of 1 year for females and 2 years for males). The most recent experience study based on the results from July 1, 2010 – June 30, 2015 adopted by the Board on September 19, 2016.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.0%	4.4%
Non U.S. Equity	22.0%	5.3%
Fixed Income	15.0%	1.5%
Additional Categories	8.0%	3.6%
Real Estate	6.0%	4.4%
Alternatives	7.0%	6.7%
Cash	2.0%	0.8%
Total	100.0%	

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 plan member contributions will be made at the current contribution rates and the employer contributions will be made at the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	6.50%	7.50%	8.50%
Commonwealth's proportionate share of net pension liability	\$ 73,922,470	\$ 57,669,901	\$ 43,995,536

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

County Employees Retirement System

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

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

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

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2019, employers were required to contribute 21.48% of the member’s salary. During the year ending June 30, 2019, the District contributed \$1,165,930 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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%.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 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, 2018. At June 30, 2019, the District’s proportion was 0.227077%.

District's proportionate share of CERS net pension liability	\$	13,829,681
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>-</u>
	\$	<u>13,829,681</u>

For the year ended June 30, 2019, the District recognized pension expense of \$1,082,339. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 451,086	202,437
Changes of assumptions	1,351,562	-
Net difference between projected and actual earnings on pension plan investments	643,091	808,916
Changes in proportion and differences between District contributions and proportionate share of contributions	-	247,487
District contributions subsequent to the measurement date	<u>1,165,930</u>	<u>-</u>
	<u>\$ 3,611,669</u>	<u>\$ 1,258,840</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The \$1,165,930 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, 2020.

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:

		Year Ended June 30,
2020	\$	973,279
2021		473,353
2022		(185,507)
2023		(74,226)
	\$	<u>1,186,899</u>

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation as of June 30, 2018, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	35.0%	5.85%
Combined Fixed Income	24.0%	6.69%
Global Bond	4.0%	3.00%
Real Return (Diversified Inflation Strategies)	10.0%	7.00%
Real Estate	5.0%	9.00%
Absolute Return (Diversified Hedge Funds)	10.0%	5.00%
Private Equity	10.0%	6.50%
Cash Equivalent	2.0%	1.50%
	<u>100.0%</u>	

Discount rate: The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. 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 6.25%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 17,410,137	\$ 13,829,681	\$ 10,829,887

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, 2019, there are no payables to CERS.

NOTE H – ACCOUNTING STANDARDS STATEMENT NO. 75

Government Accounting Standards Board (GASB) Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than OPEB's, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

Reporting under GASB 75 is effective for fiscal years commencing after June 15, 2017.

NOTE I – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

The District's employees participate in retirement systems of either TRS or CERS as described earlier. The following describes the postemployment benefits other than OPEB for both systems.

TRS – General Information about the OPEB Plans

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

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

Retiree Medical Plan funded by the Medical Insurance Fund

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

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

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

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

At June 30, 2019, the District reported a liability of \$7,925,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .228409 percent.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of KTRS net OPEB liability	\$	7,925,000
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		6,830,000
	\$	14,755,000

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	\$	756,000
Changes of assumptions		203,000		-
Net difference between projected and actual earnings on pension plan investments		-		60,000
Changes in proportion and differences between District contributions and proportionate share of contributions		-		475,000
District contributions subsequent to the measurement date		402,096		-
	\$	605,096	\$	1,291,000

The \$402,096 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 collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

		Year Ended June 30,
2020	\$	(212,000)
2021		(212,000)
2022		(212,000)
2023		(185,000)
2024		(190,000)
Thereafter		(77,000)
	\$	(1,088,000)

Changes of Benefit Terms - None

Changes of Assumptions- The amortization period decreased to 23 years and the Municipal Bond Index Rate increased to 3.89%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	23 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.0%, includes price inflation
Inflation	3.0%
Real Wage Growth	.50%
Wage Inflation	3.50%
Salary Increase	3.50 to 7.20%, including wage inflation
Discount Rate	8.0%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of 1 year for females and 2 years for males). The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
High Yield	20.0%	3.3%
Cash	1.0%	0.9%
	<hr/> 100.0%	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Discount Rate: The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projections basis was an actuarial valuation performed as of June 30, 2017. In addition to actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 3.50%.
- For the retiree health care costs of those beneficiaries under age 65, the KEHP implicit rate subsidies were assumed to be paid in all years by the employer directly to plan members as the benefits come due.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Cash flows occur mid-year.

Future contributions to the MIF were based upon the contribution rates defined in statute and the projected payroll of active employees. Per KRS 161.540(1)(c).3 and 161.550(5), when the MIF achieves a sufficient prefunded status, as determined by the retirement system's actuary, the following MIF statutory contributions are to be decreased, suspended, or eliminated:

- Employee Contributions
- School District/ University Contributions
- State Contributions for KEHP premium subsidies payable to retirees who retire after June 30, 2010

To reflect these adjustments, open group projections were used and assumed an equal, pro rata reduction to the current statutory amount in the years if/when the MIF is projected to achieve a Funded Ratio of 100% or more. Here, the current statutory amounts are adjusted to achieve total contributions equal to the Actuarially Determined Contribution (ADC), as determined by the prior year's valuation and in accordance with the MIF's funding policy (Schedule E). As the specific methodology to be used for the adjustments has yet to be determined, there may be differences between the projected results and future experience. This may also include any changes to retiree contributions for KEHP coverage pursuant to KRS 161.675(4)(b).

In developing the adjustments to the statutory contributions in future years the following was assumed:

- Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.
- A 0% active member growth rate was assumed for the purposes of developing estimates for new entrants (membership dates beyond June 30, 2016).

Based on these assumptions, the MIF's fiduciary net position was not projected to be depleted.

The following table presents the net OPEB liability of the Commonwealth associated with the District, calculated using the discount rate of 8.00%, as well as what the Commonwealth's net OPEB liability

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's & State's proportionate share of net OPEB liability	\$ 17,302,000	\$ 14,755,000	\$ 12,633,000

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

	1% Decrease	Current Trend Rate	1% Increase
District's & State's proportionate share of net OPEB liability	\$ 12,235,000	\$ 14,755,000	\$ 17,864,000

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

Other Post Employment Benefits Liabilities related to the Life Insurance Plan funded by - Life Insurance Plan (LIF)

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

Benefits provided - Effective July 1, 2000, the Kentucky Teachers' Retirement System shall:

- Provide a life insurance benefit in a minimum amount of five thousand dollars (\$5,000) for its members who are retired for service or disability. This life insurance benefit shall be payable upon the death of a member retired for service or disability to the member's estate or to a party designated by the member on a form prescribed by the retirement system; and
- Provide a life insurance benefit in a minimum amount of two thousand dollars (\$2,000) for its active contributing members. This life insurance benefit shall be payable upon the death of an active contributing member to the member's estate or to a party designated by the member on a form prescribed by the retirement system.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Note: Members employed on a substitute or part-time basis and working at least 69% of a full contract year in a single fiscal year will be eligible for a life insurance benefit for the balance of the fiscal year or the immediately succeeding fiscal year under certain conditions. For non-vested members employed on a substitute or part-time basis, the life insurance benefit is provided if death occurs as the result of a physical injury on the job. For vested members employed on a substitute or part-time basis, death does not have to be the result of a physical injury on the job for life insurance benefits to be provided.

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

At June 30, 2019, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of KTRS net OPEB liability	\$	-
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		117,000
		<u>117,000</u>
	\$	<u>117,000</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$253,771 and revenue of \$253,771 for support provided by the State.

Changes of Benefit Terms— Discount rate decreased to 7.5%. Amortization method changed from open to closed. Municipal bond interest rate increased to 3.89%. Inflation increased to 3.5%. Wage inflation increased to 4.0%.

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

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.5%
Real Wage Growth	.50%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Wage Inflation	4.00%
Salary Increase	4.00-8.10%, including wage inflation
Discount Rate	8.0%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Amortization period switched to closed.
- Projected salary increases increased to 4%.
- Inflation rate increased to 3.5%.
- Wage inflation increased to 4%.
- Municipal Bond Index Rate increased to 3.89%.

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of 1 year for females and 2 years for males). The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Other Additional Categories	6.0%	3.3%
Cash	2.0%	0.9%
	100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 8.0%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projections basis was an actuarial valuation performed as of June 30, 2018. In addition to actuarial methods and assumptions were used in the projection of cash flows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 4.00%.
- The employer will contribute the Actuarially Determined Contribution (ADC) in accordance with the funds funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Active employees do not explicitly contribute to the plan.
- Cash flows occur mid-year.

Based on these assumptions, the LIF’s fiduciary net position was not projected to be depleted.

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

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 178,000	\$ 117,000	\$ 67,000

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

CERS – General Information about the OPEB Plans

Other Pension Benefit Programs-Employees’ Health Plan

Plan description – 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%.

Benefits provided – Post Retirement Death Benefits – members with a least 4 years creditable service the System will pay a \$5,000 death benefit. Insurance benefits as described above.

Contributions - Requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above. Current employees pay 1% toward the insurance fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2019 was as follows:

Total medical benefit obligation	\$ 3,092,623
Net position available for benefits at actuarial value	<u>(2,371,430)</u>
Unfunded medical benefit obligation	<u>\$ 721,193</u>

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

At June 30, 2019, the District reported a liability of \$4,031,565 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .22706900 percent.

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

District's proportionate share of net OPEB liability	\$ 4,031,565
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>-</u>
	<u>\$ 4,031,565</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$170,508. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	469,825
Changes of assumptions	805,163	9,315
Net difference between projected and actual earnings on pension plan investments	-	277,696
Changes in proportion and differences between District contributions and proportionate share of contributions	-	79,528
District contributions subsequent to the measurement date	<u>123,309</u>	<u>-</u>
	<u>\$ 928,472</u>	<u>\$ 836,364</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The \$123,309 (includes \$65,037 Implicit Subsidy) 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 collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	<u>Year Ended June 30,</u>
2020	\$ (1,049)
2021	(1,049)
2022	(1,049)
2023	52,884
2024	(50,392)
Thereafter	<u>(30,546)</u>
	<u>\$ (31,201)</u>

Implicit Employer Subsidy- The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

*Changes of Benefit Terms-*None

*Changes of Assumptions-*There have been no changes in actuarial assumption since June 30, 2017.

*Actuarial Methods and Assumptions—*The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. Future contributions from plan members and employers will be made with the Board’s current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and actuarial assumptions adopted by the Board.

The following table presents the net OPEB liability of the District, calculated using the discount rate of 5.85%, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS District's proportionate share of net OPEB liability	\$ 5,236,357	\$ 4,031,565	\$ 3,005,303

Sensitivity of the District’s proportionate share of net OPEB 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 5.85%, 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 (4.85%) or 1-percentage-point higher (6.85%) than the current rate:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 3,001,540	\$ 4,031,565	\$ 5,245,668

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

NOTE J – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 5,044,841	Future Construction
Capital Outlay	1,832	School Facilities Construction Commission Requirement
FSPK	1,541,166	School Facilities Construction Commission Requirement
District Activity	3,257	School Activity
Food Service	\$ 186,503	School Food Service Operations

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 various other legal actions in various stages of litigation and has been turned over to the District's insurance companies. At this time, it appears they are to be paid by insurance coverage.

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.

NOTE N – DEFICIT FUND AND OPERATING BALANCES

The following funds had a deficit change in fund balance/net position and/or deficit fund balance/net position:

<u>Fund</u>		<u>Deficit change in Fund Balance / Net Position</u>
FSPK Fund	\$	(547,529)
District Activity		(7,364)
Business-Type Activities	\$	(275,346)

NOTE O - 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt Payments	334,577
Debt Service	Building Fund	Debt Service Fund	Debt Payments	1,616,423
Operations	Food Service Fund	General Fund	Indirect Costs	203,501
Operations	General Fund	Food Service Fund	Operations	4,000
Construction	General Fund	Construction Fund	Construction	932,444
Construction	Building Fund	Construction Fund	Construction	758,650

NOTE Q – ON-BEHALF PAYMENTS

For fiscal year 2019, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 & 75)	\$ 4,533,326
Health Insurance	4,530,776
Life Insurance	7,433
Administrative Fee	61,910
HRA/Dental/Vision	232,862
Federal Reimbursement	(491,178)
Technology	91,900
KISTA Capital Lease Payments	58,299
SFCC Debt Service Payments	<u>1,933,918</u>
Total	<u>\$ 10,959,246</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 R – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 12, 2019, the date the financial statements were available to be issued.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS and KTRS
For the Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Districts' proportion of the net pension liability	0.22708%	0.23100%	0.235920%	0.24140%
District's proportionate share of the net pension liability	\$ 13,829,681	\$ 13,520,848	\$ 11,615,978	\$ 10,443,302
State's proportionate share of the net pension liability associated with the District	-	-	-	-
Total	<u>\$ 13,829,681</u>	<u>\$ 13,520,848</u>	<u>\$ 11,615,978</u>	<u>\$ 10,443,302</u>
District's covered-employee payroll	\$ 5,631,180	\$ 5,627,919	\$ 5,711,804	\$ 5,528,321
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	245.59%	240.25%	203.37%	188.91%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	59.00%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Districts' proportion of the net pension liability	0.440%	0.458%	0.454%	0.457%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	57,669,901	123,534,828	133,984,475	106,334,109
Total	<u>\$ 57,669,901</u>	<u>\$ 123,534,828</u>	<u>\$ 133,984,475</u>	<u>\$ 106,334,109</u>
District's covered-employee payroll	\$ 16,503,511	\$ 17,226,254	\$ 17,201,367	\$ 16,830,584
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	39.80%	35.22%	42.29%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
CERS and KTRS
For the Year Ended June 30, 2019

	2019	2018	2017	2016
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Contractually required contribution	\$ 1,165,930	\$ 1,029,296	\$ 1,065,710	\$ 974,431
Contributions in relation to the contractually required contributions	1,165,930	1,029,296	1,065,710	974,431
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919	\$ 5,711,804
District's contributions as a percentage of it's covered-employee payroll	20.46%	18.28%	18.94%	17.06%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	-	-	-	-
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 16,672,673	\$ 16,503,511	\$ 17,226,254	\$ 17,201,367
District's contributions as a percentage of it's covered-employee 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. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
 For the year ended June 30, 2019

(1) CHANGES OF ASSUMPTIONS

KTRS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Municipal Bond Index Rate increased to 3.89%.
- Single Equivalent Interest Rate increased to 7.50%.

CERS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

(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:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	7.50%
Municipal Bond Index Rate	3.89%
Projected Salary Increase	3.50 – 7.30%, includes wage inflation of 3.50%
Investment Rate of Return	7.5%, includes price inflation of 3.00%

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
For the year ended June 30, 2019

CERS

The Board of Trustees uses this actuarial valuation to certify the employer contribution rates for CERS for the fiscal year beginning July 1, 2018 and ending June 30, 2019. 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:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

(3) CHANGES OF BENEFITS

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

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MEDICAL AND LIFE INSURANCE PLANS - TEACHERS' RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
MEDICAL INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.22841%	0.24268%
District's proportionate share of the collective net OPEB liability (asset)	\$ 7,925,000	\$ 8,653,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>6,830,000</u>	<u>7,069,000</u>
Total	<u>\$ 14,755,000</u>	<u>\$ 15,722,000</u>
District's covered-employee payroll	\$ 16,503,511	\$ 17,226,254
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	48.02%	50.23%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.20%
LIFE INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.00000%	0.00000%
District's proportionate share of the collective net OPEB liability (asset)	\$ -	\$ -
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>117,000</u>	<u>95,000</u>
Total	<u>\$ 117,000</u>	<u>\$ 95,000</u>
District's covered-employee payroll	\$ 16,503,511	\$ 17,226,254
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	75.00%	80.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
MEDICAL AND LIFE INSURANCE PLANS
TEACHERS' RETIREMENT SYSTEM
Year Ended June 30, 2019

	2019	2018
MEDICAL INSURANCE PLAN		
Contractually required contribution	\$ 402,096	\$ 406,867
Contributions in relation to the contractually required contribution	402,096	406,867
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 16,672,673	\$ 16,503,511
District's contributions as a percentage of it's covered-employee payroll	2.41%	2.47%
LIFE INSURANCE PLAN		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 16,672,673	\$ 16,503,511
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	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. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
HEALTH INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.22707%	0.23100%
District's proportionate share of the collective net OPEB liability (asset)	\$ 4,031,565	\$ 4,643,790
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>-</u>	<u>-</u>
Total	<u>\$ 4,031,565</u>	<u>\$ 4,643,790</u>
District's covered-employee payroll	\$ 5,631,180	\$ 5,627,919
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	71.59%	82.51%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	13.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
 Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN		
Contractually required contribution	\$ 123,309	\$ 107,518
Contributions in relation to the contractually		
	<u>123,309</u>	<u>107,518</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 5,699,300	\$ 5,631,180
District's contributions as a percentage of it's covered-employee payroll	2.16%	1.91%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB

For the year ended June 30, 2019

TRS

(1) CHANGES OF BENEFIT TERMS

There were no changes of benefit terms for the medical insurance fund or the life insurance fund.

(2) CHANGES OF ASSUMPTIONS

Medical Insurance Fund

- The amortization period decreased to 23 years and the Municipal Bond Index Rate increased to 3.89%.

Life Insurance Fund

- Amortization period switched to closed.
- Projected salary increases increased to 4%.
- Inflation rate increased to 3.5%.
- Wage inflation increased to 4%.
- Municipal Bond Index Rate increased to 3.89%.

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

Medical Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	23 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.0%, includes price inflation
Inflation	3.0%
Real Wage Growth	.50%
Wage Inflation	3.50%
Salary Increase	3.50 to 7.20%, including wage inflation
Discount Rate	8.0%

Life Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
For the year ended June 30, 2019

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.5%
Real Wage Growth	.50%
Wage Inflation	4.00%
Salary Increase	4.00-8.10%, including wage inflation
Discount Rate	8.0%

CERS

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

None.

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

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.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Harlan County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2019

	Other Governmental Funds		
	Capital Outlay	District Activity	Total
Assets			
Cash and Cash Equivalents	\$ 1,832	\$ 3,257	\$ 5,089
Total Assets	1,832	3,257	5,089
Liabilities			
Accounts Payable	-	-	-
Total Liabilities	-	-	-
Fund Balance			
Restricted	1,832	3,257	5,089
Total Fund Balance	1,832	3,257	5,089
Total Liabilities and Fund Balance	\$ 1,832	\$ 3,257	\$ 5,089

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2019

	Other Governmental Funds		
	Capital Outlay	District Activity	Total
Revenues			
Intergovernmental - State	\$ 334,577	\$	\$ 334,577
Student activities		449	449
Total Revenues	334,577	449	335,026
Expenditures			
Instruction		5,214	5,214
Plant operations & maintenance		2,599	2,599
Total Expenditures	-	7,813	7,813
Excess (Deficit) of Revenues Over Expenditures	334,577	(7,364)	327,213
Other Financing Sources (Uses)			
Operating Transfers	(334,577)		(334,577)
Total Other Financing Sources (Uses)	(334,577)	-	(334,577)
Net change in Fund Balances	-	(7,364)	(7,364)
Fund Balance Beginning	1,832	10,621	12,453
Fund Balance Ending	\$ 1,832	\$ 3,257	\$ 5,089

See the accompanying notes to the financial statements.

Harlan County School District
Combining Balance Sheet of Fiduciary Fund
School Activity Funds
June 30, 2019

SCHOOL ACTIVITY FUNDS

	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	<u>FIDUCIARY FUND TOTAL</u>
ASSETS										
Cash and cash equivalents	\$ 67,403	\$ 14,438	\$ 17,756	\$ 92,441	\$ 48,544	\$ 20,367	\$ 37,744	\$ 60,596	\$ 58,199	\$ 417,488
Accounts receivable	-	-	-	-	5,030	-	15	-	-	5,045
Total Assets	<u>67,403</u>	<u>14,438</u>	<u>17,756</u>	<u>92,441</u>	<u>53,574</u>	<u>20,367</u>	<u>37,759</u>	<u>60,596</u>	<u>58,199</u>	<u>422,533</u>
LIABILITIES										
Accounts payable	-	220	-	-	-	-	4,355	48	-	4,623
Total Liabilities	<u>-</u>	<u>220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,355</u>	<u>48</u>	<u>-</u>	<u>4,623</u>
FUND BALANCE										
School activities	<u>67,403</u>	<u>14,218</u>	<u>17,756</u>	<u>92,441</u>	<u>53,574</u>	<u>20,367</u>	<u>33,404</u>	<u>60,548</u>	<u>58,199</u>	<u>417,910</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 67,403</u>	<u>\$ 14,438</u>	<u>\$ 17,756</u>	<u>\$ 92,441</u>	<u>\$ 53,574</u>	<u>\$ 20,367</u>	<u>\$ 37,759</u>	<u>\$ 60,596</u>	<u>\$ 58,199</u>	<u>\$ 422,533</u>

See the accompanying notes to the financial statements.

Harlan County School District
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds
For the year ended June 30, 2019

	SCHOOL ACTIVITY FUNDS										FIDUCIARY FUND TOTAL
	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	<u>FIDUCIARY FUND TOTAL</u>	
REVENUES											
Student/Trust revenues	\$ 350,828	\$ 85,481	\$ 61,910	\$ 211,060	\$ 127,342	\$ 55,690	\$ 63,594	\$ 150,149	\$ 149,410	\$ 1,255,464	
EXPENSES											
Student/Trust activities	365,481	83,362	64,820	171,072	122,347	45,493	61,478	136,109	147,650	1,197,812	
Excess (Deficit) of Revenues Over Expenses	(14,653)	2,119	(2,910)	39,988	4,995	10,197	2,116	14,040	1,760	57,652	
Fund balance, beginning	<u>82,056</u>	<u>12,099</u>	<u>20,666</u>	<u>52,453</u>	<u>48,579</u>	<u>10,170</u>	<u>31,288</u>	<u>46,508</u>	<u>56,439</u>	<u>360,258</u>	
Fund balance, ending	<u>\$ 67,403</u>	<u>\$ 14,218</u>	<u>\$ 17,756</u>	<u>\$ 92,441</u>	<u>\$ 53,574</u>	<u>\$ 20,367</u>	<u>\$ 33,404</u>	<u>\$ 60,548</u>	<u>\$ 58,199</u>	<u>\$ 417,910</u>	

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Harlan County High School
For the year ended June 30, 2019

	FUND BALANCE Beginning	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE Ending
GENERAL FUND	\$ 455	\$ 12,691	\$ 11,303	\$ (475)	1,368
BLACK BEAR PHOTOGRAPHY	573	585	715	-	443
GRADUATION FUND	316	-	144	-	172
CONTINGENCY	4,091	646	4,653	-	84
DUAL CREDIT COLLEGE TOURS	446	4,990	4,025	-	1,411
SCHOOL PICTURES	2,350	1,379	2,802	-	927
SENIOR PICTURES	240	-	-	-	240
1ST PRIORITY	3,505	2,206	4,708	(400)	603
1ST PRIORITY AQUARIUM	679	3,561	4,626	400	14
COMMUNITY PROBLEM SOLVING	214	-	175	-	39
ECLRP TEAM	453	-	-	-	453
ANATOMY FUNDS	257	240	44	-	453
FISHING TEAM	-	4,812	3,881	(120)	811
SCHOOL CONCESSION	5,234	-	3,989	-	1,245
TEACHER VENDING	865	1,394	1,946	-	313
PARKING	5,160	3,140	4,872	(2,500)	928
ATHLETICS	2,028	50,570	56,405	4,085	278
DECA	94	50	-	-	144
CHEERLEADING	2,739	16,496	17,103	100	2,232
DANCE TEAM	1,108	15,695	14,466	-	2,337
FOOTBALL	703	50,361	49,771	100	1,393
GIRLS BASKETBALL	1,648	9,117	9,215	-	1,550
BOYS BASKETBALL	(29)	25,930	24,418	(200)	1,283
SOFTBALL	-	5,607	4,759	-	848
BASEBALL	918	16,246	15,460	95	1,799
GOLF	361	1,100	1,260	750	951
BOYS SOCCER	492	1,051	-	-	1,543
TENNIS	1,086	402	1,116	-	372
ARCHERY	379	699	433	-	645
VOLLEYBALL	1,071	1,926	2,929	-	68
ACADEMIC TEAM	88	-	84	-	4
ART CLUB	751	1,692	821	-	1,622
AP/SAT PLAN	116	-	-	-	116
HCHS FEEDER BAND	-	4,467	3,995	-	472
BAND	1,965	7,663	8,485	-	1,143
HONOR BAND	3	-	-	-	3
BETA CLUB	6,974	4,715	4,805	-	6,884
BLACK BEAR STORE	2,779	15,051	17,036	-	794
CROSS COUNTRY/TRACK	1,098	7,403	6,867	-	1,634
CHORUS	492	1,435	1,096	-	831
DRAMA CLUB	4,978	7,067	6,463	-	5,582
FBLA	1,107	378	1,163	-	322
FCCLA	1	182	205	50	28
FFA-FUTURE FARMERS	1,217	13,849	11,390	-	3,676
FFA-GREENHOUSE	-	4,551	505	-	4,046
FUTURE EDUCATORS	853	153	819	-	187
HOME EC/MCCORMICK	168	2,541	2,580	(50)	79
2015 BASKETBALL PROGRAM	1,429	-	-	(1,429)	-
JROTC	6	14,415	14,817	750	354
LIBRARY	287	99	164	(50)	172
NATIONAL HONORS	2,392	1,670	1,620	-	2,442
GEAR UP	1,155	90	676	-	569
PEP CLUB	1,832	904	2,655	-	81
PROM	2,113	14,184	14,272	-	2,025
YEARBOOK	9,236	9,234	10,083	50	8,437
SPANISH CLASS	81	-	-	-	81
SPANISH HONOR SOCIETY	647	2,365	2,925	-	87
YOUTH SERVICE CENTER	1,055	5,826	6,152	25	754
PEP BAND	30	-	-	-	30
52ND DISTRICT TOURNAMENT	938	-	-	(938)	-
52ND DISTRICT BASEBALL	268	-	-	(268)	-
ASVAB TESTING	561	-	585	25	1
TOTALS	\$ 82,056	\$ 350,828	\$ 365,481	\$ -	\$ 67,403

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
US Department of Agriculture					
Passed Through State Department of Education					
* School Breakfast Program	10.553				
Fiscal Year 18		7760005 18	\$ -	N/A	\$ 186,182
Fiscal Year 19		7760005 19	-	N/A	591,487
* National School Lunch Program	10.555				
Fiscal Year 18		7750002 18	-	N/A	394,881
Fiscal Year 19		7750002 19	-	N/A	1,283,749
Child Nutrition Cluster Subtotal					<u>2,456,299</u>
Fresh Fruits & Vegetables	10.582				
Fiscal Year 18		7720012 18	-	N/A	3,400
Fiscal Year 19		7720012 19	-	N/A	129,500
					<u>132,900</u>
Child & Adult Care Food Program	10.558				
Fiscal Year 18		7790021 18	-	N/A	5,809
Fiscal Year 19		7790021 19	-	N/A	21,469
Fiscal Year 18		7800016 18	-	N/A	368
Fiscal Year 19		7800016 19	-	N/A	1,424
					<u>29,070</u>
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 19		510.4950	-	N/A	163,819
Total US Department of Agriculture					<u>2,782,088</u>
US Department of Education					
Passed Through State Department of Education					
Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 18		3100002 18	-	2,543,472	744,946
Fiscal Year 19		3100002 19	-	2,531,033	1,774,988
					<u>2,519,934</u>
Special Education Grants to States	84.027A				
Fiscal Year 18		3810002 18	-	1,031,624	493,943
Fiscal Year 19		3810002 19	-	1,043,915	511,541
Special Education - Preschool Grants	84.173A				
Fiscal Year 19		3800002 19	-	95,712	77,144
Special Education Cluster Subtotal					<u>1,082,628</u>
Homeless Youth & Children	84.196				
Fiscal Year 19		3990002 19	-	80,000	50,945
Vocation Education - Basic Grants to States	84.048				
Fiscal Year 17		3710002 17		2,932	2,932
Fiscal Year 18		3710002 18		4,035	2,430
Fiscal Year 19		3710002 19	-	63,595	63,595
					<u>68,957</u>
21st Century Community Learning	84.287				
Fiscal Year 17		3400002 17	-	100,000	20,064
Fiscal Year 18		3400002 18	-	101,000	89,238
					<u>109,302</u>
Rural Education	84.358B				
Fiscal Year 18		3140002 18	-	66,559	14,716
Fiscal Year 19		3140002 19	-	82,351	1,556
					<u>16,272</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 17		3230002 17	-	458,885	865
Fiscal Year 18		3230002 18	-	455,724	3,840
Fiscal Year 19		3230002 19	-	291,662	254,854
					<u>259,559</u>
Title IV Part A	84.424				
Fiscal Year 18		3420002 18	-	52,034	52,034
Fiscal Year 19		3420002 19	-	184,840	121,045
					<u>173,079</u>
Striving Readers Literacy Grant	84.371C				
Fiscal Year 19		S371C170016	-	290,000	164,276
Passed Through Kentucky Valley Educational Cooperative					
Race to the Top - District	84.416A	B416A140080	-	N/A	80,822
Fiscal Year 18					
Passed Through Berea College					
Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334S				
Fiscal Year 18		379D	-	622,750	156,695
Fiscal Year 19		379E	-	622,750	400,170
					<u>556,865</u>
Total US Department of Education					<u>5,082,639</u>
US Department of Defense					
Passed directly from the US Department of the Army					
ROTC	12.000				
Fiscal Year 19		504D	-	N/A	53,014
Total US Department of the Army					<u>53,014</u>
Total Expenditure of Federal Awards					<u>\$ 7,917,741</u>

* Major program

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

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Harlan County School District under the programs of the federal government for the year ended June 30, 2019. 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 Harlan 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

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. For the year ended June 30, 2019, the District received food commodities totaling \$163,819.

NOTE D – INDIRECT COST RATE

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

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 Harlan County School District
Harlan, KY

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* 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 issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Harlan County School District's basic financial statements, and have issued our report thereon dated November 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Harlan 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 Harlan County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Harlan 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 Harlan 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 Harlan County School District in a separate letter dated November 12, 2019.

Purpose of this Report

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

White & Associates, PSC

Richmond, KY

November 12, 2019

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 Harlan County School District
Harlan, KY
and the State Committee of School District Audits

Report on Compliance for Each Major Federal Program

We have audited the Harlan 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 Harlan County School District's major federal programs for the year ended June 30, 2019. Harlan 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 Harlan 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 Harlan 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 Harlan County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Harlan 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 Harlan 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 Harlan County School District's internal control over compliance.

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

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

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

White & Associates, PSC

Richmond, KY

November 12, 2019

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2019

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)?	None Reported
Were there material weaknesses in internal control disclosed For major programs?	None Reported
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	Child Nutrition Cluster [CFDA 10.553, 10.555]
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 major federal award findings.

HARLAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2019

There were no prior audit findings.

MANAGEMENT LETTER POINTS

Harlan County School District
Harlan, Kentucky

In planning and performing our audit of the financial statements of the Harlan County School District for the year ended June 30, 2019, 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 12, 2019. This letter does not affect our report dated November 12, 2019, on the financial statements of the Harlan County School District. The conditions observed are as follows:

CAWOOD ELEMENTARY

No conditions.

GREEN HILLS ELEMENTARY

No conditions.

HARLAN COUNTY HIGH SCHOOL

No conditions.

BLACK MOUNTAIN ELEMENTARY

No conditions.

CUMBERLAND ELEMENTARY

1-19

Statement of Condition: The vendor invoice or Standard Invoice must have a confirmation signature of the person receiving the goods or services before the payment process can be continued.

Recommendation for Correction: After receiving the product or service, the person receiving the goods or service shall sign the original invoice or Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: Secretary will make sure that vendors will sign all invoices before processing the invoice for payment. Secretary and principal will attend Rebook training for this recommendation.

2-19

Statement of Condition: Instances of checks written not having two signatures.

Recommendation for Correction: The principal (or appointed designee) and school treasurer should insure all checks written have two signatures; one of which shall be that of the principal (or appointed designee) and the other being the school treasurer.

Management Response to the Recommendation: Secretary will see that one of the administrators will insure that there will be two signatures on all checks. Secretary and principal will attend Rebook training for this recommendation.

EVARTS ELEMENTARY

3-19

Statement of Condition: Instances of receipt numbers not being listed on deposit slip.

Recommendation for Correction: The school treasurer shall prepare deposit slips containing the issuers name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit.

Management Response to the Recommendation: Secretary will list all receipt numbers on deposit slips. Secretary and principal will attend Rebook training for this recommendation.

4-19

Statement of Condition: Instances of sales tax being paid or reimbursed.

Recommendation for Correction: The School treasurer should review all invoices and reimbursements to insure sales tax is not paid or reimbursed.

Management Response to the Recommendation: Secretary has been told by finance officer not to reimburse anyone the sales tax amount for purchases. Secretary and principal will receive Redbook training for this recommendation.

5-19

Statement of Condition: Purchase Orders are being utilized but not consistently.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Principal will meet with all staff to make sure they know purchase orders must be created and approved by principal before purchase. Secretary and principal will receive Redbook training for this recommendation.

6-19

Statement of Condition: The Principal is not dating the bank statement after review.

Recommendation for Correction: The Principal should initial and date the front page of the bank statement after a complete review.

Management Response to the Recommendation: Principal will put date they looked over bank statement on the statement with their signature. Secretary will check for date before turning in bank statement to district office. Secretary and principal will receive Redbook training for this recommendation.

JAMES A CAWOOD ELEMENTARY

7-19

Statement of Condition: Instances of receipt numbers not being listed on deposit slip.

Recommendation for Correction: The school treasurer shall prepare deposit slips containing the issuers name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit.

Management Response to the Recommendation: James A. Cawood Elementary School secretary, shall prepare deposit slips containing the issuers name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit. Secretary and principal will obtain updated redbook training in December.

ROSSPOINT ELEMENTARY

8-19

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on bookstores, pencil machines, concessions and vending machines (vending machines exempt if full service).

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: Principal and secretary will make sure Inventory control worksheets will be completed for all extra-curricular concession activities. Secretary and principal will receive Redbook training for this recommendation.

WALLINS ELEMENTARY

9-19

Statement of Condition: Purchase Orders are being utilized but not consistently.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: Each person requesting to make a purchase or expend activity funds will, along with the financial clerk, prepare a Purchase Request/Order and have it approved by the Principal. After approval, a PO number will be issued and a PO generated so the expenditure can be purchased or ordered. Secretary and principal will obtain updated Redbook training in December.

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 conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The following are repeat conditions from the prior year: 1-19 and 4-19. All other prior year conditions have been implemented and corrected. Mr. Brent Roark, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions 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 12, 2019