

**HARLAN COUNTY**  
**SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2021

Prepared by:

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



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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the 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 Harlan County School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise 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 Harlan County School District as of June 30, 2021, 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.

### ***Emphasis of Matter***

As described in Note A to the financial statements, the District adopted new accounting guidance, GASB 84 *Fiduciary Activities*, changing School Activity Funds from a fiduciary fund to a special revenue fund. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 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 15, 2021, on our consideration of 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 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 Harlan County School District's internal control over financial reporting and compliance.

***White & Associates, PSC***

Richmond, Kentucky  
November 15, 2021

**HARLAN COUNTY SCHOOL DISTRICT-HARLAN, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
Year ended June 30, 2021**

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, 2021. 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 \$12,108,471 of which \$5,231,227 was General Fund, \$6,877,244 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$10,036,864 of which \$7,139,067 was General Fund, \$2,897,797 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund. The Wallins construction project was near completion at end of 2021. Thus, the construction funds were used as the year closed. These funds were a significant part of the swing in the beginning and ending balance.
- The ending cash balance was \$5,187,879 for General Fund.
- The General Fund Revenue (excluding transfers) totaled \$32,387,207 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures (excluding transfers) total \$30,383,498.
- 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 and deferred inflows by approximately \$10.80 million as of June 30, 2021. 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.



2021 District-Wide Governmental Net position compared to 2020 as follows:

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

	Governmental Activities		Business-type Activities		Totals	
	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>
Current assets	\$ 12.63	\$ 10.79	\$ 1.35	\$ 1.22	\$ 13.98	\$ 12.01
Non-current assets	59.53	61.84	0.21	0.16	59.74	62.00
Total assets	<u>72.16</u>	<u>72.63</u>	<u>1.56</u>	<u>1.38</u>	<u>73.72</u>	<u>74.01</u>
Deferred outflows	6.43	7.34	0.09	0.28	6.52	7.62
Current liabilities	4.97	4.59	-	0.01	4.97	4.60
Non-current liabilities	63.02	60.56	0.36	1.18	63.38	61.74
Total liabilities	<u>67.99</u>	<u>65.15</u>	<u>0.36</u>	<u>1.19</u>	<u>68.35</u>	<u>66.34</u>
Deferred inflows	4.14	4.39	0.04	0.09	4.18	4.48
Net position:						
Invested in capital assets, net of debt	20.17	25.96	0.21	0.16	20.38	26.12
Restricted	6.47	2.90	1.04	0.22	7.51	3.12
Unrestricted (deficit)	(20.19)	(18.44)			(20.19)	(18.44)
Total net position	<u>\$ 6.45</u>	<u>\$ 10.42</u>	<u>\$ 1.25</u>	<u>\$ 0.38</u>	<u>\$ 7.70</u>	<u>\$ 10.80</u>

## GOVERNMENTAL ACTIVITIES

Ending net position was \$10.80 million for the District.

**Table 2**  
**Changes in Net Position**  
**(in millions)**

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2020-2021
	2020	2021	2020	2021	2020	2021	
<b>Revenues:</b>							
Charges for services	\$ 0.01	\$ 0.46	\$ 0.43	\$ 0.51	\$ 0.44	\$ 0.97	120%
Operating grants and contributions	6.92	20.27	3.84	3.28	10.76	23.55	119%
Capital grants and contributions	3.19	3.60			3.19	3.60	13%
General revenues	34.31	24.91	(0.15)	(0.09)	34.16	24.82	-27%
<b>Total revenue</b>	<b>\$ 44.43</b>	<b>\$ 49.24</b>	<b>\$ 4.12</b>	<b>\$ 3.70</b>	<b>\$ 48.55</b>	<b>\$ 52.94</b>	<b>9%</b>
<b>Expenses:</b>							
Instruction	\$ 25.51	\$ 27.44	\$ -	\$ -	\$ 25.51	\$ 27.44	8%
Student	2.19	2.21			2.19	2.21	1%
Instructional staff	1.39	1.32			1.39	1.32	-5%
District administration	1.23	1.16			1.23	1.16	-6%
School administration	2.18	2.14			2.18	2.14	-2%
Business	0.66	0.68			0.66	0.68	3%
Plant operation & maintenance	4.03	4.35			4.03	4.35	8%
Student transportation	2.86	2.34			2.86	2.34	-18%
Community services operations	0.53	0.57			0.53	0.57	8%
Food Service Operations		0.24	3.27	4.52	3.27	4.76	46%
Depreciation/Amortization	2.49	2.59	0.06	0.04	2.55	2.63	3%
Enterprise Operations		0.08			-	0.08	
Interest on long-term debt	1.07	0.56			1.07	0.56	-48%
<b>Total Expenses</b>	<b>\$ 44.14</b>	<b>\$ 45.68</b>	<b>\$ 3.33</b>	<b>\$ 4.56</b>	<b>\$ 47.47</b>	<b>\$ 50.24</b>	<b>6%</b>
<b>Change in net position</b>	<b>\$ 0.29</b>	<b>\$ 3.56</b>	<b>\$ 0.79</b>	<b>\$ (0.87)</b>	<b>\$ 1.08</b>	<b>\$ 2.69</b>	<b>-149%</b>

## CAPITAL ASSETS

After depreciation, at the end of fiscal 2021, the District had \$62 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$ 2.27 million over last year, mainly due to completed construction projects throughout the district and purchase of vehicles.

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

	Governmental Activities		Business-type Activities		Totals	
	2020	2021	2020	2021	2020	2021
Land	\$ 2,014,472.00	\$ 2,014,472.00	\$ -	\$ -	\$ 2,014,472.00	\$ 2,014,472.00
Land Improvements	227,702	173,859			227,702	173,859
Buildings	51,525,488	49,703,978			51,525,488	49,703,978
Technology Equipment	446,860	300,962			446,860	300,962
Vehicles	3,132,282	3,267,688	51,752	29,572	3,184,034	3,297,260
General Equipment	511,651	456,877	154,547	133,219	666,198	590,096
Construction in Progress	1,670,285	5,922,877			1,670,285	5,922,877
<b>Totals</b>	<b>\$ 59,528,740.00</b>	<b>\$ 61,840,713.00</b>	<b>\$ 206,299.00</b>	<b>\$ 162,791.00</b>	<b>\$ 59,735,039.00</b>	<b>\$ 62,003,504.00</b>

**DEBT**

Capital lease and general obligation debt decreased \$3.62 million from FY 2020.

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

	Government Activities	
	2020	2021
General Obligation Bonds	\$ 38,834,264.00	\$ 35,461,332.00
Capital Lease Obligations	633,550	415,773
KSBIT Obligations	34,854	-
<b>Total Obligations</b>	<b>\$ 39,502,668.00</b>	<b>\$ 35,877,105.00</b>

## THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$7,234,009, which is more than last year's fund balance of \$5,231,227. The unassigned portion of the fund balance at the end of fiscal year 2021 is \$5,973,819 compared to \$4,550,390 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, 2021:

\*Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	\$5,077,432	\$ 134,709	\$ -	\$ 848,028	\$ -	\$ -	\$ 620,516
State Revenue Sources	27,194,326	3,040,981	327,309	1,075,060		2,200,718	538,244
Federal Revenue Sources	115,449	8,552,021					2,739,242
Other						2,135,000	
Transfers	200,292					2,179,023	
<b>TOTALS</b>	<b>32,587,499</b>	<b>11,727,711</b>	<b>327,309</b>	<b>1,923,088</b>	<b>-</b>	<b>6,514,741</b>	<b>3,898,002</b>
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	16,994,461	9,336,846					
Student Support Services	1,783,471	425,173					
Instructional Staff Support Services	773,908	547,075					
District Admin Support	1,159,354						
School Admin Support	2,138,273						
Business Support Services	596,546	80,050					
Plant Operation & Management	3,984,393	364,826					
Student Transportation	2,834,158	163,669					
Food Service Operations		235,796					4,562,912
Day Care Operations							
Community Services		574,276					
Building Improvements					4,252,593		
Debt Service	118,934					6,493,680	
Other						21,061	
Transfers	201,219		327,309	1,650,495			200,292
<b>TOTALS</b>	<b>30,584,717</b>	<b>11,727,711</b>	<b>327,309</b>	<b>1,650,495</b>	<b>4,252,593</b>	<b>6,514,741</b>	<b>4,763,204</b>
Excess / (Deficit)	\$2,002,782	\$ -	\$ -	\$ 272,593	\$ (4,252,593)	\$ -	\$ (865,202)

## **Comments on Budget Comparisons**

- The District's total general fund balance for the fiscal year ended June 30, 2021, is \$7,234,009, which is more than last year's fund balance of \$5,231,227.
- The District's total revenue, including "On-behalf" payments for general fund fiscal year ending June 30, 2021 was \$32,387,207, net of other financing sources, transfers and uses. Transfers into general fund were \$200,292.
- 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 2020-21. The unmined mineral revenue source is no longer a steady source of revenue for our district. The actuals on some large line items compared to budget amounts differ due to moving expenses to covid fund 17GG.
- The total cost of all general fund programs and services was \$30.58 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 2021-2022 with a 14% general fund contingency. This is due to changes in SEEK funding once covid issues are resolved and schools will rely on actual yearly ADA for future funding.

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, 2021

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,936,279	\$ 683,540	\$ 7,619,819
Investments	3,000,934	250,000	3,250,934
Receivables			
Taxes	202,172		202,172
Accounts	47		47
Intergovernmental - federal	651,416		651,416
Inventories		281,358	281,358
Capital assets:			
Land and construction in progress	7,937,350		7,937,350
Other capital assets, net of depreciation	53,903,363	162,791	54,066,154
Total capital assets	<u>61,840,713</u>	<u>162,791</u>	<u>62,003,504</u>
Total assets	<u>72,631,561</u>	<u>1,377,689</u>	<u>74,009,250</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	2,786,294	155,590	2,941,884
Deferred outflows related to OPEB	3,179,108	122,143	3,301,251
Deferred savings from refunding bonds	1,372,990		1,372,990
Total deferred outflows of resources	<u>7,338,392</u>	<u>277,733</u>	<u>7,616,125</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>79,969,953</u>	<u>1,655,422</u>	<u>81,625,375</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	314,711	5,610	320,321
Accrued interest payable	389,402		389,402
Payroll taxes payable	224,874		224,874
Accrued salaries and benefit payable	119,457		119,457
Long-term liabilities:			
Due within 1 year:			
Bond obligations	3,438,000		3,438,000
Capital lease obligations	99,187		99,187
Workers compensation liability	7,885		7,885
Total due within 1 year	<u>3,545,072</u>	<u>-</u>	<u>3,545,072</u>
Due in more than 1 year:			
Bond obligations	32,023,332		32,023,332
Capital lease obligations	316,586		316,586
Net pension liability	16,085,640	898,241	16,983,881
Net OPEB liability	10,809,727	282,709	11,092,436
Workers compensation liability	1,106,545		1,106,545
Sick leave	219,492		219,492
Total due in more than 1 year	<u>60,561,322</u>	<u>1,180,950</u>	<u>61,742,272</u>
Total liabilities	<u>65,154,838</u>	<u>1,186,560</u>	<u>66,341,398</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	483,870	27,020	510,890
Deferred inflows related to OPEB	3,908,396	61,280	3,969,676
Total deferred inflows of resources	<u>4,392,266</u>	<u>88,300</u>	<u>4,480,566</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u>69,547,104</u>	<u>1,274,860</u>	<u>70,821,964</u>
<b>NET POSITION</b>			
Net investment in capital assets	25,963,608	162,791	26,126,399
Restricted for:			
Capital projects	2,478,477		2,478,477
District activities	11,820		11,820
School activities	407,500		407,500
Food services		217,771	217,771
Unrestricted (deficit)	<u>(18,438,556)</u>		<u>(18,438,556)</u>
Total net position	<u>10,422,849</u>	<u>380,562</u>	<u>10,803,411</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 79,969,953</u>	<u>\$ 1,655,422</u>	<u>\$ 81,625,375</u>

See the accompanying notes to the financial statements.

Harlan County School District  
**Statement of Activities**  
Year ended June 30, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 27,439,518	\$ -	\$ 13,614,989	\$ -	\$ (13,824,529)	\$ -	\$ (13,824,529)
Support services							
Student	2,208,644	442,367	973,473		(792,804)		(792,804)
Instructional staff	1,322,340		582,829		(739,511)		(739,511)
District administration	1,159,354		510,992		(648,362)		(648,362)
School administration	2,138,273		942,457		(1,195,816)		(1,195,816)
Business	676,596		298,214		(378,382)		(378,382)
Plant operation & maintenance	4,349,219		1,916,944	1,402,369	(1,029,906)		(1,029,906)
Student	2,345,334		1,033,720		(1,311,614)		(1,311,614)
Community services operations	574,277		253,116		(321,161)		(321,161)
Food service operations	235,796	14,282	103,929		(117,585)		(117,585)
Non-instructional	83,702		36,892		(46,810)		(46,810)
Depreciation*	2,594,266				(2,594,266)		(2,594,266)
Interest on general long-term debt	551,721			2,200,718	1,648,997		1,648,997
Total governmental activities	<u>45,679,040</u>	<u>456,649</u>	<u>20,267,555</u>	<u>3,603,087</u>	<u>(21,351,749)</u>		<u>(21,351,749)</u>
Business-type activities:							
Food service operations	4,519,404	514,423	3,277,486			(727,495)	(727,495)
Depreciation	43,508					(43,508)	(43,508)
Total business-type activities	<u>4,562,912</u>	<u>514,423</u>	<u>3,277,486</u>	<u>-</u>	<u>-</u>	<u>(771,003)</u>	<u>(771,003)</u>
Total primary government	\$ <u>50,241,952</u>	\$ <u>971,072</u>	\$ <u>23,545,041</u>	\$ <u>3,603,087</u>	<u>(21,351,749)</u>	<u>(771,003)</u>	<u>(22,122,752)</u>
General revenues:							
Taxes:							
Property taxes					3,718,359		3,718,359
Motor vehicle taxes					754,253		754,253
Utility taxes					1,321,156		1,321,156
Unmined minerals tax					38,497		38,497
State and formula grants					18,635,222		18,635,222
Unrestricted investment earnings					15,421	2,270	17,691
Other local revenue					227,573	103,823	331,396
Transfers					200,292	(200,292)	-
Total general revenues and transfers					<u>24,910,773</u>	<u>(94,199)</u>	<u>24,816,574</u>
Change in net position					3,559,024	(865,202)	2,693,822
Net position - beginning					6,457,765	1,245,764	7,703,529
Prior period adjustment					406,060		406,060
Restated net position - beginning					<u>6,863,825</u>	<u>1,245,764</u>	<u>8,109,589</u>
Net position - ending					\$ <u>10,422,849</u>	\$ <u>380,562</u>	\$ <u>10,803,411</u>

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

See the accompanying notes to the financial statements.

Harlan County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2021

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>FSPK</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 5,187,879	\$ -	\$ 366,136	\$ -	\$ 1,382,264	\$ 6,936,279
Investments	1,848,643		1,152,291			3,000,934
Interfund receivable	630,682					630,682
Receivables						
Taxes-current	202,172					202,172
Accounts					47	47
Intergovernmental - federal		651,416				651,416
Total assets	7,869,376	651,416	1,518,427	-	1,382,311	11,421,530
<b>LIABILITIES</b>						
Accounts payable	291,036	20,734			2,941	314,711
Accrued salaries & benefits payable	119,457					119,457
Payroll taxes payable	224,874					224,874
Interfund payable		630,682				630,682
Total liabilities	635,367	651,416	-	-	2,941	1,289,724
<b>FUND BALANCE</b>						
Restricted			1,518,427		1,379,370	2,897,797
Committed	609,746					609,746
Assigned	650,444					650,444
Unassigned	5,973,819					5,973,819
Total fund balance	7,234,009	-	1,518,427	-	1,379,370	10,131,806
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 7,869,376</b>	<b>\$ 651,416</b>	<b>\$ 1,518,427</b>	<b>\$ -</b>	<b>\$ 1,382,311</b>	<b>\$ 11,421,530</b>

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, 2021

<b>Fund balances-total governmental funds</b>	\$	10,131,806
<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>		61,840,713
<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>		1,372,990
<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		(389,402)
Bonds payable		(35,461,332)
Capital lease payable		(415,773)
Self insurance payable		(1,114,430)
Sick leave liability		(219,492)
Net pension liability		(16,085,640)
Net OPEB liability		(10,809,727)
<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		2,786,294
Deferred outflows of resources related to OPEB		3,179,108
Deferred inflows of resources related to pensions		(483,870)
Deferred inflows of resources related to OPEB		(3,908,396)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>10,422,849</b>

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, 2021

	<u>General</u>	<u>Special Revenue</u>	<u>FSPK</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From local sources						
Taxes						
Property	\$ 2,870,331	\$ -	\$ 848,028	\$ -	\$ -	\$ 3,718,359
Motor vehicle	754,253					754,253
Unmined minerals	38,497					38,497
Utilities	1,321,156					1,321,156
Earnings on investments	15,179				242	15,421
Other local revenue	78,016	134,709			14,848	227,573
Food service					14,282	14,282
Student activities					442,367	442,367
Intergovernmental - state	27,194,326	3,040,981	1,075,060	2,200,718	327,309	33,838,394
Intergovernmental - federal	115,449	8,552,021				8,667,470
Total revenues	<u>32,387,207</u>	<u>11,727,711</u>	<u>1,923,088</u>	<u>2,200,718</u>	<u>799,048</u>	<u>49,037,772</u>
<b>EXPENDITURES</b>						
Instruction	16,994,461	9,336,846			384,973	26,716,280
Support services						
Student	1,783,471	425,173				2,208,644
Instructional staff	773,908	547,075			1,357	1,322,340
District administration	1,159,354					1,159,354
School administration	2,138,273					2,138,273
Business	596,546	80,050				676,596
Plant operation & maintenance	3,984,393	364,826				4,349,219
Student transportation	2,834,158	163,669			1,154	2,998,981
Food service operation		235,796				235,796
Community services operations		574,276				574,276
Other noninstructional					83,702	83,702
Building improvements					4,252,593	4,252,593
Debt service	118,934			6,493,680		6,612,614
Total expenditures	<u>30,383,498</u>	<u>11,727,711</u>	<u>-</u>	<u>6,493,680</u>	<u>4,723,779</u>	<u>53,328,668</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	2,003,709	-	1,923,088	(4,292,962)	(3,924,731)	(4,290,896)
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond discount				(21,061)		(21,061)
Bond principal proceeds				2,135,000		2,135,000
Operating transfers in	200,292			2,179,023		2,379,315
Operating transfers (out)	(201,219)		(1,650,495)		(327,309)	(2,179,023)
Total other financing sources and (uses)	<u>(927)</u>	<u>-</u>	<u>(1,650,495)</u>	<u>4,292,962</u>	<u>(327,309)</u>	<u>2,314,231</u>
<b>NET CHANGE IN FUND BALANCE</b>	2,002,782	-	272,593	-	(4,252,040)	(1,976,665)
<b>FUND BALANCE-BEGINNING</b>	5,231,227	-	1,245,834	-	5,225,350	11,702,411
Prior period adjustment					406,060	406,060
<b>RESTATED FUND BALANCE-BEGINNING</b>	<u>5,231,227</u>	<u>-</u>	<u>1,245,834</u>	<u>-</u>	<u>5,631,410</u>	<u>12,108,471</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 7,234,009</u>	<u>\$ -</u>	<u>\$ 1,518,427</u>	<u>\$ -</u>	<u>\$ 1,379,370</u>	<u>\$ 10,131,806</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, 2021

<b>Net change in fund balances-total governmental funds</b>	<b>\$</b>	<b>(1,976,665)</b>
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		(984,785)
<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		379,213
<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>		
		2,311,973
<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>		
		443,503
<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>		
		32,932
<p>Bond and capital lease payments/proceeds are recognized as expenditures/revenues of current financial resources in the fund financial statement but are reductions/additions of liabilities in the statement of net position.</p>		
		3,444,692
<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		25,827
Self insurance payable		(112,678)
KSBIT payable		34,854
Noncurrent sick leave payable		(39,842)
		(39,842)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u><u>3,559,024</u></u></b>

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, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From local sources				
Taxes				
Property	\$ 2,632,000	\$ 2,632,000	\$ 2,870,331	\$ 238,331
Motor vehicle	530,000	530,000	754,253	224,253
Unmined minerals	225,000	225,000	38,497	(186,503)
Utilities	1,450,000	1,450,000	1,321,156	(128,844)
Earnings on investments	10,000	10,000	15,179	5,179
Other local revenue			78,016	78,016
Intergovernmental - state	27,131,191	27,131,191	27,194,326	63,135
Intergovernmental - federal	50,000	50,000	115,449	65,449
Total revenues	<u>32,028,191</u>	<u>32,028,191</u>	<u>32,387,207</u>	<u>359,016</u>
<b>EXPENDITURES</b>				
Instruction	19,330,706	19,330,706	16,994,461	2,336,245
Support services				
Student	2,024,010	2,024,010	1,783,471	240,539
Instructional staff	877,260	877,260	773,908	103,352
District administration	1,417,146	1,417,146	1,159,354	257,792
School administration	2,136,087	2,136,087	2,138,273	(2,186)
Business	658,931	658,931	596,546	62,385
Plant operation & maintenance	4,381,275	4,381,275	3,984,393	396,882
Student transportation	3,623,335	3,623,335	2,834,158	789,177
Debt service	130,000	130,000	118,934	11,066
Total expenditures	<u>34,578,750</u>	<u>34,578,750</u>	<u>30,383,498</u>	<u>4,195,252</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(2,550,559)	(2,550,559)	2,003,709	4,554,268
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	205,000	205,000	200,292	(4,708)
Operating transfers (out)	(201,219)	(201,219)	(201,219)	-
Total other financing sources and (uses)	<u>3,781</u>	<u>3,781</u>	<u>(927)</u>	<u>(4,708)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(2,546,778)	(2,546,778)	2,002,782	4,549,560
<b>FUND BALANCE-BEGINNING</b>	<u>4,641,402</u>	<u>4,641,402</u>	<u>5,231,227</u>	<u>589,825</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 2,094,624</u>	<u>\$ 2,094,624</u>	<u>\$ 7,234,009</u>	<u>\$ 5,139,385</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, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From local sources				
Other local revenue	\$ -	\$ -	\$ 134,709	\$ 134,709
Intergovernmental - state	1,942,966	1,942,966	3,040,981	1,098,015
Intergovernmental - federal	16,103,580	16,103,580	8,552,021	(7,551,559)
Total revenues	<u>18,046,546</u>	<u>18,046,546</u>	<u>11,727,711</u>	<u>(6,318,835)</u>
<b>EXPENDITURES</b>				
Instruction	9,454,713	9,454,713	9,336,846	117,867
Support services				
Student	1,883,843	1,883,843	425,173	1,458,670
Instructional staff	1,418,734	1,418,734	547,075	871,659
Business			80,050	(80,050)
Student transportation	1,678,608	1,678,608	163,669	1,514,939
Food service operation	200,000	200,000	235,796	(35,796)
Community services operations	549,884	549,885	574,276	(24,391)
Plant operations & maintenance	2,860,764	2,860,763	364,826	2,495,937
Total expenditures	<u>18,046,546</u>	<u>18,046,546</u>	<u>11,727,711</u>	<u>6,318,835</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	-	-	-	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in				-
Operating transfers out				-
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE-ENDING</b>	<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, 2021

		<b>School Food Services</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	683,540
Investments		250,000
Inventories		281,358
Capital assets:		
Other capital assets, net of depreciation		162,791
Total assets		<u>1,377,689</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows related to pensions		155,590
Deferred outflows related to OPEB		122,143
Total deferred outflows of resources		<u>277,733</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		<u><u>1,655,422</u></u>
<b>LIABILITIES</b>		
Accounts payable		5,610
Net pension liability		898,241
Net OPEB liability		282,709
Total liabilities		<u>1,186,560</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions		27,020
Deferred inflows related to OPEB		61,280
Total deferred inflows of resources		<u>88,300</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		<u>1,274,860</u>
<b>NET POSITION</b>		
Net Investment in capital assets		162,791
Restricted		217,771
Total net position		<u>380,562</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$</b>	<u><u>1,655,422</u></u>

See the accompanying notes to the financial statements.

Harlan County School District  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Fund**  
Year ended June 30, 2021

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	514,423
Other revenue from local sources		103,823
Total operating revenues		<u>618,246</u>
<b>OPERATING EXPENSES</b>		
Depreciation		43,508
Food service operations		
Employee services		2,076,709
Operational expenses		2,442,695
Total operating expenses		<u>4,562,912</u>
Operating income (loss)		<u>(3,944,666)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		2,739,242
State grants		538,244
Transfers		(200,292)
Earnings from investments		2,270
Total nonoperating revenues (expenses)		<u>3,079,464</u>
<b>CHANGE IN NET POSITION</b>		(865,202)
<b>NET POSITION-BEGINNING</b>		<u>1,245,764</u>
<b>NET POSITION-ENDING</b>	\$	<u><u>380,562</u></u>

See the accompanying notes to the financial statements.

Harlan County School District  
**Statement of Cash Flows**  
**Proprietary Fund**  
Year ended June 30, 2021

Enterprise Fund

**School  
Food  
Services**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	618,246
Payments to suppliers		(1,904,048)
Payments to employees		(2,076,709)
Net cash provided (used) by operating activities		<u>(3,362,511)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Transfers to other funds		(200,292)
Operating grants and contributions		3,277,486
Net cash provided (used) by noncapital financing activities		<u>3,077,194</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest		2,270
Net cash provided (used) by investing activities		<u>2,270</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** (283,047)

**CASH AND CASH EQUIVALENTS-BEGINNING** 966,587

**CASH AND CASH EQUIVALENTS-ENDING** \$ 683,540

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

Operating income (loss)	\$	(3,944,666)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		43,508
Changes in assets and liabilities:		
Inventory		(142,609)
Outflow Deferrals		(187,193)
Inflow Deferrals		47,816
Pension liability		605,509
OPEB liability		212,714
Payables		2,410
Net cash provided (used) by operating activities	\$	<u>(3,362,511)</u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$176,770 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 \$509,872 provided by state government.

See the accompanying notes to the financial statements.



HARLAN COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2021

**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) Special Revenue (District Activity) Fund

The Special Revenue (District Activity) Fund accounts 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) Special Revenue (Student Activity) Fund

Special Revenue (Student Activity) Fund accounts for activities of student groups and other types of activities requiring clearing accounts.

### (E) Capital Project Funds

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

#### SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.

#### Construction Fund

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

### (F) 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

### 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.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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, 2021, to finance the General Fund operations were \$.548 per \$100 valuation of real property, \$.548 per \$100 valuation for business personal property and \$.464 per \$100 valuation for motor vehicles.

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

### Operating and Non-Operating Revenues and Expenses

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### In-Kind

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

### Contributions of Capital

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

### Interfund Receivables/Payables

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

### Interfund Transfers

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### Deferred Outflows/Inflows of Resources

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

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

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and Teachers Retirement System of the State of Kentucky (“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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### New Accounting Pronouncements

GASB Statement No. 84-In January, 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for the reporting period beginning after December 15, 2019. The District previously reported the activity of the School Activity Fund as a fiduciary fund; however beginning July 1, 2020, such activity has been more appropriately reported in a special revenue fund and accordingly the newly established special revenue fund reports a restated beginning balance of \$406,060, which is equal to the restatement of net current assets and liabilities previously reported in the agency fund.

#### Effective in Future Years:

The District is currently evaluating the potential impact of the following issued, but not yet effective, accounting standards.

GASB Statement No. 87-In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of the governments. This Statement is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

GASB Statement No. 91-In May, 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by users, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021.

GASB Statement No. 92-In January, 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2021.

GASB Statement No. 93-In March, 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. Removal of LIBOR as an appropriate benchmark is effective for reporting periods ending December 30, 2021, paragraphs regarding leases are effective for fiscal years beginning after June 15, 2021, and all other requirements are effective for reporting periods beginning after June 15, 2020.

GASB Statement No. 94-In March, 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

GASB Statement No. 96-In May, 2020, the GASB issued Statement No. 96, *Subscription-based information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government and users (governments). The Statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 97-In June, 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans-An Amendment of GASB Statement No. 14 and No. 84 and A Supersession of GASB Statement No. 31*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Statement is effective at various times, with some provisions effective immediately, and other provisions effective for fiscal years or reporting periods beginning after June 15, 2021.

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

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

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

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

At year end the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$7,619,819. The bank balance for the same time was \$8,865,753.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Investments**  
**June 30, 2021**

Investments	Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	10 or More
Certificate of Deposits	N/R	\$ 251,725	\$ 251,725	\$ -	\$ -
Certificate of Deposit	N/R	100,077	-	100,077	-
Certificate of Deposit	N/R	250,188	-	250,188	-
Certificate of Deposit	N/R	250,005	-	250,005	-
Certificate of Deposit	N/R	94,000	-	94,000	-
Federal Home Ln Mtg Corp Debt	Aaa	<u>2,304,896</u>	<u>-</u>	<u>2,304,896</u>	<u>-</u>
Total		<u>3,250,891</u>	<u>\$ 251,725</u>	<u>\$ 2,999,166</u>	<u>\$ -</u>
Money Market Funds		<u>43</u>			
Total Investments		<u>\$ 3,250,934</u>			

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 faith 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:**

	<b>Fair Value</b>	<b>Level 1</b>
Certificates of Deposit	\$ 945,995	\$ 945,995
U.S. Bonds	<u>2,304,896</u>	<u>2,304,896</u>
Total Investments by Fair Value Level	<u>3,250,891</u>	<u>3,250,891</u>
Money Market Funds	<u>43</u>	<u>43</u>
Total Investments	\$ <u><u>3,250,934</u></u>	\$ <u><u>3,250,934</u></u>

**NOTE C – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2021</u>
Land (non-depreciable)	\$ 2,014,472	\$ -	\$ -	\$ 2,014,472
Construction in progress (non-depreciable)	1,670,285	4,252,592	-	5,922,877
Land improvements	1,301,811	-	-	1,301,811
Buildings	79,536,297	-	-	79,536,297
Technology equipment	4,387,840	-	-	4,387,840
Vehicles	10,257,375	653,647	-	10,911,022
General equipment	1,125,601	-	-	1,125,601
Total at historical cost	<u>\$ 100,293,681</u>	<u>\$ 4,906,239</u>	<u>\$ -</u>	<u>\$ 105,199,920</u>
Less: Accumulated depreciation				
Land improvements	\$ 1,074,109	\$ 53,842	\$ -	\$ 1,127,952
Buildings	28,010,809	1,821,510	-	29,832,319
Technology equipment	3,940,980	145,898	-	4,086,878
Vehicles	7,125,093	518,242	-	7,643,335
General equipment	613,950	54,774	-	668,723
Total accumulated depreciation	<u>\$ 40,764,941</u>	<u>\$ 2,594,266</u>	<u>\$ -</u>	<u>\$ 43,359,207</u>
Governmental Activities				
Capital Assets-net	<u>\$ 59,528,740</u>	<u>\$ 2,311,973</u>	<u>\$ -</u>	<u>\$ 61,840,713</u>
<u>Business-Type Activities</u>	<u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2021</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	77,540	-	-	77,540
Vehicles	59,144	22,179	-	81,324
General equipment	842,834	21,329	-	864,162
Total accumulated depreciation	<u>\$ 979,518</u>	<u>\$ 43,508</u>	<u>\$ -</u>	<u>\$ 1,023,026</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 206,299</u>	<u>\$ (43,508)</u>	<u>\$ -</u>	<u>\$ 162,791</u>

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

**NOTE D – DEBT OBLIGATIONS**

Bonds

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Harlan County School District Finance Corporation.

The District, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the 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, 2021 the District refunded \$2,135,000 in bonds to fund the construction projects at Wallins Elementary School.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Defeased Bonds

In 2021, the District defeased Series 2011 School Building Revenue Bonds by depositing the proceeds of new debt into an irrevocable trust with an escrow agent for future debt service payments of \$2,768,245. The difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding is \$313,817. As a result of this advance, the District obtained a net present value savings of \$288,311. The amount outstanding on old debt was paid before year end. The amount in escrow was paid before year end.

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2021 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2020 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2021 Outstanding Balance</u>
2000B	\$ 775,000	12/1/2020	4.5 - 5.2%	\$ 45,000	\$ -	\$ 45,000	\$ -
2012R	2,990,000	6/1/2024	.90 - 2.0%	1,200,000	-	260,000	940,000
2015R	26,635,000	8/1/2026	2.0 - 3.0%	17,835,000	-	2,350,000	15,485,000
2016R	4,225,000	8/1/2030	2-2.5%	3,650,000	-	180,000	3,470,000
2012B R	1,955,000	12/1/2024	1.0 - 2.125%	945,000	-	190,000	755,000
2011	2,085,000	6/1/2031	3.2 - 4.25%	1,995,000	-	1,995,000	-
2012	2,350,000	6/1/2033	3.375%	2,310,000	-	5,000	2,305,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	795,000	-	55,000	740,000
2012	229,900	6/1/2022	2.0 - 3.0%	78,000	-	60,000	18,000
2019	3,920,000	5/1/2029	3.0-3.125%	3,845,000	-	85,000	3,760,000
2020	6,080,000	2/1/2040		6,080,000	-	210,000	5,870,000
2020R	2,135,000			-	2,135,000	40,000	2,095,000
				\$ 38,778,000	\$ 2,135,000	\$ 5,475,000	\$ 35,438,000
Add:	Premium			190,111	-	27,447	162,664
Less:	Discount			(133,847)	(21,061)	(15,576)	(139,332)
Totals				\$ 38,834,264	\$ 2,113,939	\$ 5,486,871	\$ 35,461,332

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, 2021 for debt service, (principal and interest) are as follows:

<u>Fiscal Year Ended</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Principal</u>	<u>Interest</u>
<u>30-Jun</u>						
2022	\$ 1,644,324	\$ 1,843,676	\$ 536,724	\$ 311,830	\$ 3,488,000	\$ 848,554
2023	1,685,329	1,859,671	502,549	274,333	3,545,000	776,883
2024	1,726,941	1,898,059	466,536	236,043	3,625,000	702,579
2025	1,782,924	1,587,076	421,889	190,997	3,370,000	612,886
2026	1,865,654	1,639,346	368,298	146,772	3,505,000	515,070
2027-2031	8,042,059	2,802,941	1,203,638	388,692	10,845,000	1,592,330
2032-2036	2,991,754	1,318,246	451,959	207,266	4,310,000	659,225
2037-2040	1,674,546	1,075,454	103,436	63,601	2,750,000	167,038
	\$ 21,413,531	\$ 14,024,469	\$ 4,055,029	\$ 1,819,535	\$ 35,438,000	\$ 5,874,564

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 2021 for workers compensation liability is as follows:

	<u>2020 Outstanding Balance</u>	<u>Claims &amp; Changes In Estimates Additions</u>	<u>Claims Payments Retirements</u>	<u>2021 Outstanding Balance</u>
Workers Compensation Liability	\$ 1,001,752	\$ 188,774	\$ 76,096	\$ 1,114,430

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 fiscal year 2021. The activity during fiscal year 2021 for the worker's compensation deficit is as follows:

<u>Insurance Fund</u>	<u>2020 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2021 Outstanding Balance</u>
Worker's Compensation	\$ 34,854	\$ -	\$ 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 2021 for accumulated sick leave is as follows:

	<u>2020 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2021 Outstanding Balance</u>
Sick Leave	\$ 179,650	\$ 39,842	\$ -	\$ 219,492

Net Pension & OPEB Liability

The net pension liability is \$16,085,640 for governmental activities and \$898,241 for business-type activities for a total of \$16,983,881 as of June 30, 2021. (See Note G for additional information) The net OPEB liability is \$10,809,727 for governmental activities and \$282,709 for business-type activities for a total of \$11,092,436 as of June 30, 2021. (See Note H for additional information)

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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Description	2020 Outstanding Balance	Additions	Retirements	2021 Outstanding Balance	Amount Due in One Year
Bonds, Net of Premium and Discount	\$ 38,834,264	\$ 2,113,939	\$ 5,486,871	\$ 35,461,332	\$ 3,488,000
Capital Lease	520,465	-	104,692	415,773	99,187
Workers Compensation Liability	1,001,752	188,774	76,096	1,114,430	7,885
KSBIT	34,854	-	34,854	-	-
Sick Leave	179,650	39,842	-	219,492	-
Net Pension Liability	15,888,421	1,095,460	-	16,983,881	-
Net OPEB Liability	10,548,065	544,371	-	11,092,436	-
Totals	\$ 67,007,471	\$ 3,982,386	\$ 5,702,513	\$ 65,287,344	\$ 3,595,072

**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>	2020 <u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	2021 <u>Outstanding Balance</u>
2012	\$ 176,231	3/1/2022	2.0 - 2.625%	\$ 32,036	\$ -	\$ 15,781	\$ 16,255
2013	433,036	3/1/2023	2.0%	123,197	-	45,623	77,574
2018	465,306	3/1/2028	2-3%	365,232	-	43,288	321,944
Totals				\$ 520,465	\$ -	\$ 104,692	\$ 415,773

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, 2021:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total Payments</u>
2022	\$ 99,187	\$ 11,637	\$ 110,824
2023	84,941	9,106	94,047
2024	47,322	6,949	54,271
2025	48,563	5,530	54,093
2026	50,115	4,073	54,188
2027 - 2031	85,645.00	3,872.64	89,517.64
	\$ 415,773	\$ 41,167	\$ 456,940

Total minimum lease payments	\$ 456,940
Less: Amount representing interest	(41,167)
Present Value of Net Minimum Lease Payments	\$ 415,773

**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, 2021 are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year Ending <u>June 30,</u>	<u>Amount</u>
2022	\$ 59,256
2023	22,568
2024	13,413
2025	7,332
2026	<u>408</u>
Total	<u>\$ 102,977</u>

Expenditures for equipment under operating leases for the year ended June 30, 2021 totaled \$89,720.

**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)**

*Retirement Annuity Trust*

**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 provisions**

**For Members before July 1, 2008:** Members become vested when they complete five years of credited service. To qualify for monthly benefits, payable for life, members must either:

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

Non-university members receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002, will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than 10 years. New members after July 1, 2002, who retire with 10 or more years of total service will

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first 10 years. In addition, non-university members who retire July 1, 2004, and later with more than 30 years of service will have a multiplier for all years over 30 of 3%.

The final average salary is the member's five highest annual salaries except members at least age 55 with 27 or more years of service may use their three highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

**For Members On or After July 1, 2008:** Members become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable of r life, members must either:

1. Attain age 60 and complete 5 years of Kentucky service, or
2. Complete 27 years of Kentucky service, or
3. Attain age 55 and complete 10 years of Kentucky service.

The annual retirement allowance for non-university members is equal to : (a) 1.7% of final average salary for each year of credited service if their service is 10 years or less; (b) 2% of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) 2.3% of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) 2.5% of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) 3% of final average salary for years of credited service greater than 30 years.

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

### Other Benefits

TRS provides disability benefits for vested members at the rate of 60% of the final average salary.

Cost of living increases are 1.5% 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 effective July 1, 2015. The state, 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 who joined thereafter.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

At June 30, 2021 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 net pension liability that was associated with the District follows.

#### **TRS**

State's proportionate share of the TRS net pension liability associated with the District	\$ 59,902,160
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The net pension liability was measured as of June 30, 2020, 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 0.04227%.

### **Actuarial Methods and Assumptions**

A summary of the actuarial assumptions of the latest actuarial valuation follows.

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry age
Inflation Rate	3%
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.

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 set forward of 1 year for females and 2 years for males. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2010, to June 30, 2015, adopted by the board on September 19, 2016. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20 year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.

### **Target Allocations**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

A summary of the target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, follows.

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long Term Expected Real Rate Percentage of Return</u>
U.S. Equity	40.0	4.6
International Equity	22.0	5.6
Fixed Income	15.0	---
Additional Categories	7.0	2.5
Real Estate	7.0	4.3
Private Equity	7.0	7.7
Cash	2.0	(0.5)
Total	<u>100.0</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. 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 (ADC) rates for all future fiscal years. 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:

<b>TRS</b>	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	6.50%	7.50%	8.50%
State's proportionate share of net pension liability	\$ 79,756,951	\$ 59,902,160	\$ 48,353,110

**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/>.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### **403(B) Tax-Sheltered Annuity Plan**

TRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, TRS's Board of Trustees determined that the cost of providing the necessary services to assure continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by TRS's members. The board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from the account as of April 30, 1997, were able to transfer their respective accounts directly in other tax-sheltered plans on a tax-free basis. As of June 30, 2021, the eight members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

### **Other Plans**

The District also offers employees the option to participate in defined contribution plans under 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.

Employee contributions made to the plans during the year totaled \$170,537. The District does not contribute to these plans.

### **County Employees Retirement System**

#### ***Non-Hazardous***

#### **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



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The \$1,118,974 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, 2022.

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:

	<u>Year Ended June 30,</u>
Year 1	\$ 575,320
Year 2	371,067
Year 3	194,945
Year 4	<u>170,688</u>
	<u>\$ 1,312,020</u>

**Actuarial Methods and Assumptions for Determining the Total Pension Liability and Net Pension Liability**

For financial reporting, the actuarial valuation as of June 30, 2020, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information as of June 30, 2020 were based on an actuarial valuation date June 30, 2019. The total pension liability was rolled forward from the valuation date (June 30, 2019) to the plan’s fiscal year ending June 30, 2020, using generally accepted accounting principles. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Valuation Date	June 30, 2019
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

The mortality table used for active members was Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2020. The mortality table used for disabled members was PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

**Target Asset Allocation**

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the table below. The current long term inflation assumption is 2.30% per annum.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
US Equity	18.75%	4.50%
Non-US Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Special Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.00%	3.95%
Expected Real Return	100%	3.96%
Long-Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.26%

**Discount rate**

The projection of cash flows used to determine the discount rate of 6.25% 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). The discount rate determination does not use a municipal bond rate.

**Actuarial Methods and Assumptions used to determine the Actuarial Determined Contributions**

The following actuarial methods and assumptions were used to determine the actuarially determined contributions effective for fiscal year ending June 30, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
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%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**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:

CERS	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 20,944,821	\$ 16,983,881	\$ 13,704,072

**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, 2021, there are no payables to CERS.

**NOTE H – 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**

*Health Insurance Trust*

**Plan description**

In addition to the retirement annuity plan as described earlier, KRS 161.675 requires TRS to provide postemployment healthcare benefits to eligible members and dependents. The TRS Health Insurance Trust is funded by employer and member contributions. Changes made to the medical plans provided through the trust may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Medical coverage through TRS is funded by a combination of contributions from employees, the state and other employers. Coverage is provided through an account established pursuant to 26 U.S.C. sec. 401(h) and 115 trust fund that went into effect on July 1, 2010. The insurance trust fund includes employer and retired member contributions required under KRS 161.550 and KRS 161.675(4) (b).

### **Benefits provided**

To be eligible for medical benefits, the member must have retired either for service or disability and a required amount of service credit. The TRS medical plan offers members who are not eligible for Medicare and under age 65 coverage through the Kentucky Employees Health Plan (KEHP) administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are eligible for Medicare, coverage is obtained through the TRS Medicare Eligible Health Plan (MEHP) administered by TRS.

### **Contributions**

Contributions are made on behalf of TRS retired members toward payment of health insurance premiums. The amount of the member's contribution is based on a table approved by the TRS board. Retired members pay premiums in excess of the monthly contribution. The Commonwealth of Kentucky bears risk for excess claims expenses that exceed the premium equivalents charged for the KEHP. The member postemployment medical contribution is 3.75% of salary. The employer postemployment medical contribution is 0.75% of member salaries. Also, employers contribute 3% of members' salaries and the state contributes the net cost of health insurance premiums for new retirees after June 30, 2010, in the non-Medicare eligible group.

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

At June 30, 2021, the District reported a liability of \$5,747,000 for its proportionate share of the collective net OPEB liability (NOL). The collective net OPEB liability was measured as of June 30, 2020, 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 .227735%.

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 as follows.

#### **MIF**

District's proportionate share of TRS net OPEB liability	\$	5,747,000
State's proportionate share of the TRS net OPEB liability associated with the District		<u>4,604,000</u>
	\$	<u><u>10,351,000</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following.

<b>MIF</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 2,450,000
Changes of assumptions	348,000	-
Net difference between projected and actual earnings on pension plan investments	187,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	55,000	361,000
District contributions subsequent to the measurement date	401,775	-
	\$ 991,775	\$ 2,811,000

The \$401,775 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, 2022. 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.

<b>MIF</b>	<b>Year Ended June 30,</b>
Year 1	\$ (467,000)
Year 2	(452,000)
Year 3	(455,000)
Year 4	(394,000)
Year 5	(329,000)
Thereafter	(124,000)
	\$ (2,221,000)

**Actuarial Methods and Assumptions**

A summary of the actuarial assumptions as of the latest actuarial valuation follows.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Valuation Date	June 30, 2019
Single Equivalent Interest Rate	8%, net of OPEB plan investment expense, including price inflation
Municipal Bond Index Rate	2.2%
Investment Rate of Return	8.0%, net of OPEB plan investment expense, including inflation
Inflation Rate	3.0%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Projected Salary Increases	3.5 - 7.2%, including wage inflation
Discount Rate	8.0%
Health Care Cost Trends	
KEHP Group	7.25% for fiscal year 2020 decreasing to an ultimate rate of 5% by fiscal year 2029
MEHP Group	5.25% for fiscal year 2019 decreasing to an ultimate rate of 5% by fiscal year 2022
Medicare Part B Premiums	6.49% for fiscal year 2020 with an ultimate rate of 5% by 2031

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB, and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience studies for the system, which covered the five year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2019, valuation of the health trust were based on a review of recent plan experience done concurrently with the June 30, 2019, valuation. The health care cost trend rate assumption was updated for the June 30, 2019, valuation and was shown as an assumption change in the total OPEB liability (TOL) roll forward while the change in initial per capital claims costs were included with experience in the TOL roll forward. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20 year Municipal Bond index pushed weekly by the Board of Governors of the Federal Reserve System.

### **Target Allocations**

The long-term expected rate of return on OPEB 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation Percentage	30 Year Expected Geometric Real Rate of Return
Global Equity	58.00	5.40
Fixed Income	9.00	0.00
Real Estate	6.50	4.30
Private Equity	8.50	7.70
Additional Categories	17.00	2.50
Cash	1.00	(0.50)
Total	100.00	

**Discount Rate**

The discount rate used to measure the TOL as of the measurement date was 8.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection’s basis was an actuarial valuation performed as of June 30, 2019. 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 (PMPM) 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 Health Insurance Trust 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 health trust achieves a sufficient funded status, as determined by TRS’s actuary, the following health trust 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

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 the health trust 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, as determined by the prior year’s valuation and in accordance with the health trust’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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 2019).

Based on these assumptions, the Health Insurance Trust's fiduciary net position (FNP) was not projected to be depleted.

The FNP projections are based upon the health trust's financial status on the valuation date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of these tests do not necessarily indicate whether or not the health trust will actually run out of money, the financial condition of the trust, or the trust's ability to make benefit payments in future years.

The following table presents the NOL 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:

MIF	1% Decrease	Current Discount Rate	1% Increase
	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 6,946,000	\$ 5,747,000	\$ 4,746,000

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:

MIF	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 4,555,000	\$ 5,747,000	\$ 7,216,000

***Life Insurance Trust***

**Plan description and benefits provided**

TRS administers the Life Insurance Trust as provided by KRS 161.655 to provide life insurance benefits to retired and active members. The benefit is financed by actuarially determined contributions from the 207 participating employers. The benefit is \$5,000 for members who are retired for service or disability, and \$2,000 for active contribution members.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

### 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.

### Net OPEB Liability

At June 30, 2021, 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 as follows.

#### LIF

State's proportionate share of the TRS net OPEB liability associated with the District	\$	139,000
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### Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below.

Valuation Date	June 30, 2019
Single Equivalent Interest Rate	7.5%, net of OPEB plan expense, including price inflation
Municipal Bond Index Rate	2.2%
Investment Rate of Return	7.5%, net of OPEB plan investment expense, including inflation
Inflation Rate	3.0%
Real Wage Growth	0.5 %
Wage Inflation	3.5%
Projected Salary Increase	3.5 to 7.2%, including wage inflation
Discount Rate	7.5%

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB, and set forward of 1 year for females and 2 years for males is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation and rates of plan election used in the June 30, 2019, valuation were based on the results of the most recent actuarial experience studies for the system, which covered the 5 year period ending June 30, 2015. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20 year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Target Allocations**

The long-term expected rate of return on OPEB 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	Expected Geometric Real Rate Percentage of Return
U.S. Equity	40.0	4.6
International Equity	23.0	5.6
Fixed Income	18.0	---
Real Estate	6.0	4.3
Private Equity	5.0	7.7
Other Additional Categories	6.0	2.5
Cash	2.0	(0.5)
	<hr style="width: 50%; margin: 0 auto;"/> 100.0	

**Discount Rate**

The discount rate used to measure the total OPEB liability (TOL) as of the measurement date was 7.5%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection’s basis was an actuarial valuation performed as of June 30, 2019. In addition to actuarial methods and assumptions of the June 30, 2019, actuarial valuation, the following actuarial methods and assumptions were used in the projection of the life insurance 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 Life Insurance Trust’s fiduciary net position FNP was not projected to be depleted. The FNP projections are based upon the Life Insurance Trust’s financial status on the valuation date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of these tests do not necessarily indicate whether the Life Insurance Trust actually will run out of money, the financial condition of the trust, or the trust's ability to make benefit payments in future years.

### **Revenue and Expenses**

For the year ended June 30, 2021, the District recognized OPEB revenue in the amount of \$492,532 for support provided on-behalf of the State.

### **CERS – General Information about the OPEB Plans**

#### **Employees' Health Plan**

##### **Plan description**

CERS Non-hazardous Insurance Plan is a cost-sharing multiple employer defined benefit Other Postemployment Benefits (OPEB) plan. The plan covers all regular full-time members employed in non-hazardous duty positions of the school board. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

##### **Benefits provided**

The Plan provides health insurance benefits to plan members.

*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.

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

At June 30, 2021, the District reported a liability of \$5,345,436 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2020, 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 .221371%.

For the year ended June 30, 2021, the District recognized OPEB expense of \$262,722. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<b>CERS</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 893,110	\$ 893,808
Changes of assumptions	929,790	5,654
Net difference between projected and actual earnings on pension plan investments	286,744	109,074
Changes in proportion and differences between District contributions and proportionate share of contributions	-	150,140
District contributions subsequent to the measurement date	<u>199,832</u>	<u>-</u>
	<u>\$ 2,309,476</u>	<u>\$ 1,158,676</u>

The \$199,832 (includes \$131,188 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, 2022. 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.

	<b>Year Ended June 30,</b>
Year 1	\$ 252,402
Year 2	304,982
Year 3	204,334
Year 4	203,743
Year 5	<u>(14,493)</u>
	<u>\$ 950,968</u>

*Implicit Employer Subsidy-* The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 and 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

**Changes of Benefit Terms**

None

**Actuarial Methods and Assumptions to Determine the Total OPEB Liability (TOL) and the Net OPEB Liability (NOL)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The total OPEB liability, net OPEB liability, and sensitivity information for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The total OPEB liability was rolled-forward from the valuation date (June 30, 2019) to the plan’s fiscal year ending June 30, 2020, using the generally accepted actuarial principles.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2020:

Inflation	2.30%
Salary Increase	3.30 – 10.3%, varies by service
Investment Rate of Return	6.25%
Payroll Growth Rate	2.0%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.4% at January 1, 2022, and Gradually decreasing to an ultimate trend rate of 4.05% over period of 14 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 2.9% at January 1, 2022, and Gradually decreasing to an ultimate trend rate of 4.05% over period of 14 years.
Mortality Pre-retirement	PUB-2010 General Mortality table
Mortality Post-retirement (non-disabled)	System-specific mortality table based on mortality Experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Mortality Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the “Cadillac Tax” and the “Health Insurer Fee”, which occurred in December of 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee. There were no other material assumption changes.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2020. Gains and losses incurring in future years will be amortized over separate 20 year amortization bases. This change does not impact the calculation of the TOL and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**Discount rate**

Single discount rates of 5.34% were used to measure the TOL as of June 30, 2020. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index’s “20 Year Municipal GO AA Index” as of June 30, 2020. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan’s fiduciary net position on 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 system. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS’ actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS’ trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic real rates of return of each major asset class are summarized in the CAFR.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. The future contributions are projected in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. If there is a pattern of legislation that has a resulting effect of employers making contributions less than the actuarially determined rate, GRS may be required to project contributions that are reflective of recent actual contribution efforts regardless of the stated funding policy (as required by paragraph 50 of GASB Statement No. 74).

The following table presents the NOL calculated using the discount rate of 5.34%, 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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate.

<b>CERS</b>	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	\$ 6,867,317	\$ 5,345,436	\$ 4,095,466

**Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution**

The following actuarial assumptions were used in performing the actuarially determined contributions effective for fiscal year ending June 30, 2020:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.3%
Salary Increases	3.3 to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7% at January 1, 2020, and Gradually decreasing to an ultimate trend rate of 4.05% over period of 12 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5% at January 1, 2020, and Gradually decreasing to an ultimate trend rate of 4.05% over period of 10 years.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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

**Health Care Trend Rate Sensitivity**

The following presents the health care sensitivity rate of the District’s proportionate share of the net pension liability calculated using the discount rate of 5.34%, 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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

<b>CERS</b>	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
District's proportionate share of net OPEB liability	\$ 4,138,704	\$ 5,345,436	\$ 6,809,835

**OPEB plan fiduciary net position**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**NOTE I – COMMITMENTS**

The District has commitments for construction projects of \$769,673 as of June 30, 2021. In addition, the District has made a commitment for sick leave in the general fund of \$109,476 and \$500,000 for Self-Insurance claims.

**NOTE J – RESTRICTED FUND BALANCES**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 960,050	Future Construction
FSPK	1,518,427	School Facilities Construction Commission Requirement
Student Activity	407,500	Student Activity
District Activity	11,820	School Activity
Food Service	\$ 217,771	School Food Service Operations

**NOTE K - CONTINGENCIES**

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

**NOTE L - LITIGATION**

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

**NOTE M – INSURANCE AND RELATED ACTIVITIES**

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

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

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

<u>Fund</u>	<u>Deficit change in Fund Balance / Net Position</u>
School Food Service	\$ (865,202)
Construction	(4,252,593)
District Activity	\$ (887)

**NOTE O - COBRA**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**NOTE P – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt Payments	\$ 327,309
Debt Service	Building Fund	Debt Service Fund	Debt Payments	1,650,495
Debt Service	General Fund	Debt Service Fund	Debt Payments	201,219
Operations	Food Service Fund	General Fund	Indirect Costs	\$ 200,292

**NOTE Q – ON-BEHALF PAYMENTS**

For fiscal year 2021, 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)	\$ 4,664,718
Health Insurance	4,460,092
Life Insurance	7,414
Administrative Fee	60,589
HRA/Dental/Vision	267,180
Federal Reimbursement	(570,832)
Technology	94,393
KSITA Capital Lease Payments	-
SFCC Debt Service Payments	2,200,718
Total	\$ <u>11,184,272</u>

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

**NOTE R – PRIOR PERIOD ADJUSTMENT**

The District previously reported the School Activity Fund as a fiduciary fund. Beginning in fiscal year 2021, such activity has been more appropriately reported in a special revenue fund. Accordingly, the newly established special revenue fund reports an adjusted beginning balance of \$169,398.

**NOTE S – UNCERTAINTY**

The COVID-19 outbreak is disrupting business across a range of industries in the United States and financial markets have experienced a significant decline. As a result, local, regional and national economies, including that of the District, may be adversely impacted. The extent of the financial impact of COVID-19 will depend on future developments, including the duration and spread, which are uncertain and cannot be predicted. Due to the uncertainties surrounding the outbreak, management cannot presently estimate the potential impact on the District's operations and finances.

**NOTE T – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through November 15, 2021, 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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (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)
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):</b>						
Districts' proportion of the net pension liability	0.221435%	0.22591%	0.22708%	0.23100%	0.235920%	0.24140%
District's proportionate share of the net pension liability	\$ 16,983,881	\$ 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>\$ 16,983,881</u>	<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	\$ 5,672,001	\$ 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	299.43%	278.78%	245.59%	240.25%	203.37%	188.91%
Plan fiduciary net position as a percentage of the total pension liability	47.81%	50.54%	53.54%	53.30%	59.00%	59.97%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):</b>						
Districts' proportion of the net pension liability	0.4227%	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>59,902,160</u>	<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>\$ 59,902,160</u>	<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	\$ 16,599,383	\$ 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%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	58.27%	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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):</b>						
Contractually required contribution	\$ 1,118,974	\$ 1,285,803	\$ 1,165,930	\$ 1,029,296	\$ 1,065,710	\$ 974,431
Contributions in relation to the contractually required contributions	<u>1,118,974</u>	<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>	<u>-</u>
District's covered-employee payroll	\$ 4,938,247	\$ 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	22.66%	22.67%	20.46%	18.28%	18.94%	17.06%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):</b>						
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 16,818,071	\$ 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%	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, 2021

**Teachers Retirement System (TRS)**

**Retirement Annuity Trust**

**Changes of Benefit Terms**

None.

**Changes of assumptions**

In the 2016 valuation, rates of withdrawal, retirement, disability, mortality and rates of salary increase were adjusted to more closely reflect actual experience. In the 2016 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2025 with projection scale BB, set forward two year for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with projection scale AA, which was used prior to 2016.

In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 mortality Tables projected to 2020 with projection scale AA, set back one year for females rather than the 1994 Group Annuity mortality Tables which was used prior to 2016. For the 2011 valuation through the 2013 valuation, an interest smoothing methodology was used to calculate liabilities for purposes of determining the actuarially determined contributions.

**Actuarial Methods and Assumptions**

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

Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market value
Inflation	3%
Salary Increase	3.5-7.3%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation.

**County Employee Retirement System (CERS)**

**Non-Hazardous**

**Changes of Benefit Terms**

None.

**Changes of assumptions**

None.

**Actuarial Methods and Assumptions**

HARLAN COUNTY SCHOOL DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
For the year ended June 30, 2021

Based on the June 30, 2018 actuarial valuation report, the actuarial methods and assumptions used to calculate the contribution rates are as follows.

Valuation Date	June 30, 2018
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, Closed
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%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
<b>MEDICAL INSURANCE PLAN</b>				
District's proportion of the collective net OPEB liability (asset)	0.227735%	0.23060%	0.22841%	0.24268%
District's proportionate share of the collective net OPEB liability (asset)	\$ 5,747,000	\$ 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>4,604,000</u>	<u>5,450,000</u>	<u>6,830,000</u>	<u>7,069,000</u>
Total	<u>\$ 10,351,000</u>	<u>\$ 12,199,000</u>	<u>\$ 14,755,000</u>	<u>\$ 15,722,000</u>
District's covered-employee payroll	\$ 16,599,383	\$ 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	34.62%	40.48%	48.02%	50.23%
Plan fiduciary net position as a percentage of the total OPEB liability	39.10%	32.60%	25.50%	21.20%
<b>LIFE INSURANCE PLAN</b>				
District's proportion of the collective net OPEB liability (asset)	0.00000%	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>139,000</u>	<u>127,000</u>	<u>117,000</u>	<u>95,000</u>
Total	<u>\$ 139,000</u>	<u>\$ 127,000</u>	<u>\$ 117,000</u>	<u>\$ 95,000</u>
District's covered-employee payroll	\$ 16,599,383	\$ 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%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	71.60%	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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>MEDICAL INSURANCE PLAN</b>				
Contractually required contribution	\$ 401,775	\$ 402,243	\$ 402,096	\$ 406,867
Contributions in relation to the contractually required contribution	<u>401,775</u>	<u>402,243</u>	<u>402,096</u>	<u>406,867</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511
District's contributions as a percentage of it's covered-employee payroll	2.39%	2.42%	2.41%	2.47%
<b>LIFE INSURANCE PLAN</b>				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 16,818,071	\$ 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%	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, 2021

	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
<b>HEALTH INSURANCE PLAN</b>				
District's proportion of the collective net OPEB liability (asset)	0.221371%	0.22587%	0.22707%	0.23100%
District's proportionate share of the collective net OPEB liability (asset)	\$ 5,345,436	\$ 3,799,065	\$ 4,031,565	\$ 4,643,790
State's proportionate share of the collective net OPEE liability (asset) associated with the District	-	-	-	-
Total	<u>\$ 5,345,436</u>	<u>\$ 3,799,065</u>	<u>\$ 4,031,565</u>	<u>\$ 4,643,790</u>
District's covered-employee payroll	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919
District's proportionate share of the collective net OPEE liability (asset) as a percentage of its covered-employee payroll	94.24%	66.66%	71.59%	82.51%
Plan fiduciary net position as a percentage of the total OPEB liability	51.67%	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, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>HEALTH INSURANCE PLAN</b>				
Contractually required contribution	\$ 199,832	\$ 160,451	\$ 123,309	\$ 107,518
Contributions in relation to the contractually				
	<u>199,832</u>	<u>160,451</u>	<u>123,309</u>	<u>107,518</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180
District's contributions as a percentage of it's covered-employee payroll	4.05%	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, 2021

**Teachers Retirement System (TRS)**

**Health Insurance Trust**

**Changes of Benefit Terms**

None.

**Changes of Assumptions**

None.

**Actuarial Methods and Assumptions**

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of June 30, 2019. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule.

Actuarial Cost Method	Entry age normal
Amortization Period	Level percentage of payroll
Amortization Method	21 years, closed
Asset Valuation Method	5-year smoothed market value
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.2%, including wage inflation
Discount Rate	8.0%
Health Care Cost Trends	
KEHP Group	7.25% at June 30, 2020, decreasing to an ultimate rate of 5% by June 30, 2029
MEHP Group	5.25% at June 30, 2020, decreasing to an ultimate rate of 5% by June 30, 2022
Medicare Part B Premiums	6.4% at June 30, 2020 with an ultimate rate of 5% by June 30, 2031
KEHP Group Claims	The current KEHP premium is used as the base cost and is projected Forward using only the health care trend assumption (no implicit rate subsidy is recognized).

**Life Insurance Trust**

**Changes of Benefit Terms**

None.

**Changes of Assumptions**

None.

HARLAN COUNTY SCHOOL DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB**  
For the year ended June 30, 2021

**Actuarial Methods and Assumptions**

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of June 30, 2017 valuation date. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule.

Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.45%, including wage inflation
Discount Rate	7.5%

**County Employee Retirement System (CERS)**

**Employees' Health Plan**

**Changes of Benefit Terms**

None.

**Changes of Assumptions**

The discount rate used to calculate the total OPEB liability decreased from 5.68% to 5.34%. The assumed in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. Also, the June 30, 2020 GASB No. 75 actuarial information reflects the anticipated savings from the repeal of the "Cadillac Tax" and "Health Insurer Fee", which occurred in December of 2019. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

**Actuarial Methods and Assumptions**

The actuarially determined contribution rates effective for fiscal year ending 2020 are calculated based on the June 30, 2018 valuation report. The actuarial methods and assumptions used to calculate these contribution rates are as follow.

HARLAN COUNTY SCHOOL DISTRICT  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB**  
 For the year ended June 30, 2021

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry age normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Payroll Growth Rate	2.0%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.3%
Salary Increases	3.3 to 11.55%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over period of 12 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over period of 10 years.
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  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2021

	<b>Other Governmental Funds</b>				
	<b>Special Revenue Student Activity</b>	<b>Capital Outlay</b>	<b>Construction</b>	<b>District Activity</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 408,552	\$ -	\$ 961,892	\$ 11,820	\$ 1,382,264
Accounts receivable, net	47				47
Total assets	408,599	-	961,892	11,820	1,382,311
<b>Liabilities</b>					
Accounts payable	1,099		1,842		2,941
Total liabilities	\$ 1,099	\$ -	\$ 1,842	\$ -	\$ 2,941
<b>Fund Balance</b>					
Restricted	407,500		960,050	11,820	1,379,370
Total fund balance	407,500	-	\$ 960,050	11,820	1,379,370
<b>Total liabilities &amp; fund balance</b>	\$ 408,599	\$ -	\$ 961,892	\$ 11,820	\$ 1,382,311

Harlan County School District  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds**  
For the year ended June 30, 2021

	<b>Other Governmental Funds</b>				
	<b>Special Revenue Student Activity</b>	<b>Capital Outlay</b>	<b>Construction</b>	<b>District Activity</b>	<b>Total</b>
<b>Revenues</b>					
From local sources					
Earnings on investments	\$ 242	\$ -	\$ -	\$ -	\$ 242
Other local revenue	14,848				14,848
Intergovernmental - state		327,309			327,309
Food service	14,282				14,282
Student activities	441,367			1,000	442,367
<b>Total revenues</b>	<u>470,739</u>	<u>327,309</u>	<u>-</u>	<u>1,000</u>	<u>799,048</u>
<b>Expenditures</b>					
Instruction	383,086			1,887	384,973
Support services					
Instructional staff	1,357				1,357
Student transportation	1,154				1,154
Other non-instruction	83,702				83,702
Building improvements			4,252,593		4,252,593
<b>Total expenditures</b>	<u>469,299</u>	<u>-</u>	<u>4,252,593</u>	<u>1,887</u>	<u>4,723,779</u>
<b>Excess (Deficit) of Revenues Over Expenditures</b>	<u>1,440</u>	<u>327,309</u>	<u>(4,252,593)</u>	<u>(887)</u>	<u>(3,924,731)</u>
<b>Other Financing Sources (Uses)</b>					
Operating transfers		(327,309)			(327,309)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>(327,309)</u>	<u>-</u>	<u>-</u>	<u>(327,309)</u>
<b>Net change in Fund Balances</b>	1,440	-	(4,252,593)	(887)	(4,252,040)
<b>Fund Balance Beginning</b>	<u>-</u>	<u>-</u>	<u>5,212,643</u>	<u>12,707</u>	<u>5,225,350</u>
Prior Period Adjustment	406,060				406,060
<b>Restated, Fund Balance Beginning</b>	<u>406,060</u>	<u>-</u>	<u>5,212,643</u>	<u>12,707</u>	<u>5,631,410</u>
<b>Fund Balance Ending</b>	<u>\$ 407,500</u>	<u>\$ -</u>	<u>\$ 960,050</u>	<u>\$ 11,820</u>	<u>\$ 1,379,370</u>

Harlan County School District  
**Combining Balance Sheet**  
**School Activity Funds**  
 June 30, 2021

**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>
<b>ASSETS</b>										
Cash and cash equivalents	\$ 74,279	\$ 6,030	\$ 12,547	\$ 92,469	\$ 53,951	\$ 22,273	\$ 42,038	\$ 58,699	\$ 46,266	\$ 408,552
Accounts receivable	-	-	-	-	47	-	-	-	-	47
Total assets	<u>74,279</u>	<u>6,030</u>	<u>12,547</u>	<u>92,469</u>	<u>53,998</u>	<u>22,273</u>	<u>42,038</u>	<u>58,699</u>	<u>46,266</u>	<u>408,599</u>
<b>LIABILITIES</b>										
Accounts payable	-	310	-	-	120	-	-	669	-	1,099
Total liabilities	<u>-</u>	<u>310</u>	<u>-</u>	<u>-</u>	<u>120</u>	<u>-</u>	<u>-</u>	<u>669</u>	<u>-</u>	<u>1,099</u>
<b>FUND BALANCE</b>										
School activities	<u>74,279</u>	<u>5,720</u>	<u>12,547</u>	<u>92,469</u>	<u>53,878</u>	<u>22,273</u>	<u>42,038</u>	<u>58,030</u>	<u>46,266</u>	<u>407,500</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 74,279</u>	<u>\$ 6,030</u>	<u>\$ 12,547</u>	<u>\$ 92,469</u>	<u>\$ 53,998</u>	<u>\$ 22,273</u>	<u>\$ 42,038</u>	<u>\$ 58,699</u>	<u>\$ 46,266</u>	<u>\$ 408,599</u>

Harlan County School District  
**Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds**  
For the year ended June 30, 2021

<b>SCHOOL ACTIVITY FUNDS</b>										
	<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>
<b>REVENUES</b>										
Student revenues	\$ 258,598	\$ 20,465	\$ 12,293	\$ 67,438	\$ 24,821	\$ 11,061	\$ 18,281	\$ 26,406	\$ 31,376	\$ 470,739
<b>EXPENSES</b>										
Student activities	245,869	22,520	13,505	44,420	38,301	14,605	28,866	31,969	29,244	469,299
<b>Excess (Deficit) of Revenues Over Expenses</b>	12,729	(2,055)	(1,212)	23,018	(13,480)	(3,544)	(10,585)	(5,563)	2,132	1,440
<b>Fund balance, beginning</b>	<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>
<b>Fund balance, ending</b>	<u>\$ 74,279</u>	<u>\$ 5,720</u>	<u>\$ 12,547</u>	<u>\$ 92,469</u>	<u>\$ 53,878</u>	<u>\$ 22,273</u>	<u>\$ 42,038</u>	<u>\$ 58,030</u>	<u>\$ 46,266</u>	<u>\$ 407,500</u>

Harlan County School District  
**Statement of Revenues, Expenses, and Changes in Fund Balance - Harlan County High School**  
For the year ended June 30, 2021

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
GENERAL FUND	\$ 286	\$ 4,162	\$ 5,402	\$ 1,017	\$ 63
BLACK BEAR PHOTOGRAPHY	195	-	79	-	116
GRADUATION FUND	172	1	308	135	-
CONTINGENCY	7	-	-	-	7
DUAL CREDIT COLLEGE TOURS	1,452	-	618	-	834
SCHOOL PICTURES	78	794	-	-	872
SENIOR PICTURES	24	-	-	-	24
1ST PRIORITY	1	697	606	-	92
1ST PRIORITY AQUARIUM	10	2,200	2,541	331	-
PEP CLUB	830	-	427	-	403
COMMUNITY PROBLEM SOLVING	39	-	-	-	39
ECLRP TEAM	43	-	-	-	43
ANATOMY FUNDS	366	500	-	-	866
FISHING TEAM	1,563	952	2,407	-	108
SCHOOL CONCESSION	279	-	1,151	1,151	279
LETTERMAN JACKET	-	8,861	-	-	8,861
TEACHER VENDING	1	3,072	5,185	2,112	-
PARKING	274	445	110	-	609
ATHLETICS	9,145	55,799	57,161	(4,572)	3,211
DECA	303	50	-	-	353
CHEERLEADING	11	11,903	11,851	-	63
DANCE TEAM	729	13,018	10,145	-	3,602
FOOTBALL	1,045	28,754	25,798	(162)	3,839
GIRLS BASKETBALL	90	4,191	2,820	-	1,461
BOYS BASKETBALL	2,839	19,514	22,335	-	18
SOFTBALL	3,676	9,229	13,498	762	169
BASEBALL	2,614	16,401	14,976	1,449	5,488
GOLF	957	3,090	3,510	-	537
BOYS SOCCER	2,046	4,124	2,902	(367)	2,901
TENNIS	373	91	379	-	85
ARCHERY	1	-	60	60	1
VOLLEYBALL	135	10,525	10,243	-	417
ACADEMIC TEAM	4	-	-	-	4
ART CLUB	1,622	198	341	(331)	1,148
AP/SAT PLAN	116	-	-	-	116
HCHS FEEDER BAND	272	-	-	-	272
BAND	1,363	1,152	1,718	-	797
HONOR BAND	3	-	-	-	3
BETA CLUB	5,839	800	-	-	6,639
BLACK BEAR STORE	481	2,075	1,783	167	940
CROSS COUNTRY/TRACK	2,001	16,892	12,293	-	6,600
CHORUS	390	197	197	-	390
DRAMA CLUB	1,586	1,422	80	-	2,928
FBLA	482	170	-	-	652
FCCLA	1	196	-	(70)	127
FFA-FUTURE FARMERS	281	2,833	2,641	-	473
FFA-GREENHOUSE	3,089	2,436	2,266	-	3,259
FUTURE EDUCATORS	187	-	-	(135)	52
HOME EC/MCCORMICK	1	120	188	70	3
JROTC	-	615	-	(600)	15
LIBRARY	134	388	-	(65)	457
NATIONAL HONORS	824	1,590	1,639	-	775
GEAR UP	241	264	229	-	276
PEP CLUB	81	-	-	-	81
PROM	608	11,750	11,241	(1,017)	100
YEARBOOK	11,242	10,776	10,156	65	11,927
SPANISH CLASS	81	-	-	-	81
SPANISH HONOR SOCIETY	326	959	1,184	-	101
YOUTH SERVICE CENTER	581	5,392	5,401	-	572
GUIDANCE OFFICE FUND	100	-	-	-	100
PEP CLUB	30	-	-	-	30
<b>TOTALS</b>	<b>\$ 61,550</b>	<b>\$ 258,598</b>	<b>\$ 245,869</b>	<b>\$ -</b>	<b>\$ 74,279</b>



HARLAN COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2021

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					
<b>School Breakfast Program</b>	10.553				
Fiscal Year 20		7760005 20	\$ -	\$ N/A	8,769
<b>National School Lunch Program</b>	10.555				
Fiscal Year 20		7750002 20	-	N/A	13,968
<b>Summer Feeding Program</b>	10.559				
Fiscal Year 20		7740023 20	-	N/A	318,167
Fiscal Year 21		7740023 21	-	N/A	1,799,064
Fiscal Year 20		7690024 20	-	N/A	32,649
Fiscal Year 21		7690024 21	-	N/A	184,463
Child Nutrition Cluster Subtotal					<u>2,357,080</u>
<b>Fresh Fruits &amp; Vegetables</b>	10.582				
Fiscal Year 21		7720012 21	-	N/A	144,280
<b>Child &amp; Adult Care Food Program</b>	10.558				
Fiscal Year 20		7790021 20	-	N/A	35,896
Fiscal Year 21		7790021 21	-	N/A	21,476
Fiscal Year 20		7800016 20	-	N/A	2,506
Fiscal Year 21		7800016 21	-	N/A	1,233
					<u>61,111</u>
<b>State Administrative Grant for Nutrition</b>	10.560				
Fiscal Year 20		7700001 20	-	N/A	8,043
Passed Through State Department of Agriculture					
<b>Food Donation-Commodities</b>	10.565				
Fiscal Year 21		510.4950	-	N/A	176,770
Total US Department of Agriculture					<u>2,747,284</u>
US Department of Education					
Passed Through State Department of Education					
<b>Title I Grants to Local Educational Agencies</b>	84.010A				
Fiscal Year 20		3100002 20	-	2,510,839	862,151
Fiscal Year 21		3100002 21	-	3,045,787	1,517,862
					<u>2,380,013</u>
* <b>Special Education Grants to States</b>	84.027A				
Fiscal Year 20		3810002 20	-	1,044,326	516,406
Fiscal Year 21		3810002 21	-	1,074,028	554,821
* <b>Special Education - Preschool Grants</b>	84.173A				
Fiscal Year 20		3800002 20	-	97,100	17,225
Fiscal Year 21		3800002 21	-	97,181	57,709
Special Education Cluster Subtotal					<u>1,146,161</u>
<b>Homeless Youth &amp; Children</b>	84.196				
Fiscal Year 20		3990002 20	-	89,988	48,534
Fiscal Year 21		3990002 21	-	116,354	1,158
					<u>49,692</u>
<b>Vocation Education - Basic Grants to States</b>	84.048				
Fiscal Year 19		3710002 19	-	78,179	1,288
Fiscal Year 20		3710002 20	-	4,413	4,413
Fiscal Year 21		3710002 21	-	56,592	55,168
					<u>60,869</u>
<b>21st Century Community Learning</b>	84.287				
Fiscal Year 19		3400002 19	-	96,000	12,194
Fiscal Year 20		3400002 20	-	95,000	68,523
					<u>80,717</u>
<b>Rural Education</b>	84.358B				
Fiscal Year 20		3140002 20	-	72,514	54,110
* <b>Improving Teacher Quality State Grants</b>	84.367A				
Fiscal Year 19		3230002 19	-	281,904	290
Fiscal Year 20		3230002 20	-	321,900	85,966
Fiscal Year 21		3230002 21	-	289,427	163,909
					<u>250,165</u>
<b>Title IV Part A</b>	84.424				
Fiscal Year 20		3420002 20	-	190,361	79,621
Fiscal Year 21		3420002 21	-	192,439	156,407
					<u>236,028</u>
<b>Striving Readers Literacy Grant</b>	84.371C				
Fiscal Year 19		S371C170016	-	290,000	33,021
Fiscal Year 20		S371C170017	-	229,917	67,699
					<u>100,720</u>
* <b>CARES Act Educational Stabilization Fund-Covid-19</b>	84.425D				
Fiscal Year 20		4000002 20	-	2,045,757	1,706,180
Fiscal Year 21		4000002 21	-	10,197,496	1,145,825
* <b>CARES Act Educational Stabilization Fund GEER-Covid-19</b>	84.425C				

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

HARLAN COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2021

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
Fiscal Year 21		4000002 21	-	350,931	<u>350,931</u>
					<u>3,202,936</u>
Passed Through Kentucky Valley Educational Cooperative <b>Race to the Top - District</b>	84.416A				
Fiscal Year 21		B416A140081	-	N/A	1,001
Passed Through Berea College <b>Gaining Early Awareness and Readiness for Undergraduate Programs II</b>	84.334S				
Fiscal Year 20		379F	-	392,750	57,520
Fiscal Year 21		379G	-	622,750	<u>547,540</u>
					<u>605,060</u>
Total US Department of Education					<u>8,167,472</u>
U.S. Department of the Treasury Passed through State Department of Education * <b>Coronavirus Relief Fund</b>	21.019				
Fiscal Year 21		2100038962	-	62,750	12,415
Fiscal Year 21		2100038960	-	1,108,150	<u>1,108,150</u>
Total U.S. Department of the Treasury					<u>1,120,565</u>
US Department of Defense Passed directly from the US Department of the Army <b>ROTC</b>	12.000				
Fiscal Year 21		504G	-	N/A	64,265
Total US Department of the Army					<u>64,265</u>
US Department of Health and Human Services Passed directly from the US Department of the Army <b>Promoting Adolescent Health</b>	93.079				
Fiscal Year 20		493F	-	N/A	150
<b>BHDID Disaster Response</b>	93.982				
Fiscal Year 21		495G	-	3,300	891
Total US Department of Health and Human Services					<u>1,041</u>
<b>Total Expenditure of Federal Awards</b>					<u>\$ 12,100,627</u>

\* Major program

HARLAN COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended June 30, 2021

**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, 2021. 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, 2021, the District received food commodities totaling \$176,770.

**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.

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

To the Board of Education of the 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, 2021, 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 15, 2021.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Harlan County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 15, 2021.

**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 15, 2021

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

To the Board of Education of the Harlan County School District  
Harlan, KY  
And the State Committee for School District Audits

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

We have audited 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 Harlan County School District's major federal programs for the year ended June 30, 2021. 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 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 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 Harlan County School District's compliance.

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

In our opinion, 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, 2021.

**Report on Internal Control over Compliance**

Management of 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 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 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 15, 2021

HARLAN COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year ended June 30, 2021

**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 Coronavirus Relief Fund [CFDA 21.019]  
 Educational Stabilization Fund [CFDA 84.425D 84.425C]  
 Special Education Cluster [CFDA 84.027A 84.173A]  
 Improving Teacher Quality [CFDA 84.367A]

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, 2021

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, 2021, 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 15, 2021. This letter does not affect our report dated November 15, 2021, on the financial statements of the Harlan County School District. The conditions observed are as follows:

CAWOOD ELEMENTARY

1-21

Statement of Condition: Instances of checks written not having two signatures (#13459, 13460).

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: Principal will ensure that all checks written will have two signatures. The school treasurer will also check before any check is mailed or given out that it has both signatures. Redbook training will be attended by both principal and secretary.

GREEN HILLS ELEMENTARY

No conditions

BLACK MOUNTAIN ELEMENTARY

Nothing of concern

CUMBERLAND ELEMENTARY

2-21

Statement of Condition: Instances of checks written not having two signatures. (#8707, 8718, 8793, 8800, 8807)

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: Principal and secretary will both sign every check and ensure that both signatures on are all checks. Both will attend Redbook training concerning this finding.

3-21

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

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 address entire staff about this finding. Instructing them to not follow through with purchase from these two vendors unless sales tax is taken off purchase. Regardless of circumstance. Principal and secretary will attend Redbook training.

EVARTS ELEMENTARY

4-21

Statement of Condition: Instances of checks written not having two signatures. (#13355, 13357)

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: Principal and secretary will assure the checks have two signatures before being sent. Principal will look at check before being sent out to vendor. Both will attend Redbook training on this matter.

5-21

Statement of Condition: Instances of receipts not being deposited timely (#13868, 13869, 13876-13880).

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: Secretary will give daily deposits over \$100 to Principal in order to get them deposited nightly. Principal and Secretary will attend Redbook training on this matter.

JAMES A CAWOOD ELEMENTARY

6-21

Statement of Condition: Instances of receipts not being deposited timely, receipt #363071 was deposited over a month late.

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 shall be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts shall 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. Principal and secretary will attend Redbook training.

ROSSPOINT ELEMENTARY

Nothing of concern

WALLINS ELEMENTARY

Nothing of concern

HARLAN COUNTY HIGH SCHOOL

Nothing of concern

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

The following are repeat conditions from the prior year: 1-21, 2-21, 3-21, and 4-21. 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 15, 2021