

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2020

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, 2020, 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, 2020, 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 TRS 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 basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 13, 2020, 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 13, 2020

**HARLAN COUNTY SCHOOL DISTRICT-HARLAN, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2020**

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, 2020. 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 \$11,588,764 of which \$4,997,668 was General Fund, \$6,591,096 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$11,702,411 of which \$5,231,227 was General Fund, \$6,471,184 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund. The beginning and ending fund balance for restricted funds this year was much greater due to receiving bond money for the General Energy Savings construction project and the Wallins renovation/addition construction project.
- The ending cash balance was \$3,726,129 for General Fund.
- The General Fund Revenue (excluding transfers) totaled \$33,119,432 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures (excluding transfers) total \$32,500,717.
- 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 \$7.59 million as of June 30, 2020. 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.

2020 District-Wide Governmental Net position compared to 2019 as follows:

Table 1
Net Position
\$ (in Millions)

	Governmental Activities		Business-type Activities		Totals	
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>
Current assets	12.56	12.63	1.13	1.35	13.69	13.98
Non-current assets	54.58	59.53	0.26	0.21	54.84	59.74
Total assets	67.14	72.16	1.39	1.56	68.53	73.72
Deferred outflows	5.98	6.43	0.26	0.09	6.24	6.52
Current liabilities	4.78	4.98	0.05	-	4.83	4.98
Non-current liabilities	59.02	63.13	1.04	0.37	60.06	63.50
Total liabilities	63.80	68.11	1.09	0.37	64.89	68.48
Deferred inflows	67.07	4.14	0.12	0.04	67.19	4.18
Net position:						
Invested in capital assets, net of debt	17.89	20.06	0.26	0.21	18.15	20.27
Restricted	6.59	6.47	0.19	1.04	6.78	7.51
Unrestricted (deficit)	(18.43)	(20.19)			(18.43)	(20.19)
Total net position	6.05	6.34	0.45	1.25	6.50	7.59

GOVERNMENTAL ACTIVITIES

Ending net position was \$7.59 million for the District.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2019-2020
	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	
Revenues:							
Charges for services	\$ -	\$ 0.01	\$ 0.48	\$ 0.43	\$ 0.48	\$ 0.44	-8%
Operating grants and contributions	6.90	6.92	3.33	3.84	10.23	10.76	5%
Capital grants and contributions	3.30	3.19			3.30	3.19	-3%
General revenues	35.73	34.31	(0.14)	(0.15)	35.59	34.16	-4%
Total revenue	45.93	44.43	3.67	4.12	49.60	48.55	-2%
Expenses:							
Instruction	\$ 24.52	\$ 25.51			\$ 24.52	\$ 25.51	4%
Student	2.12	2.19			2.12	2.19	3%
Instructional staff	1.50	1.39			1.50	1.39	-7%
District administration	1.18	1.23			1.18	1.23	4%
School administration	2.11	2.18			2.11	2.18	3%
Business	0.61	0.66			0.61	0.66	8%
Plant operation & maintenance	4.29	4.03			4.29	4.03	-6%
Student transportation	2.63	2.86			2.63	2.86	9%
Community services operations	0.56	0.53			0.56	0.53	-5%
Food Service Operations			3.89	3.27	3.89	3.27	-16%
Depreciation/Amortization	2.46	2.49	0.06	0.06	2.52	2.55	1%
Enterprise Operations					-	-	
Interest on long-term debt	1.09	1.07			1.09	1.07	-2%
Total Expenses	\$ 43.07	\$ 44.14	\$ 3.95	\$ 3.33	\$ 47.02	\$ 47.47	1%
Change in net position	\$ 2.86	\$ 0.29	\$ (0.28)	\$ 0.79	\$ 2.58	\$ 1.08	58%

CAPITAL ASSETS

After depreciation, at the end of fiscal 2020, the District had \$ 59.73 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$ 4.89 million over last year, mainly due to completed construction projects throughout the district.

**Capital Assets at Year-End
\$ (Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2019	2020	2019	2020	2019	2020
Land	2,014,472	2,014,472			2,014,472	2,014,472
Land Improvements	290,608	227,702			290,608	227,702
Buildings	47,922,855	51,525,488			47,922,855	51,525,488
Technology Equipment	500,684	446,860	208	-	500,892	446,860
Vehicles	3,030,721	3,132,282	73,931	51,752	3,104,652	3,184,034
General Equipment	27,894	511,651	188,969	154,547	216,863	666,198
Construction in Progress	794,205	1,670,285			794,205	1,670,285
Totals	54,581,439	59,528,740	263,108	206,299	54,844,547	59,735,039

DEBT

Capital lease and general obligation debt increased \$2.74 million from FY 2019.

**Table 4
Outstanding Debt at Year-End**

	Government Activities	
	2019	2020
General Obligation Bonds	36,059,815	38,834,264
Capital Lease Obligations	633,550	633,550
KSBIT Obligations	69,710	34,854
Total Obligations	36,763,075	39,502,668

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$5,231,227, which is more than last year's fund balance of \$4,997,668. The unassigned portion of the fund balance at the end of fiscal year 2020 is \$4,550,390 compared to \$4,051,034 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, 2020:

*Note This chart does not include beginning balances.

REVENUE	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Local Revenue Sources	5,069,698	95,211		865,129	17,651		483,157
State Revenue Sources	27,954,451	1,837,981	327,309	932,313		1,934,735	543,355
Federal Revenue Sources	95,283	4,991,323					3,298,672
Other					6,080,000		
Transfers	204,241	138,998			732,984	2,139,330	
TOTALS	33,323,673	7,063,513	327,309	1,797,442	6,830,635	4,074,065	4,325,184
EXPENDITURES	Fund	Fund	Fund	Fund	Fund	Fund	Fund
	1	2	310	320	360	400	51
Instruction	18,269,054	5,470,917					
Student Support Services	2,043,345	138,295					
Instructional Staff Support Services	777,424	611,886					
District Admin Support	1,231,142						
School Admin Support	2,179,389						
Business Support Services	564,789	95,422					
Plant Operation & Management	3,956,410	112,025					
Student Transportation	3,349,529	82,934					
Food Service Operations							3,324,790
Day Care Operations							
Community Services		529,491					
Building Improvements		22,543			6,506,355		
Debt Service	129,635				53,820	4,074,065	
Other					102,658		
Transfers	589,397		329,141	2,092,774			204,241
TOTALS	33,090,114	7,063,513	329,141	2,092,774	6,662,833	4,074,065	3,529,031
Excess / (Deficit)	233,559	-	(1,832)	(295,332)	167,802	-	796,153

Comments on Budget Comparisons

- The District's total general fund balance for the fiscal year ended June 30, 2020, is \$5,231,227, which is more than last year's fund balance of \$4,997,668.
- The districts total revenue, including "On-behalf" payments for general fund fiscal year ending June 30, 2020 was \$33,119,432, net of other financing sources, transfers and uses. Transfers into general fund were \$204,241.
- General fund budget compared to actual revenue varied slightly from line item to line item. The unmined minerals property tax budget line item was off by a large amount due to coal companies reporting less unmined minerals for 2019-20. The unmined mineral revenue source is no longer a steady source of revenue for our district.
- The total cost of all general fund programs and services was \$33.09 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 2020-2021 with a 7.78% 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
- COVID-19 issues and expenses

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, 2020

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,146,492	\$ 966,587	\$ 10,113,079
Investments	2,990,444	250,000	3,240,444
Receivables			
Taxes	103,291		103,291
Intergovernmental - federal	388,707		388,707
Inventories		138,749	138,749
Capital assets:			
Land and construction in progress	3,684,758		3,684,758
Other capital assets, net of depreciation	55,843,982	206,299	56,050,281
Total capital assets	59,528,740	206,299	59,735,039
Total assets	72,157,674	1,561,635	73,719,309
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	3,538,155	66,411	3,604,566
Deferred outflows related to OPEB	1,962,767	24,129	1,986,896
Deferred savings from refunding bonds	929,487		929,487
Total deferred outflows of resources	6,430,409	90,540	6,520,949
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	78,588,083	1,652,175	80,240,258
LIABILITIES			
Accounts payable and accrued expenses	117,944	3,200	121,144
Accrued interest payable	415,229		415,229
Unearned revenue	480,261		480,261
Payroll taxes payable	210,860		210,860
Accrued salaries and benefit payable	117,458		117,458
Long-term liabilities:			
Due within 1 year:			
Bond obligations	3,450,000		3,450,000
Capital lease obligations	104,692		104,692
Workers compensation liability	33,455		33,455
KSBIT payable	34,854		34,854
Total due within 1 year	3,623,001	-	3,623,001
Due in more than 1 year:			
Bond obligations	35,384,264		35,384,264
Capital lease obligations	415,773		415,773
Net pension liability	15,595,689	292,732	15,888,421
Net OPEB liability	10,478,070	69,995	10,548,065
Workers compensation liability	968,297		968,297
Sick leave	179,650		179,650
Total due in more than 1 year	63,021,743	362,727	63,384,470
Total liabilities	67,986,496	365,927	68,352,423
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	740,897	13,907	754,804
Deferred inflows related to OPEB	3,402,925	26,577	3,429,502
Total deferred inflows of resources	4,143,822	40,484	4,184,306
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	72,130,318	406,411	72,536,729
NET POSITION			
Net investment in capital assets	20,174,011	206,299	20,380,310
Restricted for:			
Capital projects	6,458,477		6,458,477
District activities	12,707		12,707
Food services		1,039,465	1,039,465
Unrestricted (deficit)	(20,187,430)		(20,187,430)
Total net position	6,457,765	1,245,764	7,703,529
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 78,588,083	\$ 1,652,175	\$ 80,240,258

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Activities
Year ended June 30, 2020

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	\$ 25,511,296	\$ -	\$ 6,688,387	\$ -	\$ (18,822,909)	\$ -	\$ (18,822,909)
Support services							
Student	2,181,640	9,893	34,223		(2,137,524)		(2,137,524)
Instructional staff	1,389,310		21,794		(1,367,516)		(1,367,516)
District administration	1,231,142		19,313		(1,211,829)		(1,211,829)
School administration	2,179,389		34,188		(2,145,201)		(2,145,201)
Business	660,211		10,357		(649,854)		(649,854)
Plant operation & maintenance	4,030,890		63,232	1,259,622	(2,708,036)		(2,708,036)
Student	2,855,218		44,789		(2,810,429)		(2,810,429)
Community services operations	529,491		8,306		(521,185)		(521,185)
Amortization	173,346				(173,346)		(173,346)
Depreciation*	2,323,256				(2,323,256)		(2,323,256)
Interest on general long-term debt	964,435			1,934,735	970,300		970,300
Total governmental activities	44,029,624	9,893	6,924,587	3,194,357	(33,900,787)		(33,900,787)
Business-type activities:							
Food service operations	3,267,981	430,712	3,842,027			1,004,758	1,004,758
Depreciation	56,809					(56,809)	(56,809)
Total business-type activities	3,324,790	430,712	3,842,027	-	-	947,949	947,949
Total primary government	\$ 47,354,414	\$ 440,605	\$ 10,766,614	\$ 3,194,357	(33,900,787)	947,949	(32,952,838)
General revenues:							
Taxes:							
Property taxes					3,447,873		3,447,873
Motor vehicle taxes					704,037		704,037
Utility taxes					1,298,116		1,298,116
Unmined minerals tax					65,535		65,535
State and formula grants					27,954,451		27,954,451
Unrestricted investment earnings					502,468	21,627	524,095
Other local revenue					130,439	30,818	161,257
Transfers					204,241	(204,241)	-
Total general revenues and transfers					34,307,160	(151,796)	34,155,364
Change in net position					406,373	796,153	1,202,526
Net position - beginning					6,051,392	449,611	6,501,003
Net position - ending					\$ 6,457,765	\$ 1,245,764	\$ 7,703,529

*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, 2020

Governmental Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 3,726,129	\$ 101,470	\$ 5,212,643	\$ -	\$ 106,250	\$ 9,146,492
Investments	1,838,153				1,152,291	2,990,444
Receivables						
Taxes-current	73,645					73,645
Taxes-delinquent	29,646					29,646
Intergovernmental - federal	257	388,450				388,707
Total assets	<u>5,667,830</u>	<u>489,920</u>	<u>5,212,643</u>	<u>-</u>	<u>1,258,541</u>	<u>12,628,934</u>
LIABILITIES						
Accounts payable	108,285	9,659				117,944
Accrued salaries & benefits payable	117,458					117,458
Payroll taxes payable	210,860					210,860
Unearned revenue		480,261				480,261
Total liabilities	<u>436,603</u>	<u>489,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>926,523</u>
FUND BALANCE						
Restricted			5,212,643		1,258,541	6,471,184
Committed	589,825					589,825
Assigned	91,012					91,012
Unassigned	4,550,390					4,550,390
Total fund balance	<u>5,231,227</u>	<u>-</u>	<u>5,212,643</u>	<u>-</u>	<u>1,258,541</u>	<u>11,702,411</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,667,830</u>	<u>\$ 489,920</u>	<u>\$ 5,212,643</u>	<u>\$ -</u>	<u>\$ 1,258,541</u>	<u>\$ 12,628,934</u>

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, 2020

Fund balances-total governmental funds	\$	11,702,411
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		59,528,740
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus</p>		929,487
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Accrued interest payable		(415,229)
Bonds payable		(38,834,264)
KSBIT payable		(34,854)
Capital lease payable		(520,465)
Self insurance payable		(1,001,752)
Sick leave liability		(179,650)
Net pension liability		(15,595,689)
Net OPEB liability		(10,478,070)
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds</p>		
Deferred outflows of resources related to pensions		3,538,155
Deferred outflows of resources related to OPEB		1,962,767
Deferred inflows of resources related to pensions		(740,897)
Deferred inflows of resources related to OPEB		<u>(3,402,925)</u>
Net position of governmental activities	\$	<u><u>6,457,765</u></u>

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, 2020

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From local sources						
Taxes						
Property	\$ 2,582,744	\$ -	\$ -	\$ -	\$ 865,129	\$ 3,447,873
Motor vehicle	704,037					704,037
Unmined minerals	65,535					65,535
Utilities	1,298,116					1,298,116
Earnings on investments	382,195	1,843	17,651			401,689
Other local revenue	37,071	93,368				130,439
Student activities					9,893	9,893
Intergovernmental - state	27,954,451	1,837,981		1,934,735	1,259,622	32,986,789
Intergovernmental - federal	95,283	4,991,323				5,086,606
Total revenues	<u>33,119,432</u>	<u>6,924,515</u>	<u>17,651</u>	<u>1,934,735</u>	<u>2,134,644</u>	<u>44,130,977</u>
EXPENDITURES						
Instruction	18,269,054	5,470,917			443	23,740,414
Support services						
Student	2,043,345	138,295				2,181,640
Instructional staff	777,424	611,886				1,389,310
District administration	1,231,142					1,231,142
School administration	2,179,389					2,179,389
Business	564,789	95,422				660,211
Plant operation & maintenance	3,956,410	112,025				4,068,435
Student transportation	3,349,529	82,934				3,432,463
Community services operations		529,491				529,491
Building improvements		22,543	6,506,355			6,528,898
Debt service	129,635		53,820	4,074,065		4,257,520
Total expenditures	<u>32,500,717</u>	<u>7,063,513</u>	<u>6,560,175</u>	<u>4,074,065</u>	<u>443</u>	<u>50,198,913</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	618,715	(138,998)	(6,542,524)	(2,139,330)	2,134,201	(6,067,936)
OTHER FINANCING SOURCES (USES)						
Bond discount			(102,658)			(102,658)
Bond principal proceeds			6,080,000			6,080,000
Operating transfers in	204,241	138,998	732,984	2,139,330		3,215,553
Operating transfers (out)	(589,397)				(2,421,915)	(3,011,312)
Total other financing sources and (uses)	<u>(385,156)</u>	<u>138,998</u>	<u>6,710,326</u>	<u>2,139,330</u>	<u>(2,421,915)</u>	<u>6,181,583</u>
NET CHANGE IN FUND BALANCE	233,559	-	167,802	-	(287,714)	113,647
FUND BALANCE-BEGINNING	<u>4,997,668</u>	<u>-</u>	<u>5,044,841</u>	<u>-</u>	<u>1,546,255</u>	<u>11,588,764</u>
FUND BALANCE-ENDING	<u>\$ 5,231,227</u>	<u>\$ -</u>	<u>\$ 5,212,643</u>	<u>\$ -</u>	<u>\$ 1,258,541</u>	<u>\$ 11,702,411</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, 2020

Net change in fund balances-total governmental funds	\$	113,647
<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		(1,988,151)
<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		403,330
<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>		
		4,947,304
<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>		
		(168,791)
<p>The premium/discount on the sale of bonds is reported as revenue/expense 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>		
		125,551
<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>		
		3,293,085
<p>Bond and capital lease proceeds are recognized as revenue in current financial resources in the fund financial statement but are increase liabilities in the statement of net position.</p>		
		(6,080,000)
<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		73,331
Self insurance payable		(415,020)
KSBIT payable		34,856
Noncurrent sick leave payable		67,231
		67,231
Change in net position of governmental activities	\$	406,373

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, 2020

	<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	\$ 2,540,000	\$ 2,632,000	\$ 2,582,744	\$ (49,256)
Motor vehicle	500,000	530,000	704,037	174,037
Unmined minerals	225,000	225,000	65,535	(159,465)
Utilities	1,450,000	1,450,000	1,298,116	(151,884)
Earnings on investments	10,000	10,000	382,195	372,195
Other local revenue			37,071	37,071
Intergovernmental - state	27,940,288	27,807,424	27,954,451	147,027
Intergovernmental - federal	50,000	50,000	95,283	45,283
Total revenues	<u>32,715,288</u>	<u>32,704,424</u>	<u>33,119,432</u>	<u>415,008</u>
EXPENDITURES				
Instruction	19,201,252	19,194,752	18,269,054	925,698
Support services				
Student	2,082,123	2,082,123	2,043,345	38,778
Instructional staff	892,027	892,028	777,424	114,604
District administration	1,394,595	1,394,595	1,231,142	163,453
School administration	1,984,348	1,984,348	2,179,389	(195,041)
Business	648,780	648,780	564,789	83,991
Plant operation & maintenance	4,222,039	4,222,039	3,956,410	265,629
Student transportation	3,649,992	3,649,992	3,349,529	300,463
Debt service	112,500	112,500	129,635	(17,135)
Total expenditures	<u>34,187,656</u>	<u>34,181,157</u>	<u>32,500,717</u>	<u>1,680,440</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(1,472,368)	(1,476,733)	618,715	2,095,448
OTHER FINANCING SOURCES (USES)				
Operating transfers in	180,000	180,000	204,241	24,241
Operating transfers (out)	(244,997)	(186,887)	(589,397)	(402,510)
Total other financing sources and (uses)	<u>(64,997)</u>	<u>(6,887)</u>	<u>(385,156)</u>	<u>(378,269)</u>
NET CHANGE IN FUND BALANCE	(1,537,365)	(1,483,620)	233,559	1,717,179
FUND BALANCE-BEGINNING	<u>4,165,924</u>	<u>4,165,924</u>	<u>4,997,668</u>	<u>831,744</u>
FUND BALANCE-ENDING	<u>\$ 2,628,559</u>	<u>\$ 2,682,304</u>	<u>\$ 5,231,227</u>	<u>\$ 2,548,923</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
Special Revenue Fund
Year ended June 30, 2020

	<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	\$ -	\$ -	\$ 1,843	\$ 1,843
Other local revenue			93,368	93,368
Intergovernmental - state	1,826,338	1,835,791	1,837,981	2,190
Intergovernmental - federal	5,349,477	5,370,212	4,991,323	(378,889)
Total revenues	<u>7,175,815</u>	<u>7,206,003</u>	<u>6,924,515</u>	<u>(281,488)</u>
EXPENDITURES				
Instruction	5,663,436	5,916,197	5,470,917	445,280
Support services				
Student	144,394	144,130	138,295	5,835
Instructional staff	661,160	414,579	611,886	(197,307)
Business			95,422	(95,422)
Student transportation	10,900	30,173	82,934	(52,761)
Community services operations	529,491	529,491	529,491	-
Plant operations & maintenance	166,434	171,433	112,025	59,408
Building improvements			22,543	(22,543)
Total expenditures	<u>7,175,815</u>	<u>7,206,003</u>	<u>7,063,513</u>	<u>142,490</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	-	-	(138,998)	(138,998)
OTHER FINANCING SOURCES (USES)				
Operating transfers in			138,998	138,998
Operating transfers out				-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>138,998</u>	<u>138,998</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Net Position
Proprietary Fund
June 30, 2020

	School Food Services
ASSETS	
Cash and cash equivalents	\$ 966,587
Investments	250,000
Inventories	138,749
Capital assets:	
Other capital assets, net of depreciation	206,299
Total assets	1,561,635
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	66,411
Deferred outflows related to OPEB	24,129
Total deferred outflows of resources	90,540
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,652,175
LIABILITIES	
Accounts payable	3,200
Net pension liability	292,732
Net OPEB liability	69,995
Total liabilities	365,927
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	13,907
Deferred inflows related to OPEB	26,577
Total deferred inflows of resources	40,484
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	406,411
NET POSITION	
Net Investment in capital assets	206,299
Restricted	1,039,465
Total net position	1,245,764
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,652,175

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, 2020

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	430,712
Other revenue from local sources		30,818
Total operating revenues		<u>461,530</u>
OPERATING EXPENSES		
Depreciation		56,809
Food service operations		
Employee services		910,317
Operational expenses		2,357,664
Total operating expenses		<u>3,324,790</u>
Operating income (loss)		<u>(2,863,260)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		3,298,672
State grants		543,355
Transfers		(204,241)
Earnings from investments		21,627
Total nonoperating revenues (expenses)		<u>3,659,413</u>
CHANGE IN NET POSITION		796,153
NET POSITION-BEGINNING		<u>449,611</u>
NET POSITION-ENDING	\$	<u>1,245,764</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2020

Enterprise Fund

**School
Food
Services**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$	461,530
Payments to suppliers		(3,030,312)
Payments to employees		(910,317)
Net cash provided (used) by operating activities		<u>(3,479,099)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds		(204,241)
Operating grants and contributions		3,842,027
Net cash provided (used) by noncapital financing activities		<u>3,637,786</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest		21,627
Net cash provided (used) by investing activities		<u>21,627</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

180,314

CASH AND CASH EQUIVALENTS-BEGINNING

786,273

CASH AND CASH EQUIVALENTS-ENDING

\$ 966,587

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

Operating income (loss)	\$	(2,863,260)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		56,809
Changes in assets and liabilities:		
Inventory		(39,231)
Deferrals		173,150
Deferrals		(81,205)
Pension liability		(510,492)
OPEB liability		(164,157)
Payables		(50,713)
Net cash provided (used) by operating activities	\$	<u>(3,479,099)</u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$162,595 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 \$512,602 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, 2020

	<u>School Activity Funds</u>
ASSETS	
Cash and cash equivalents	\$ 409,895
Accounts receivable	<u>258</u>
Total assets	<u><u>410,153</u></u>
LIABILITIES	
Accounts payable	4,093
Due to student groups	<u>406,060</u>
Total liabilities	<u><u>\$ 410,153</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, 2020

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.

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.

(E) 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, 2020, 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (“TRS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

New Pronouncements

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, 2020.

GASB issued Statement No. 95, *Postponement of the Effective dates of Certain Authoritative Guidance*, effective for the District's fiscal year ending June 30, 2020.

The adoption of GASB statement Numbers 88 and 95 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, 2021.

GASB issued Statement No. 87, *Leases*, effective for the District's fiscal year ending June 30, 2022.

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, 2022.

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, 2021.

GASB issued Statement No. 91, *Conduit Debt Obligations*, effective for the District's fiscal year ending June 30, 2023.

GASB issued Statement No. 92, *Omnibus 2020*, effective for the District's fiscal year ending June 30, 2022.

GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*, effective for the District's fiscal year ending June 30, 2022.

GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for the District's fiscal year ending June 30, 2023.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 \$10,522,974. The bank balance for the same time was \$12,005,506.

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

Investments
June 30, 2020

Investments	Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	10 or More
Market Linked Certificate of Deposits	N/R	\$ 326,700	\$ -	\$ 326,700	\$ -
Certificate of Deposit	N/R	250,160	250,160	-	-
Certificate of Deposit	N/R	253,455	253,455	-	-
Certificate of Deposit	N/R	100,592	100,592	-	-
Federal Home Ln Mtg Corp Debt	Aaa	2,306,672	-	2,306,672	-
Total		3,237,579	\$ 604,207	\$ 2,633,372	\$ -
Money Market Funds		2,865			
Total Investments		\$ 3,240,444			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 of 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%.

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	\$ 930,907	\$ 930,907
U.S. Bonds	<u>2,306,672</u>	<u>2,306,672</u>
Total Investments by Fair Value Level	<u>3,237,579</u>	<u>3,237,579</u>
Money Market Funds	<u>2,865</u>	<u>2,865</u>
Total Investments	<u>\$ 3,240,444</u>	<u>\$ 3,240,444</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2020</u>
Land (non-depreciable)	\$ 2,014,472	\$ -	\$ -	\$ 2,014,472
Construction in progress (non-depreciable)	794,205	6,506,356	5,630,275	1,670,286
Land improvements	1,301,811	-	-	1,301,811
Buildings	74,335,263	5,201,032	-	79,536,295
Technology equipment	4,270,963	126,872	9,995	4,387,840
Vehicles	9,680,130	577,245	-	10,257,375
General equipment	636,269	489,331	-	1,125,600
Total at historical cost	<u>\$ 93,033,113</u>	<u>\$ 12,900,836</u>	<u>\$ 5,640,270</u>	<u>\$ 100,293,679</u>
Less: Accumulated depreciation				
Land improvements	\$ 1,011,203	\$ 62,906	\$ -	\$ 1,074,109
Buildings	26,412,410	1,598,399	-	28,010,809
Technology equipment	3,770,280	180,694	9,995	3,940,979
Vehicles	6,649,409	475,684	-	7,125,093
General equipment	608,376	5,573	-	613,949
Total accumulated depreciation	<u>\$ 38,451,678</u>	<u>\$ 2,323,256</u>	<u>\$ 9,995</u>	<u>\$ 40,764,939</u>
Governmental Activities				
Capital Assets-net	<u>\$ 54,581,435</u>	<u>\$ 10,577,580</u>	<u>\$ 5,630,275</u>	<u>\$ 59,528,740</u>
<u>Business-Type Activities</u>	<u>July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2020</u>
Technology equipment	77,540	-	-	77,540
Vehicles	110,896	-	-	110,896
General equipment	997,381	-	-	997,381
Total at historical cost	<u>\$ 1,185,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,185,817</u>
Less: Accumulated depreciation				
Technology equipment	77,332	208	-	77,540
Vehicles	36,965	22,179	-	59,144
General equipment	808,412	34,422	-	842,834
Total accumulated depreciation	<u>\$ 922,709</u>	<u>\$ 56,809</u>	<u>\$ -</u>	<u>\$ 979,518</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 263,108</u>	<u>\$ (56,809)</u>	<u>\$ -</u>	<u>\$ 206,299</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Harlan County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding. During the fiscal year ended June 30, 2020 the District issued \$6,080,000 in bonds to fund the construction projects at Wallins Elementary School.

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2020 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2019 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2020 Outstanding Balance</u>
2000B	\$ 775,000	12/1/2020	4.5 - 5.2%	\$ 105,000	\$ -	\$ 60,000	\$ 45,000
2012R	2,990,000	6/1/2024	.90 - 2.0%	1,495,000	-	295,000	1,200,000
2015R	26,635,000	8/1/2026	2.0 - 3.0%	20,145,000	-	2,310,000	17,835,000
2016R	4,225,000	8/1/2030	2-2.5%	3,825,000	-	175,000	3,650,000
2012B R	1,955,000	12/1/2024	1.0 - 2.125%	1,125,000	-	180,000	945,000
2011	2,085,000	6/1/2031	3.2 - 4.25%	2,005,000	-	10,000	1,995,000
2012	2,350,000	6/1/2033	3.375%	2,315,000	-	5,000	2,310,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	845,000	-	50,000	795,000
2012	229,900	6/1/2022	2.0 - 3.0%	98,000	-	20,000	78,000
2019	3,920,000	5/1/2029	3.0-3.125%	3,920,000	-	75,000	3,845,000
2020	6,080,000	2/1/2040		-	6,080,000	-	6,080,000
				\$ 35,878,000	\$ 6,080,000	\$ 3,180,000	\$ 38,778,000
Add:	Premium			217,559	-	27,448	190,111
Less:	Discount			(35,744)	(102,658)	(4,555)	(133,847)
Totals				\$ 36,059,815	\$ 5,977,342	\$ 3,202,893	\$ 38,834,264

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, 2020 for debt service, (principal and interest) are as follows:

<u>Fiscal Year Ended</u>	<u>30-Jun</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>
2021	\$ 1,594,467	\$ 1,855,533	\$ 613,851	\$ 298,758	\$ 3,450,000	\$ 912,609	
2022	1,629,324	1,843,676	582,602	311,830	3,473,000	894,431	
2023	1,670,329	1,859,671	548,452	274,333	3,530,000	822,785	
2024	1,711,941	1,898,059	512,464	236,043	3,610,000	748,507	
2025	1,767,924	1,587,076	467,841	190,997	3,355,000	658,838	
2026-2030	8,241,709	4,123,291	1,603,055	475,708	12,365,000	2,078,763	
2031-2035	4,150,564	1,384,436	572,656	236,450	5,535,000	809,106	
2036-2040	2,131,740	1,328,260	156,857	94,174	3,460,000	251,031	
	\$ 22,897,998	\$ 15,880,002	\$ 5,057,777	\$ 2,118,293	\$ 38,778,000	\$ 7,176,070	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 covered 100% by an outside insurer for workers' compensation claims. The activity during fiscal year 2020 for workers compensation liability is as follows:

	2019 Outstanding <u>Balance</u>	Claims & Changes In Estimates <u>Additions</u>	Claims Payments <u>Retirements</u>	2020 Outstanding <u>Balance</u>
Workers Compensation Liability	\$ 586,732	\$ 484,865	\$ 69,845	\$ 1,001,752

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 2020 with the remaining balance to be repaid over the next year. The activity during fiscal year 2020 for the worker's compensation deficit is as follows:

<u>Insurance Fund</u>	2019 Outstanding <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	2020 Outstanding <u>Balance</u>
Worker's Compensation	\$ 69,709	\$ -	\$ 34,855	\$ 34,854

The minimum payments are as follows:

	Year Ended June 30,
2021	\$ 34,854

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 2020 for accumulated sick leave is as follows:

	2019 Outstanding <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	2020 Outstanding <u>Balance</u>
Sick Leave	\$ 246,881	\$ -	\$ 67,231	\$ 179,650

Net Pension & OPEB Liability

The net pension liability is \$15,595,689 for governmental activities and \$292,732 for business-type activities for a total of \$15,888,421 as of June 30, 2020. (See Note G for additional information) The net OPEB liability is \$10,478,070 for governmental activities and \$69,995 for business-type activities for a total of \$10,548,065 as of June 30, 2020. (See Note I for additional information)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

<u>Description</u>	<u>2019 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2020 Outstanding Balance</u>	<u>Amount Due in One Year</u>
Bonds, Net of Premium and Discount	\$ 36,059,815	\$ 5,977,342	\$ 3,202,893	\$ 38,834,264	\$ 3,450,000
Capital Lease	633,550	-	113,085	520,465	104,692
Workers Compensation Liability	586,732	484,865	69,845	1,001,752	33,455
KSBIT	69,709	-	34,855	34,854	34,854
Sick Leave	246,881	-	67,231	179,650	-
Net Pension Liability	13,829,681	2,058,740	-	15,888,421	-
Net OPEB Liability	11,956,565	-	1,408,500	10,548,065	-
Totals	\$ <u>63,382,933</u>	\$ <u>8,520,947</u>	\$ <u>4,896,409</u>	\$ <u>67,007,471</u>	\$ <u>3,623,001</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>2019 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2020 Outstanding Balance</u>
2012	\$ 176,231	3/1/2022	2.0 - 2.625%	\$ 50,458	\$ -	\$ 18,422	\$ 32,036
2013	433,036	3/1/2023	2.0%	167,745	-	44,548	123,197
2018	465,306	3/1/2028	2-3%	415,347	-	50,115	365,232
Totals				\$ <u>633,550</u>	\$ <u>-</u>	\$ <u>113,085</u>	\$ <u>520,465</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, 2020:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total Payments</u>
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	48,563	4,801	53,364
2026-2028	135,760	5,909	141,669
	\$ <u>520,465</u>	\$ <u>51,934</u>	\$ <u>572,399</u>
Total minimum lease payments		\$	572,399
Less: Amount representing interest			<u>(51,934)</u>
Present Value of Net Minimum Lease Payments		\$	<u>520,465</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2020 are as follows:

Year Ending		
<u>June 30,</u>	<u>Amount</u>	
2021	\$	10,428
2022		6,915
Total	\$	<u>17,343</u>

Expenditures for equipment under operating leases for the year ended June 30, 2020 totaled \$80,973.

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:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 16.105% 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2020 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 TRS net pension liability	\$ -
Commonwealth's proportionate share of the TRS net pension liability associated with the District	<u>58,726,962</u>
	<u>\$ 58,726,962</u>

The net pension liability was measured as of June 30, 2019, 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, 2020, the District’s proportion was 0.4304%.

Actuarial Methods and Assumptions—The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28.1 years
Asset Valuation Method	5-year smoothed market value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.5%
Projected Salary Increase	3.5-7.3%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- Municipal Bond Index Rate decreased to 3.5%

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 set forward 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	22.0%	5.2%
Fixed Income	15.0%	1.2%
Additional Categories	7.0%	3.2%
Real Estate	7.0%	3.8%
Private Equity	7.0%	6.3%
Cash	2.0%	0.9%
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at the Actuarially Determined Contribution rates 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 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$ 74,985,136	\$ 58,726,962	\$ 45,044,144

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, 2020, employers were required to contribute 24.06% of the member’s salary. During the year ending June 30, 2020, the District contributed \$1,364,682 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS-Medical Insurance Plan

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2019 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, 2019. At June 30, 2020, the District's proportion was 0.225911%.

District's proportionate share of CERS net pension liability	\$	15,888,421
Commonwealth's proportionate share of the TRS net pension liability associated with the District		<u>-</u>
	\$	<u>15,888,421</u>

For the year ended June 30, 2020, the District recognized pension expense of \$2,065,842. At June 30, 2020, 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	\$ 405,679	\$ 67,133
Changes of assumptions	1,608,089	-
Net difference between projected and actual earnings on pension plan investments	304,995	561,123
Changes in proportion and differences between District contributions and proportionate share of contributions	-	126,548
District contributions subsequent to the measurement date	<u>1,285,803</u>	<u>-</u>
	\$ <u>3,604,566</u>	\$ <u>754,804</u>

The \$1,285,803 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		<u>Year Ended June 30,</u>
2021	\$	1,021,715
2022		366,530
2023		157,542
2024		<u>18,172</u>
	\$	<u><u>1,563,959</u></u>

Actuarial Methods and Assumptions—The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2019, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2017:

- The assumed investment rate of return decreased to 6.25%.
- The assumed rate of inflation decreased to 2.30%.
- The Salary Increase changed to 3.30% to 11.55%.
- Phase-In provision added.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
US Equity	18.75%	4.30%
Non-US Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Special Credit/High Yield	15.00%	2.60%
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.00%	4.10%
	100.00%	

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:

	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 19,871,908	\$ 15,888,421	\$ 12,568,223

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2020, there are no payables to CERS.

Other Retirement Plans

The District also offers employees the option to participate in defined contribution plans under Sections 403(B) and 401(k) of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum allowable by law. These plans are administered by an independent third-party administrator.

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency.

GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements.

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 – OTHER POSTEMPLOYMENT BENEFITS (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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2020, the District reported a liability of \$6,749,000 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, 2019, 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, 2020, the District's proportion was .230599 percent.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 TRS net OPEB liability	\$ 6,749,000
Commonwealth's proportionate share of the TRS net OPEB liability associated with the District	<u>5,450,000</u>
	<u>\$ 12,199,000</u>

At June 30, 2020, 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	\$ -	\$ 1,634,000
Changes of assumptions	179,000	-
Net difference between projected and actual earnings on pension plan investments	29,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	67,000	353,000
District contributions subsequent to the measurement date	<u>402,243</u>	<u>-</u>
	<u>\$ 677,243</u>	<u>\$ 1,987,000</u>

The \$402,243 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Year Ended June 30,
2021	\$ (332,000)
2022	(332,000)
2023	(317,000)
2024	(320,000)
2025	(259,000)
Thereafter	<u>(152,000)</u>
	<u>\$ (1,712,000)</u>

Changes of Benefit Terms - None

Changes of Assumptions- The amortization period decreased to 22 years and the Municipal Bond Index Rate decreased to 3.5%.

Actuarial Methods and Assumptions—The total OPEB liability was determined using an actuarial valuation of the June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	22 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.0%, net of OPEB plan investment expense, includes price inflation
Municipal Bond Index Rate	3.5%
Investment Rate of Return	8.0%, net of OPEB plan investment expense, includes price inflation
Inflation	3.0%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.2%, 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 set forward 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, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 Percentage	30 Year Expected Geometric Real Rate of Return
Global Equity	58.00%	5.10%
Fixed Income	9.00%	1.20%
Real Estate	6.50%	3.80%
Private Equity	8.50%	6.30%
Additional Categories	17.00%	3.20%
Cash	1.00%	0.90%
Total	100.00%	

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, 2018. 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%.
- The KEHP group retiree health care costs for members retired on or after July 1, 2010, were assumed to be paid by either the state or the retirees themselves.
- As administrative expenses, other than the administrative fee of \$7.44 per member per month paid to KEHP by TRS, 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
- Employer Contributions
- State Contributions for KEHP premium subsidies payable to retirees who retire after June 30, 2010

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. 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, 2018).

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 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
	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 7,995,000	\$ 6,749,000	\$ 5,705,000

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 proportionate share of net OPEB liability	\$ 5,494,000	\$ 6,749,000	\$ 8,292,000

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.

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, 2020, 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of TRS net OPEB liability	\$ -
Commonwealth's proportionate share of the TRS net OPEB liability associated with the District	<u>127,000</u>
	<u>\$ 127,000</u>

For the year ended June 30, 2020, the District recognized OPEB revenue of \$552,147 for support provided by the State.

Actuarial Methods and Assumptions—The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
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	3.5%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.0%
Real Wage Growth	0.5 %
Wage Inflation	3.5%
Salary Increase	3.5 to 7.45%, including wage inflation
Discount Rate	7.5%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- Projected salary increases changed to 3.5-7.45%.
- Inflation rate decreased to 3.0%.
- Wage inflation decreased to 3.5%.
- Municipal bond index rate decreased to 3.5%.

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 set forward 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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 7.5%. 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:

- 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 3.5%.
- The employer will contribute the actuarially determined contribution (ADC) in accordance with the Life Insurance Trust's 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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	\$	3,567,946,559
Net position available for benefits at actuarial value		<u>(2,523,248,929)</u>
Unfunded medical benefit obligation	\$	<u><u>1,044,697,630</u></u>

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

At June 30, 2020, the District reported a liability of \$3,799,065 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2019, 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, 2020, the District's proportion was .22587200 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	\$	3,799,065
Commonwealth's proportionate share of the net OPEB liability associated with the District		<u>-</u>
	\$	<u><u>3,799,065</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2020, the District recognized OPEB revenue of \$7,544. At June 30, 2020, 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	\$ -	\$ 1,146,266
Changes of assumptions	1,124,179	7,517
Net difference between projected and actual earnings on pension plan investments	25,023	193,762
Changes in proportion and differences between District contributions and proportionate share of contributions	-	94,957
District contributions subsequent to the measurement date	<u>160,451</u>	<u>-</u>
	<u>\$ 1,309,653</u>	<u>\$ 1,442,502</u>

The \$160,451 (includes \$78,879 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>
2021	\$ (49,517)
2022	(49,517)
2023	4,132
2024	(98,591)
2025	(85,054)
Thereafter	<u>(14,752)</u>
	<u>\$ (293,299)</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-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Medicare eligible retirees. GASB 74 requires that the liability associated with this implicit subsidy be included in the calculation of the Total OPEB Liability.

Changes of Benefit Terms-None

Actuarial Methods and Assumptions—The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. 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	26 years, closed
Asset Valuation Method	20% of difference between the market value of assets and the expected actuarial value of assets.
Price Inflation	2.30%
Salary Increase	3.30 - 11.55%, varies by service
Investment Return	6.25%
Payroll Growth	2.00%
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 7.25% and gradually decreasing to an ultimate trend rate of 4.05% over period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.10% and gradually decreasing to an ultimate trend rate of 4.05% over period of 11 years.
Healthcare Trend Rates (Phase-In)	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- Amortization period decreased to 26.
- Payroll growth rate decreased to 2.00%
- Investment return rate decreased to 6.25%.
- Inflation rate decreased to 2.30%.
- Salary increase changed to 3.30 – 11.55%.
- Health care trend rates Pre-65 changed to having an initial trend rate of 7.25% decreasing to 4.05% over 13 years.
- Health care trend rates Post-65 changed to having an initial trend rate of 5.10% decreasing to 4.05% over 11 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- Health care trend rates phase in provision was added.

Discount rate: The discount rate used to measure the total OPEB liability was 5.68%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.13%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 28, 2019. Based on the stated assumptions and the projection of cash flows as of each fiscal year ended, the plan’s insurance fiduciary net position and future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on Insurance plan investments was applied to all periods of the projected benefit payments paid from the retirement plan. However, the cost associated with the implicit subsidy will not be paid out of the plan’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The projection of cash flows used to determine the single discount rate assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018) that applies to CERS.

The following table presents the net OPEB liability of the District, calculated using the discount rate of 5.68%, 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 (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	4.68%	5.68%	6.68%
District's proportionate share of net OPEB liability	\$ 5,089,185	\$ 3,799,065	\$ 2,736,093

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 5.68%, 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 (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 2,825,384	\$ 3,799,065	\$ 4,979,769

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 – COMMITMENTS

The District has commitments for construction projects of \$4,890,360 as of June 30, 2020. In addition, the District has made a commitment for sick leave in the general fund of \$89,825 and \$500,000 for Self-Insurance claims.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE K – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 5,212,643	Future Construction
FSPK	1,245,834	School Facilities Construction Commission Requirement
District Activity	12,707	School Activity
Food Service	\$ 1,039,465	School Food Service Operations

NOTE L - 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 M - 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 N – 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 O – 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	\$ (295,332)
Capital Outlay	(1,832)

NOTE P - COBRA

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – 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	\$ 1,709
Debt Service	Building Fund	Debt Service Fund	Debt Payments	1,950,734
Debt Service	General Fund	Debt Service Fund	Debt Payments	186,887
Operations	Food Service Fund	General Fund	Indirect Costs	204,241
Operations	General Fund	Special Revenue Fund	Operations	138,998
Construction	General Fund	Construction Fund	Construction	263,512
Construction	Building Fund	Construction Fund	Construction	467,640
Construction	Capital Outlay Fund	Construction Fund	Construction	1,832
Operations	Capital Outlay Fund	Building Fund	Operations	\$ 325,600

NOTE R – ON-BEHALF PAYMENTS

For fiscal year 2020, 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)	\$ 4,749,153
Health Insurance	4,451,122
Life Insurance	7,425
Administrative Fee	61,860
HRA/Dental/Vision	254,625
Federal Reimbursement	(509,767)
Technology	89,369
SFCC Debt Service Payments	<u>1,934,735</u>
Total	\$ <u><u>11,038,522</u></u>

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

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 13, 2020, 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 TRS
For the year ended June 30, 2020

	Reporting Fiscal Year (Measurement Date) 2020 (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	0.22591%	0.22708%	0.23100%	0.235920%	0.24140%
District's proportionate share of the net pension liability	\$ 15,888,421	\$ 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>\$ 15,888,421</u>	<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	\$ 5,699,300	\$ 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	278.78%	245.59%	240.25%	203.37%	188.91%
Plan fiduciary net position as a percentage of the total pension liability	50.54%	53.54%	53.30%	59.00%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):					
Districts' proportion of the net pension liability	0.430%	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	<u>57,726,962</u>	<u>57,669,901</u>	<u>123,534,828</u>	<u>133,984,475</u>	<u>106,334,109</u>
Total	<u>\$ 57,726,962</u>	<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	\$ 16,672,673	\$ 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%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	58.80%	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

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
CERS and TRS
For the year ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):					
Contractually required contribution	\$ 1,285,803	\$ 1,165,930	\$ 1,029,296	\$ 1,065,710	\$ 974,431
Contributions in relation to the contractually required contributions	<u>1,285,803</u>	<u>1,165,930</u>	<u>1,029,296</u>	<u>1,065,710</u>	<u>974,431</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919	\$ 5,711,804
District's contributions as a percentage of it's covered-employee payroll	22.67%	20.46%	18.28%	18.94%	17.06%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):					
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 16,599,383	\$ 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%	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.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
For the year ended June 30, 2020

(1) CHANGES OF BENEFITS

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

(2) CHANGES OF ASSUMPTIONS

TRS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- o Municipal Bond Index Rate decreased to 3.5%.

CERS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2019:

- o The assumed investment rate of return decreased to 6.25%.
- o The assumed rate of inflation decreased to 2.30%.
- o The Salary Increase changed to 3.30% to 11.55%.
- o Phase-In provision added.

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

TRS

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, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	28.1 years
Asset Valuation Method	5-year smoothed market value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.5%
Projected Salary Increase	3.5-7.3%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation.

CERS

The Board of Trustees uses this actuarial valuation to certify the employer contribution rates for CERS for the fiscal year beginning July 1, 2019 and ending June 30, 2020. 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:

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS

For the year ended June 30, 2020

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	26 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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, 2020

	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
MEDICAL INSURANCE PLAN			
District's proportion of the collective net OPEB liability (asset)	0.23060%	0.22841%	0.24268%
District's proportionate share of the collective net OPEB liability (asset)	\$ 6,749,000	\$ 7,925,000	\$ 8,653,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>5,450,000</u>	<u>6,830,000</u>	<u>7,069,000</u>
Total	<u>\$ 12,199,000</u>	<u>\$ 14,755,000</u>	<u>\$ 15,722,000</u>
District's covered-employee payroll	\$ 16,672,673	\$ 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	40.48%	48.02%	50.23%
Plan fiduciary net position as a percentage of the total OPEB liability	32.60%	25.50%	21.20%
LIFE INSURANCE PLAN			
District's proportion of the collective net OPEB liability (asset)	0.00000%	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>127,000</u>	<u>117,000</u>	<u>95,000</u>
Total	<u>\$ 127,000</u>	<u>\$ 117,000</u>	<u>\$ 95,000</u>
District's covered-employee payroll	\$ 16,672,673	\$ 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%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	73.40%	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, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
MEDICAL INSURANCE PLAN			
Contractually required contribution	\$ 402,243	\$ 402,096	\$ 406,867
Contributions in relation to the contractually required contribution	<u>402,243</u>	<u>402,096</u>	<u>406,867</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511
District's contributions as a percentage of it's covered-employee payroll	2.42%	2.41%	2.47%
LIFE INSURANCE PLAN			
Contractually required contribution	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 16,599,383	\$ 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%	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, 2020

	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
HEALTH INSURANCE PLAN			
District's proportion of the collective net OPEB liability (asset)	0.22587%	0.22707%	0.23100%
District's proportionate share of the collective net OPEB liability (asset)	\$ 3,799,065	\$ 4,031,565	\$ 4,643,790
State's proportionate share of the collective net OPEB liability (asset) associated with the District	-	-	-
Total	\$ <u>3,799,065</u>	\$ <u>4,031,565</u>	\$ <u>4,643,790</u>
District's covered-employee payroll	\$ 5,699,300	\$ 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	66.66%	71.59%	82.51%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	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, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN			
Contractually required contribution	\$ 160,451	\$ 123,309	\$ 107,518
Contributions in relation to the contractually			
	<u>160,451</u>	<u>123,309</u>	<u>107,518</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180
District's contributions as a percentage of it's covered-employee payroll	2.83%	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.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB

For the year ended June 30, 2020

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 22 years
- Municipal Bond Index Rate decreased to 3.5%.

Life Insurance Fund

- Projected salary increases changed to 3.5-7.45%.
- Inflation rate decreased to 3.0%.
- Wage inflation decreased to 3.5%.
- Municipal bond index rate decreased to 3.5%.

(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, 2020:

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	22 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.0%, net of OPEB plan investment expense, includes price inflation
Municipal Bond Index Rate	3.5%
Investment Rate of Return	8.0%, net of OPEB plan investment expense, includes price inflation
Inflation	3.0%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.2%, including wage inflation
Discount Rate	8.0%

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB

For the year ended June 30, 2020

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, 2020:

Valuation Date	June 30, 2018
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	3.5%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.0%
Real Wage Growth	0.5 %
Wage Inflation	3.5%
Salary Increase	3.5 to 7.45%, including wage inflation
Discount Rate	7.5%

CERS

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

There were no changes of benefit terms.

(2) CHANGES OF ASSUMPTIONS

- Amortization period decreased to 26.
- Payroll growth rate decreased to 2.00%
- Investment return rate decreased to 6.25%.
- Inflation rate decreased to 2.30%.
- Salary increase changed to 3.30 – 11.55%.
- Health care trend rates Pre-65 changed to having an initial trend rate of 7.25% decreasing to 4.05% over 13 years.
- Health care trend rates Post-65 changed to having an initial trend rate of 5.10% decreasing to 4.05% over 11 years.
- Health care trend rates phase in provision was added.

(3) 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%.

**HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB**

For the year ended June 30, 2020

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	26 years, closed
Asset Valuation Method	20% of difference between the market value of assets and the expected actuarial value of assets.
Price Inflation	2.30%
Salary Increase	3.30 - 11.55%, varies by service
Investment Return	6.25%
Payroll Growth	2.00%
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 7.25% and gradually decreasing To an ultimate trend rate of 4.05% over period of 13 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.10% and gradually decreasing To an ultimate trend rate of 4.05% over period of 11 years.
Healthcare Trend Rates (Phase-In)	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018.

Harlan County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2020

	Other Governmental Funds			
	Capital Outlay	FSPK	District Activity	Total
Assets				
Cash and cash equivalents	\$ -	\$ 93,543	\$ 12,707	\$ 106,250
Investments		1,152,291		1,152,291
Total assets	-	1,245,834	12,707	1,258,541
Fund Balance				
Restricted		1,245,834	12,707	1,258,541
Total fund balance	\$ -	\$ 1,245,834	\$ 12,707	\$ 1,258,541

Harlan County School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2020

	Other Governmental Funds			
	Capital Outlay	FSPK	District Activity	Total
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ 865,129	\$ -	\$ 865,129
Intergovernmental - state	327,309	932,313		1,259,622
Student activities			9,893	9,893
Total revenues	327,309	1,797,442	9,893	2,134,644
Expenditures				
Instruction			443	443
Total expenditures	-	-	443	443
Excess (Deficit) of Revenues Over Expenditures	327,309	1,797,442	9,450	2,134,201
Other Financing Sources (Uses)				
Operating transfers	(329,141)	(2,092,774)		(2,421,915)
Total other financing sources (uses)	(329,141)	(2,092,774)	-	(2,421,915)
Net change in Fund Balances	(1,832)	(295,332)	9,450	(287,714)
Fund Balance Beginning	1,832	1,541,166	3,257	1,546,255
Fund Balance Ending	\$ -	\$ 1,245,834	\$ 12,707	\$ 1,258,541

Harlan County School District
Combining Balance Sheet
School Activity Funds
 June 30, 2020

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>TOTALS</u>
ASSETS										
Cash and cash equivalents	\$ 61,550	\$ 7,868	\$ 13,759	\$ 69,451	\$ 67,100	\$ 25,817	\$ 52,623	\$ 63,593	\$ 48,134	409,895
Accounts receivable	-	-	-	-	258	-	-	-	-	258
Total assets	<u>61,550</u>	<u>7,868</u>	<u>13,759</u>	<u>69,451</u>	<u>67,358</u>	<u>25,817</u>	<u>52,623</u>	<u>63,593</u>	<u>48,134</u>	<u>410,153</u>
LIABILITIES										
Accounts payable	-	93	-	-	-	-	-	-	4,000	4,093
Total liabilities	<u>-</u>	<u>93</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>4,093</u>
FUND BALANCE										
School activities	<u>61,550</u>	<u>7,775</u>	<u>13,759</u>	<u>69,451</u>	<u>67,358</u>	<u>25,817</u>	<u>52,623</u>	<u>63,593</u>	<u>44,134</u>	<u>406,060</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 61,550</u>	<u>\$ 7,868</u>	<u>\$ 13,759</u>	<u>\$ 69,451</u>	<u>\$ 67,358</u>	<u>\$ 25,817</u>	<u>\$ 52,623</u>	<u>\$ 63,593</u>	<u>\$ 48,134</u>	<u>\$ 410,153</u>

Harlan County School District
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds
For the year ended June 30, 2020

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>TOTALS</u>
REVENUES										
Student revenues	\$ 326,241	\$ 42,071	\$ 46,198	\$ 136,891	\$ 97,562	\$ 33,844	\$ 70,402	\$ 132,573	\$ 99,632	\$ 985,414
EXPENSES										
Student activities	332,094	48,514	50,195	159,881	83,778	28,394	51,183	129,528	113,697	997,264
Excess (Deficit) of Revenues Over Expenses	(5,853)	(6,443)	(3,997)	(22,990)	13,784	5,450	19,219	3,045	(14,065)	(11,850)
Fund balance, beginning	<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>
Fund balance, ending	<u>\$ 61,550</u>	<u>\$ 7,775</u>	<u>\$ 13,759</u>	<u>\$ 69,451</u>	<u>\$ 67,358</u>	<u>\$ 25,817</u>	<u>\$ 52,623</u>	<u>\$ 63,593</u>	<u>\$ 44,134</u>	<u>\$ 406,060</u>

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Harlan County High School
For the year ended June 30, 2020

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
GENERAL FUND	\$ 1,368	\$ 9,650	\$ 10,647	\$ (85)	286
BLACK BEAR PHOTOGRAPHY	443	60	308	-	195
GRADUATION FUND	172	-	-	-	172
CONTINGENCY	84	1,060	1,137	-	7
DUAL CREDIT COLLEGE TOURS	1,411	1,845	1,804	-	1,452
SCHOOL PICTURES	927	2,414	2,055	(1,208)	78
SENIOR PICTURES	240	-	216	-	24
1ST PRIORITY	603	2,828	4,045	615	1
1ST PRIORITY AQUARIUM	14	2,155	2,159	-	10
PEP CLUB	-	1,930	2,450	1,350	830
COMMUNITY PROBLEM SOLVING	39	-	-	-	39
ECLRP TEAM	453	-	410	-	43
ANATOMY FUNDS	453	-	87	-	366
FISHING TEAM	811	1,835	1,083	-	1,563
SCHOOL CONCESSION	1,245	-	966	-	279
TEACHER VENDING	313	1,801	3,633	1,520	1
PARKING	928	2,640	994	(2,300)	274
ATHLETICS	278	83,264	75,281	884	9,145
DECA	144	182	23	-	303
CHEERLEADING	2,232	5,456	7,677	-	11
DANCE TEAM	2,337	6,447	7,950	(105)	729
FOOTBALL	1,393	54,288	53,541	(1,095)	1,045
GIRLS BASKETBALL	1,550	9,020	10,480	-	90
BOYS BASKETBALL	1,283	28,154	26,398	(200)	2,839
SOFTBALL	848	5,200	2,372	-	3,676
BASEBALL	1,799	22,895	22,080	-	2,614
GOLF	951	4,065	4,059	-	957
BOYS SOCCER	1,543	1,710	473	(734)	2,046
TENNIS	372	582	581	-	373
ARCHERY	645	-	644	-	1
VOLLEYBALL	68	7,639	7,772	200	135
ACADEMIC TEAM	4	-	-	-	4
ART CLUB	1,622	-	-	-	1,622
AP/SAT PLAN	116	-	-	-	116
HCHS FEEDER BAND	472	-	200	-	272
BAND	1,143	5,451	5,231	-	1,363
HONOR BAND	3	-	-	-	3
BETA CLUB	6,884	2,793	3,338	(500)	5,839
BLACK BEAR STORE	794	10,730	11,143	100	481
CROSS COUNTRY/TRACK	1,634	6,300	5,933	-	2,001
CHORUS	831	779	1,220	-	390
DRAMA CLUB	5,582	2,586	6,582	-	1,586
FBLA	322	718	558	-	482
FCCLA	28	450	484	7	1
FFA-FUTURE FARMERS	3,676	2,354	5,749	-	281
FFA-GREENHOUSE	4,046	3,034	3,991	-	3,089
FUTURE EDUCATORS	187	-	-	-	187
HOME EC/MCCORMICK	79	1,585	2,705	1,042	1
JROTC	354	8,164	9,862	1,344	-
LIBRARY	172	127	110	(55)	134
NATIONAL HONORS	2,442	2,385	4,003	-	824
GEAR UP	569	135	463	-	241
PEP CLUB	81	-	-	-	81
PROM	2,025	3,650	3,547	(1,520)	608
YEARBOOK	8,437	11,898	9,148	55	11,242
SPANISH CLASS	81	-	-	-	81
SPANISH HONOR SOCIETY	87	1,176	937	-	326
YOUTH SERVICE CENTER	754	4,706	5,379	500	581
GUIDANCE OFFICE FUND	-	100	-	-	100
PEP CLUB	30	-	-	-	30
ASVAB TESTING	1	-	186	185	-
TOTALS	\$ 67,403	\$ 326,241	\$ 332,094	\$ -	\$ 61,550

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2020

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 19		7760005 19	\$ -	N/A	175,652
Fiscal Year 20		7760005 20	-	N/A	465,159
National School Lunch Program	10.555				
Fiscal Year 19		7750002 19	-	N/A	356,927
Fiscal Year 20		7750002 20	-	N/A	896,022
Summer Feeding Program	10.559				
Fiscal Year 20		7740023 20	-	N/A	771,056
Fiscal Year 20		7690024 20	-	N/A	78,917
Child Nutrition Cluster Subtotal					<u>2,743,733</u>
Fresh Fruits & Vegetables	10.582				
Fiscal Year 19		7720012 19	-	N/A	-
Fiscal Year 20		7720012 20	-	N/A	144,900
					<u>144,900</u>
Child & Adult Care Food Program	10.558				
Fiscal Year 19		7790021 19	-	N/A	76,301
Fiscal Year 20		7790021 20	-	N/A	156,787
Fiscal Year 19		7800016 19	-	N/A	4,693
Fiscal Year 20		7800016 20	-	N/A	9,662
					<u>247,443</u>
State Administrative Grant for Nutrition	10.560				
Fiscal Year 19		7700001 19	-	N/A	9,158
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 20		510.4950	-	N/A	162,595
Total US Department of Agriculture					<u>3,307,829</u>
US Department of Education					
Passed Through State Department of Education					
* Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 19		3100002 19	-	2,537,712	762,724
Fiscal Year 20		3100002 20	-	2,510,839	1,662,897
					<u>2,425,621</u>
Special Education Grants to States	84.027A				
Fiscal Year 19		3810002 19	-	1,043,915	532,374
Fiscal Year 20		3810002 20	-	1,044,326	527,920
Special Education - Preschool Grants	84.173A				
Fiscal Year 19		3800002 19	-	95,712	18,568
Fiscal Year 20		3800002 20	-	97,100	79,875
Special Education Cluster Subtotal					<u>1,158,737</u>
Homeless Youth & Children	84.196				
Fiscal Year 19		3990002 19	-	80,000	28,341
Fiscal Year 20		3990002 20	-	89,988	41,454
					<u>69,795</u>
Vocational Education - Basic Grants to States	84.048				
Fiscal Year 19		3710002 19	-	2,232	1,251
Fiscal Year 20		3710002 20	-	78,179	78,179
					<u>79,430</u>
21st Century Community Learning	84.287				
Fiscal Year 18		3400002 18	-	100,000	11,762
Fiscal Year 19		3400002 19	-	95,000	83,806
					<u>95,568</u>
Rural Education	84.358B				
Fiscal Year 18		3140002 18	-	66,559	14,294
Fiscal Year 19		3140002 19	-	70,371	68,815
					<u>83,109</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 18		3230002 18	-	291,679	1,537
Fiscal Year 19		3230002 19	-	281,904	26,760
Fiscal Year 20		3230002 20	-	321,854	232,226
					<u>260,523</u>
Title IV Part A	84.424				
Fiscal Year 19		3420002 19	-	184,840	63,794
Fiscal Year 20		3420002 20	-	190,361	109,256
					<u>173,050</u>
Striving Readers Literacy Grant	84.371C				
Fiscal Year 19		S371C170016	-	290,000	92,703
CARES Act Educational Stabilization Fund	84.425D				
Fiscal Year 20		4000002 20	-	2,045,757	2,960
Passed Through Kentucky Valley Educational Cooperative					
Race to the Top - District	84.416A				
Fiscal Year 19		B416A140080	-	N/A	303
Fiscal Year 20		B416A140081	-	N/A	677
					<u>980</u>
Passed Through Berea College					
Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334S				
Fiscal Year 19		379E	-	622,750	126,745
Fiscal Year 20		379F	-	622,750	455,425
					<u>582,170</u>
Total US Department of Education					<u>5,024,646</u>
US Department of Defense					
Passed directly from the US Department of the Army					
ROTC	12.000				
Fiscal Year 20		504F	-	N/A	60,395
Total US Department of the Army					<u>60,395</u>
US Department of Health and Human Services					
Passed directly from the US Department of the Army					
Promoting Adolescent Health	93.079				
Fiscal Year 20		493F	-	N/A	150
Total US Department of Health and Human Services					<u>150</u>
Total Expenditure of Federal Awards				\$	<u>8,393,020</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, 2020

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, 2020. 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, 2020, the District received food commodities totaling \$162,595.

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* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District, as of and for the year ended June 30, 2020, 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 13, 2020.

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) as a basis for designing 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 financial statements. 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 13, 2020.

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 13, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT 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, 2020. 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, 2020.

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 13, 2020

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2020

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 N/A
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in the Uniform Guidance?	No
Major Programs	Title I [CFDA 84.010A]
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, 2020

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, 2020, 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 13, 2020. This letter does not affect our report dated November 13, 2020, on the financial statements of the Harlan County School District. The conditions observed are as follows:

CAWOOD ELEMENTARY

1-20

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

Recommendation for Correction: The principal (or appointed designee) and school treasurer should ensure 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: When a check is written, the Principal and School Treasurer will ensure that two signatures are on the check before it is given to appropriate person/business for payment. Both will attend Redbook training for this finding.

2-20

Statement of Condition: Receipts are being written to the account or vendor (Middlesboro Coca-Cola) instead of the person turning the money in.

Recommendation for Correction: Receipts should be written to the person who turns the money in and signs the Multiple Receipt Form (F-SA-6).

Management Response to the Recommendation: All receipts will be written to the person who is remitting the money and signs the Multiple Receipt Form. Treasurer and principal will attend Redbook training for this finding.

GREEN HILLS ELEMENTARY

No conditions

BLACK MOUNTAIN ELEMENTARY

3-20

Statement of Condition: The District Activity Fund Monthly Submission Form (F-SA-16) is not being completed every month showing all transfers of funds to the District Activity Funds (DAF) account.

Recommendations for Correction: Form F-SA-16 should be completed every month and attached to the check sent in to the district. A copy of the form should also be attached to the check.

Management Response: F-SA-16 will be completed every month if any transfers have occurred. When funds are transferred to the DAF fund F-SA-16 will be attached to the Check. Principal and secretary will attend Redbook training for this finding.

4-20

Statement of Condition: Purchase Orders are being utilized but not consistently. (Refs, security, etc...)

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: Purchase orders numbers will be issued before a purchase will be processed. Principal and Sponsor will approve purchase orders. District finance officer has talked to principal about this finding. Principal and secretary will attend Redbook training for this finding.

5-20

Statement of Condition: Instances of receipts not being deposited timely. (# 4455, 4483)

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: All monies over a \$100.00 will be deposited daily. A second person will verify each deposit. Principal and secretary will attend Redbook training for this finding.

CUMBERLAND ELEMENTARY

6-20

Statement of Condition: Purchase Orders are being utilized but not consistently. (Refs, security, etc...)

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 require purchase order to be created and approved before any purchases or checks are written for services rendered. Principal and secretary will attend Redbook training for this finding.

7-20

Statement of Condition: Instances of checks written not having two signatures. (# 8428, 8499, 8622)

Recommendation for Correction: The principal (or appointed designee) and school treasurer should ensure 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: The principal and bookkeeper will ensure that all written checks will be signed. Both will attend Rebook training for this finding.

8-20

Statement of Condition: Instances of sales tax being paid or reimbursed. (Food City)

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

Management Response to the Recommendation: Principal will tell all staff in building that sales tax cannot be reimbursed nor put on items when purchasing. No sales tax will be paid or reimbursed. Principal and secretary will attend Rebook training for this finding. District finance officer has discussed this issue with principal and bookkeeper.

EVARTS ELEMENTARY

9-20

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: Principal and secretary discussed issue. Secretary will put all receipt numbers on deposit slip. Principal and secretary will receive Redbook training.

10-20

Statement of Condition: Purchase Orders are being utilized but not consistently. (Refs, security, etc...)

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 had discussion with secretary about utilizing purchase orders for everything. Secretary will make sure purchase order is completed for all expenditures and have principal approve it. Both will receive Redbook training concerning this finding.

11-20

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one. (K-3 fundraisers)

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: Principal and secretary will communicate to all faculty members in meeting that F-SA-2B worksheet must be filled out for all fundraising events. Principal and secretary will receive Redbook training for this finding.

12-20

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 and secretary has been told by district finance officer that bank statement has to include initials and date on front page of bank statement after reviewed by principal. Principal and secretary will attend Redbook training concerning this finding.

JAMES A CAWOOD ELEMENTARY

13-20

Statement of Condition: Receipts are being written to the account or vendor (Middlesboro Coca-Cola) instead of the person turning the money in.

Recommendation for Correction: Receipts should be written to the person who turns the money in and signs the Multiple Receipt Form (F-SA-6).

Management Response to the Recommendation: We will review the status of these conditions during our next audit engagement and will receive Redbook training on these findings. 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.

ROSSPOINT ELEMENTARY

14-20

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one. (Lollipop, 7/8th ch-lead, candy, Little Caesar's fundraisers)

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: Principal and Secretary will require Fund Raiser Worksheet (F-SA-2B) to be used for all fundraising events that require one. Principal and Secretary will attend Redbook training for this finding.

WALLINS ELEMENTARY

15-20

Statement of Condition: Purchase Orders are being utilized but not consistently. (Harlan Co Board)

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: All staff members will be retrained on proper procedures for purchases including preparing Purchase Request/Orders and having those PO's approved by the sponsor and principal before any purchases are made. Principal and secretary will attend Redbook training on this finding.

HARLAN COUNTY HIGH SCHOOL

16-20

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one. (All fundraisers)

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation:

The principal (Kathy Minor) and school treasurer (Eula Brock) met on October 21, 2020. According to the recommendation for correction, the school treasure will ensure the sponsor completes the fundraiser summary worksheet. The sponsor will submit to the principal for review and the principal will give to the school treasure to file with other financial documents. All sponsors were notify via email that the F-SA-2B form would need to be completed after each fundraisers. Principal and secretary will receive Redbook training on this finding.

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: 9-20, 12-20 and 15-20. 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, Jody Gilliam 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 13, 2020