

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2022

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

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

And the State Committee for School District Audits

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Harlan County School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Harlan County School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Account Principle

As described in Note 1, New Accounting Pronouncements, to the financial statements, in fiscal year ending 2022, the Harlan County School District adopted new accounting guidance, GASB No. 87, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Harlan

County School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Harlan County School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Harlan County School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harlan County School District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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, 2022, on our consideration of the Harlan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harlan County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harlan County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky

November 15, 2022

**HARLAN COUNTY SCHOOL DISTRICT-HARLAN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2022**

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, 2022. 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 \$10,131,806 of which \$7,234,009 was General Fund, \$2,897,797 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$10,796,641 of which \$8,135,720 was General Fund, \$2,660,921 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 2022. 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 \$5,576,360 for General Fund.
- The General Fund Revenue (excluding transfers) totaled \$34,599,388 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures (excluding transfers) total \$33,274,609.
- 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 \$17.47 million as of June 30, 2022. 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.

2022 District-Wide Governmental Net position compared to 2021 as follows:

Table 1
Net Position
\$(in Millions)

	Governmental Activities		Business-type Activities		Totals	
	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>
Current assets	\$ 10.79	\$ 11.45	\$ 1.22	\$ 1.61	\$ 12.01	\$ 13.06
Non-current assets	61.84	63.34	0.16	0.15	62.00	63.49
Total assets	72.63	74.79	1.38	1.76	74.01	76.55
Deferred outflows	7.34	7.40	0.28	0.22	7.62	7.62
Current liabilities	4.59	4.97	0.01	0.01	4.60	4.98
Non-current liabilities	60.56	52.05	1.18	0.84	61.74	52.89
Total liabilities	65.15	57.02	1.19	0.85	66.34	57.87
Deferred inflows	4.39	8.59	0.09	0.24	4.48	8.83
Net position:						
Invested in capital assets, net of debt	25.96	30.57	0.16	0.15	26.12	30.72
Restricted	2.90	23.99	0.22	0.75	3.12	24.74
Unrestricted (deficit)	(18.44)	(37.99)	-	-	(18.44)	(37.99)
Total net position	\$ 10.42	\$ 16.57	\$ 0.38	\$ 0.90	\$ 10.80	\$ 17.47

GOVERNMENTAL ACTIVITIES

Ending net position was \$17.47 million for the District.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2021-2022
	2021	2022	2021	2022	2021	2022	
Revenues:							
Charges for services	\$ 0.46	\$ 0.89	\$ 0.51	\$ 0.44	\$ 0.97	\$ 1.33	37%
Operating grants and contributions	20.27	24.41	3.28	3.39	23.55	27.80	18%
Capital grants and contributions	3.60	3.63	-	-	3.60	3.63	1%
General revenues	24.91	26.91	(0.09)	(0.20)	24.82	26.71	8%
Total revenue	\$ 49.24	\$ 55.84	\$ 3.70	\$ 3.63	\$ 52.94	\$ 59.47	12%
Expenses:							
Instruction	\$ 27.44	\$ 29.06	\$ -	\$ -	\$ 27.44	\$ 29.06	6%
Student	2.21	2.32	-	-	2.21	2.32	5%
Instructional staff	1.32	1.41	-	-	1.32	1.41	7%
District administration	1.16	1.18	-	-	1.16	1.18	2%
School administration	2.14	2.23	-	-	2.14	2.23	4%
Business	0.68	0.94	-	-	0.68	0.94	38%
Plant operation & maintenance	4.35	4.37	-	-	4.35	4.37	0%
Student transportation	2.34	3.06	-	-	2.34	3.06	31%
Community services operations	0.57	0.63	-	-	0.57	0.63	11%
Food Service Operations	0.24	0.24	4.52	3.07	4.76	3.31	-30%
Depreciation/Amortization	2.59	2.71	0.04	0.04	2.63	2.75	5%
Non-instructional	0.08	0.51	-	-	0.08	0.51	5.375
Interest on long-term debt	0.56	1.10	-	-	0.56	1.10	96%
Total Expenses	\$ 45.68	\$ 49.76	\$ 4.56	\$ 3.11	\$ 50.24	\$ 52.87	5%
Change in net position	\$ 3.56	\$ 6.08	\$ (0.87)	\$ 0.51	\$ 2.69	\$ 6.59	145%

CAPITAL ASSETS

After depreciation, at the end of fiscal 2022, the District had \$63.49 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$ 1.22 million over last year, mainly due to the start of new construction projects throughout the district and purchase of vehicles.

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

	Governmental Activities		Business-type Activities		Totals	
	2021	2022	2021	2022	2021	2022
Land	\$ 2,014,472	\$ 2,026,472	\$ -	\$ -	\$ 2,014,472	\$ 2,026,472
Land Improvements	173,859	122,923	-	-	173,859	122,923
Buildings	49,703,978	47,913,545	-	-	49,703,978	47,913,545
Technology Equipment	300,962	211,389	-	-	300,962	211,389
Vehicles	3,267,688	4,775,840	29,572	7,393	3,297,260	4,783,233
General Equipment	456,877	748,106	133,219	145,321	590,096	893,427
Construction in Progress	5,922,877	7,073,573	-	-	5,922,877	7,073,573
Finance Purchases	-	276,712	-	-	-	276,712
Right-of-Use Asset	271,727	191,249	-	-	271,727	191,249
Totals	\$ 62,112,440	\$ 63,339,809	\$ 162,791	\$ 152,714	\$ 62,275,231	\$ 63,492,523

DEBT

Finance purchases and general obligation debt decreased \$2.14 million from FY 2021.

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

	Government Activities	
	2021	2022
General Obligation Bonds	\$ 35,461,332	\$ 32,051,984
Finance Purchase Obligation	415,773	592,313
Leased Liabilities	-	121,443
Workers compensation liability	-	973,261
Total Obligations	\$ 35,877,105	\$ 33,739,001

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$8,135,720, which is more than last year's fund balance of \$7,234,009. The unassigned portion of the fund balance at the end of fiscal year 2022 is \$7,294,424 compared to \$5,973,819 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, 2022:

*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	\$ 5,333,456	\$ 184,593	\$ -	\$ 852,766	\$ 56,416	\$ -	\$ 446,233
State Revenue Sources	28,754,591	2,058,716	339,837	1,130,072	-	2,155,506	528,756
Federal Revenue Sources	112,875	13,737,336	-	-	-	-	2,859,200
Other	398,466	-	-	-	-	2,440,000	-
Transfers	206,331	145,100	-	-	523,318	2,163,077	-
TOTALS	\$ 34,805,719	\$16,125,745	\$ 339,837	\$ 1,982,838	\$ 579,734	\$ 6,758,583	\$ 3,834,189
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	\$ 18,600,546	\$11,157,230	\$ -	\$ -	\$ -	\$ -	\$ -
Student Support Services	1,287,622	1,037,169	-	-	-	-	-
Instructional Staff Support Services	597,292	811,582	-	-	-	-	-
District Admin Support	1,180,051	-	-	-	-	-	-
School Admin Support	2,228,547	-	-	-	-	-	-
Business Support Services	655,148	75,558	-	-	-	-	-
Plant Operation & Management	4,870,273	373,980	-	-	-	-	-
Student Transportation	3,534,578	1,557,054	-	-	-	-	-
Food Service Operations	-	235,154	-	-	-	-	3,110,647
Day Care Operations	-	-	-	-	-	-	-
Community Services	-	630,330	-	-	-	-	-
Building Improvements	-	-	-	-	1,150,697	-	-
Debt Service	110,824	-	-	-	-	4,356,093	-
Other	209,728	-	-	-	-	2,402,490	-
Transfers	629,399	247,688	339,837	1,614,572	-	-	206,331
TOTALS	\$ 33,904,008	\$16,125,745	\$ 339,837	\$ 1,614,572	\$ 1,150,697	\$ 6,758,583	\$ 3,316,978
Excess / (Deficit)	901,711	-	-	368,266	(570,963)	-	517,211

Comments on Budget Comparisons

- The District's total general fund balance for the fiscal year ended June 30, 2022, is \$8,135,720, which is more than last year's fund balance of \$7,234,009.
- The District's total revenue, including "On-behalf" payments for general fund fiscal year ending June 30, 2022 was \$34,805,719, net of other financing sources, transfers and uses. Transfers into general fund were \$206,331.
- The total cost of all general fund programs and services was \$33.9 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 2022-2023 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, 2022

Primary Government

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,089,301	\$ 1,172,679	\$ 8,261,980
Investments	2,791,206	250,000	3,041,206
Receivables (net)	1,567,048		1,567,048
Inventories		183,909	183,909
Capital assets:			
Land and construction in progress	9,100,046		9,100,046
Other capital assets, net of depreciation	53,771,802	152,714	53,924,516
Net finance purchases	276,712		276,712
Net intangible right-to-use assets	191,249		191,249
Total capital assets	<u>63,339,809</u>	<u>152,714</u>	<u>63,492,523</u>
Total assets	<u>74,787,364</u>	<u>1,759,302</u>	<u>76,546,666</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	2,435,703	119,106	2,554,809
Deferred outflows related to OPEB	3,809,917	102,568	3,912,485
Deferred savings from refunding bonds	1,152,273		1,152,273
Total deferred outflows of resources	<u>7,397,893</u>	<u>221,674</u>	<u>7,619,567</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>82,185,257</u>	<u>1,980,976</u>	<u>84,166,233</u>
LIABILITIES			
Accounts payable and accrued expenses	259,975	9,374	269,349
Accrued interest payable	353,115		353,115
Payroll taxes payable	267,945		267,945
Accrued salaries and benefit payable	122,994		122,994
Long-term liabilities:			
Due within 1 year:			
Bond obligations	3,560,000		3,560,000
Finance purchase obligations	221,427		221,427
Leased liabilities	81,266		81,266
Total due within 1 year	<u>3,862,693</u>	<u>-</u>	<u>3,862,693</u>
Due in more than 1 year:			
Bond obligations	28,491,984		28,491,984
Finance purchase obligations	370,886		370,886
Leased liabilities	40,177		40,177
Net pension liability	13,127,222	641,922	13,769,144
Net OPEB liability	8,811,035	193,353	9,004,388
Workers compensation liability	973,261		973,261
Sick leave	342,382		342,382
Total due in more than 1 year	<u>52,156,947</u>	<u>835,275</u>	<u>52,992,222</u>
Total liabilities	<u>57,023,669</u>	<u>844,649</u>	<u>57,868,318</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	2,689,421	131,513	2,820,934
Deferred inflows related to OPEB	5,899,984	107,041	6,007,025
Total deferred inflows of resources	<u>8,589,405</u>	<u>238,554</u>	<u>8,827,959</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>65,613,074</u>	<u>1,083,203</u>	<u>66,696,277</u>
NET POSITION			
Net investment in capital assets	30,574,069	152,714	30,726,783
Restricted for:			
Capital projects	22,757,580		22,757,580
Workers compensation	500,000		500,000
Sick leave	171,191		171,191
Prior year encumbrances	170,105		170,105
District activities	9,194		9,194
School activities	375,947		375,947
Food services		745,059	745,059
Unrestricted (deficit)	<u>(37,985,903)</u>		<u>(37,985,903)</u>
Total net position	<u>16,572,183</u>	<u>897,773</u>	<u>17,469,956</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 82,185,257</u>	<u>\$ 1,980,976</u>	<u>\$ 84,166,233</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Activities
Year ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 29,059,841	\$ -	\$ 16,123,962	\$ -	\$ (12,935,879)	\$ -	\$ (12,935,879)
Support services:							
Student	2,324,791	862,217	1,140,285		(322,289)		(322,289)
Instructional staff	1,408,874		691,037		(717,837)		(717,837)
District administration	1,180,051		578,802		(601,249)		(601,249)
School administration	2,228,547		1,093,078		(1,135,469)		(1,135,469)
Business	940,434		461,273		(479,161)		(479,161)
Plant operation & maintenance	4,368,062		2,142,487	1,469,909	(755,666)		(755,666)
Student transportation	3,060,573		1,501,178		(1,559,395)		(1,559,395)
Community services operations	630,330		309,170		(321,160)		(321,160)
Food service operations	235,154	28,241	115,340		(91,573)		(91,573)
Non-instructional	508,237		249,285		(258,952)		(258,952)
Interest on general long-term debt	1,105,302			2,155,506	1,050,204		1,050,204
Depreciation*	2,708,089				(2,708,089)		(2,708,089)
Total governmental activities	<u>49,758,285</u>	<u>890,458</u>	<u>24,405,896</u>	<u>3,625,415</u>	<u>(20,836,516)</u>		<u>(20,836,516)</u>
Business-type activities:							
Food service operations	3,067,408	443,112	3,387,956			763,660	763,660
Depreciation	43,239					(43,239)	(43,239)
Total business-type activities	<u>3,110,647</u>	<u>443,112</u>	<u>3,387,956</u>	<u>-</u>	<u>-</u>	<u>720,421</u>	<u>720,421</u>
Total primary government	\$ <u>52,868,932</u>	\$ <u>1,333,570</u>	\$ <u>27,793,852</u>	\$ <u>3,625,415</u>	<u>(20,836,516)</u>	<u>720,421</u>	<u>(20,116,095)</u>
General revenues:							
Taxes:							
Property taxes					3,700,498		3,700,498
Motor vehicle taxes					852,562		852,562
Utility taxes					1,405,505		1,405,505
State and formula grants					20,257,622		20,257,622
Unrestricted investment earnings					10,182	3,121	13,303
Other local revenue					483,346		483,346
Transfers					206,331	(206,331)	-
Total general revenues and transfers					<u>26,916,046</u>	<u>(203,210)</u>	<u>26,712,836</u>
Change in net position					6,079,530	517,211	6,596,741
Net position - beginning					10,422,849	380,562	10,803,411
Prior period adjustment					69,804		69,804
Restated net position - beginning					<u>10,492,653</u>	<u>380,562</u>	<u>10,873,215</u>
Net position - ending					\$ <u>16,572,183</u>	\$ <u>897,773</u>	\$ <u>17,469,956</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, 2022

	Governmental Funds					
	General	Special Revenue	FSPK	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 5,576,360	\$ -	\$ 734,402	\$ -	\$ 778,539	\$ 7,089,301
Investments	1,638,915		1,152,291			2,791,206
Receivables						
Interfund receivable	1,309,204					1,309,204
Taxes	189,228					189,228
Intergovernmental - federal		1,377,820				1,377,820
Total assets	<u>8,713,707</u>	<u>1,377,820</u>	<u>1,886,693</u>	<u>-</u>	<u>778,539</u>	<u>12,756,759</u>
LIABILITIES						
Accounts payable	187,048	68,616			4,311	259,975
Accrued salaries & benefits payable	122,994					122,994
Payroll taxes payable	267,945					267,945
Interfund payable		1,309,204				1,309,204
Total liabilities	<u>577,987</u>	<u>1,377,820</u>	<u>-</u>	<u>-</u>	<u>4,311</u>	<u>1,960,118</u>
FUND BALANCE						
Restricted			1,886,693		774,228	2,660,921
Committed	671,191					671,191
Assigned	170,105					170,105
Unassigned	7,294,424					7,294,424
Total fund balance	<u>8,135,720</u>	<u>-</u>	<u>1,886,693</u>	<u>-</u>	<u>774,228</u>	<u>10,796,641</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 8,713,707</u>	<u>\$ 1,377,820</u>	<u>\$ 1,886,693</u>	<u>\$ -</u>	<u>\$ 778,539</u>	<u>\$ 12,756,759</u>

See the accompanying notes to the financial statements.

Harlan County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2022

Fund balances-total governmental funds	\$	10,796,641
<p>Amounts reported for governmental activities in the statement of net position are different because:</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.		63,148,560
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus		1,152,273
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(353,115)
Bonds payable		(32,051,984)
Finance purchase obligations		(592,313)
Self insurance payable		(973,261)
Sick leave liability		(342,382)
Net pension liability		(13,127,222)
Net OPEB liability		(8,811,035)
Net intangible right-of-use asset		191,249
Leased liabilities		(121,443)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions		2,435,703
Deferred outflows of resources related to OPEB		3,809,917
Deferred inflows of resources related to pensions		(2,689,421)
Deferred inflows of resources related to OPEB		(5,899,984)
		16,572,183
Net position of governmental activities	\$	<u>16,572,183</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2022

	<u>General</u>	<u>Special Revenue</u>	<u>FSPK</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From local sources						
Taxes						
Property	\$ 2,847,732	\$ -	\$ 852,766	\$ -	\$ -	\$ 3,700,498
Motor vehicle	852,562					852,562
Utilities	1,405,505					1,405,505
Earnings on investments	10,091	25			66	10,182
Other local revenue	217,566	184,568			81,212	483,346
Food service					28,241	28,241
Student activities					862,217	862,217
Intergovernmental - state	28,754,591	2,058,716	1,130,072	2,155,506	339,837	34,438,722
Intergovernmental - federal	112,875	13,737,336				13,850,211
Total revenues	<u>34,200,922</u>	<u>15,980,645</u>	<u>1,982,838</u>	<u>2,155,506</u>	<u>1,311,573</u>	<u>55,631,484</u>
EXPENDITURES						
Instruction	18,600,546	11,157,230			441,012	30,198,788
Support services						
Student	1,287,622	1,037,169				2,324,791
Instructional staff	597,292	811,582				1,408,874
District administration	1,180,051					1,180,051
School administration	2,228,547					2,228,547
Business	655,148	75,558				730,706
Other non-instruction					508,237	508,237
Plant operation & maintenance	4,870,273	373,980			250	5,244,503
Student transportation	3,534,578	1,557,054				5,091,632
Food service operation		235,154				235,154
Community services operations		630,330				630,330
Building improvements					1,150,697	1,150,697
Debt service	110,824			4,356,093		4,466,917
Total expenditures	<u>33,064,881</u>	<u>15,878,057</u>	<u>-</u>	<u>4,356,093</u>	<u>2,100,196</u>	<u>55,399,227</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,136,041	102,588	1,982,838	(2,200,587)	(788,623)	232,257
OTHER FINANCING SOURCES (USES)						
Bond principal proceeds				2,440,000		2,440,000
Bond discount				(17,010)		(17,010)
Payment to escrow				(2,385,480)		(2,385,480)
Loss on investment	(209,728)					(209,728)
Finance purchase proceeds	398,466					398,466
Operating transfers in	206,331	145,100		2,163,077	523,318	3,037,826
Operating transfers (out)	(629,399)	(247,688)	(1,614,572)		(339,837)	(2,831,496)
Total other financing sources and (uses)	<u>(234,330)</u>	<u>(102,588)</u>	<u>(1,614,572)</u>	<u>2,200,587</u>	<u>183,481</u>	<u>432,578</u>
NET CHANGE IN FUND BALANCE	901,711	-	368,266	-	(605,142)	664,835
FUND BALANCE-BEGINNING	<u>7,234,009</u>	<u>-</u>	<u>1,518,427</u>	<u>-</u>	<u>1,379,370</u>	<u>10,131,806</u>
FUND BALANCE-ENDING	<u>\$ 8,135,720</u>	<u>\$ -</u>	<u>\$ 1,886,693</u>	<u>\$ -</u>	<u>\$ 774,228</u>	<u>\$ 10,796,641</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, 2022

Net change in fund balances-total governmental funds	\$	664,835
<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		402,277
<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		637,912
<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>		
		1,031,135
<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>		
		(220,717)
<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>		
		26,348
<p>Bond and finance purchase 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>		
		3,482,187
<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		36,287
Finance purchase obligations		985
Leased liabilities		2
Self insurance payable		141,169
Noncurrent sick leave payable		(122,890)
		(122,890)
Change in net position of governmental activities	\$	<u>6,079,530</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year ended June 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
From local sources				
Taxes				
Property	\$ 2,632,000	\$ 2,632,000	\$ 2,847,732	\$ 215,732
Motor vehicle	650,000	650,000	852,562	202,562
Unmined minerals	50,000	50,000		(50,000)
Utilities	1,300,000	1,300,000	1,405,505	105,505
Earnings on investments	4,000	4,000	10,091	6,091
Other local revenue			217,566	217,566
Intergovernmental - state	28,759,656	28,764,522	28,754,591	(9,931)
Intergovernmental - federal	50,000	50,000	112,875	62,875
Total revenues	33,445,656	33,450,522	34,200,922	750,400
EXPENDITURES				
Instruction	19,346,991	19,363,931	18,600,546	763,385
Support services				
Student	1,490,714	1,490,714	1,287,622	203,092
Instructional staff	757,930	757,930	597,292	160,638
District administration	1,254,058	1,254,058	1,180,051	74,007
School administration	2,147,758	2,147,758	2,228,547	(80,789)
Business	662,714	662,714	655,148	7,566
Plant operation & maintenance	4,564,549	4,564,549	4,870,273	(305,724)
Student transportation	3,976,949	3,976,949	3,534,578	442,371
Debt service	130,000	130,000	110,824	19,176
Total expenditures	34,331,663	34,348,603	33,064,881	1,283,722
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(886,007)	(898,081)	1,136,041	2,034,122
OTHER FINANCING SOURCES (USES)				
Loss on investment	-	-	(209,728)	(209,728)
Finance purchase proceeds	-	-	398,466	398,466
Operating transfers in	205,000	205,000	206,331	1,331
Operating transfers (out)	(208,669)	(208,669)	(629,399)	(420,730)
Total other financing sources and (uses)	(3,669)	(3,669)	(234,330)	(230,661)
NET CHANGE IN FUND BALANCE	(889,676)	(901,750)	901,711	1,803,461
FUND BALANCE-BEGINNING	6,543,385	6,624,263	7,234,009	609,746
FUND BALANCE-ENDING	\$ 5,653,709	\$ 5,722,513	\$ 8,135,720	\$ 2,413,207

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, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources				
Other local revenue	\$ -	\$ -	\$ 184,568	\$ 184,568
Earnings from investments			25	25
Intergovernmental - state	1,895,741	2,055,605	2,058,716	3,111
Intergovernmental - federal	5,825,357	6,483,167	13,737,336	7,254,169
Total revenues	<u>7,721,098</u>	<u>8,538,772</u>	<u>15,980,645</u>	<u>7,441,873</u>
EXPENDITURES				
Instruction	6,292,995	7,042,846	11,157,230	(4,114,384)
Support services				
Student	185,372	185,071	1,037,169	(852,098)
Instructional staff	490,411	518,201	811,582	(293,381)
Business			75,558	(75,558)
Student transportation	67,785	67,785	373,980	(306,195)
Food service operation			1,557,054	(1,557,054)
Community services operations	549,885	576,248	235,154	341,094
Plant operations & maintenance	134,650	148,651	630,330	(481,679)
Total expenditures	<u>7,721,098</u>	<u>8,538,802</u>	<u>15,878,057</u>	<u>(7,339,255)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	-	(30)	102,588	102,618
OTHER FINANCING SOURCES (USES)				
Operating transfers in			145,100	145,100
Operating transfers out			(247,688)	(247,688)
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>(102,588)</u>	<u>(102,588)</u>
NET CHANGE IN FUND BALANCE	-	(30)	-	30
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ (30)</u>	<u>\$ -</u>	<u>\$ 30</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Net Position
Proprietary Fund
June 30, 2022

		<u>School Food Services</u>
ASSETS		
Cash and cash equivalents	\$	1,172,679
Investments		250,000
Inventories		183,909
Capital assets:		
Other capital assets, net of depreciation		152,714
Total assets		<u>1,759,302</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions		119,106
Deferred outflows related to OPEB		102,568
Total deferred outflows of resources		<u>221,674</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		<u><u>1,980,976</u></u>
LIABILITIES		
Accounts payable		9,374
Net pension liability		641,922
Net OPEB liability		193,353
Total liabilities		<u>844,649</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions		131,513
Deferred inflows related to OPEB		107,041
Total deferred inflows of resources		<u>238,554</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		<u>1,083,203</u>
NET POSITION		
Net Investment in capital assets		152,714
Restricted		745,059
Total net position		<u>897,773</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$	<u><u>1,980,976</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, 2022

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	412,155
Other revenue from local sources		30,957
Total operating revenues		<u>443,112</u>
OPERATING EXPENSES		
Depreciation		43,239
Food service operations		
Employee services		1,789,182
Operational expenses		1,278,226
Total operating expenses		<u>3,110,647</u>
Operating income (loss)		<u>(2,667,535)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		2,859,200
State grants		528,756
Transfers in (out)		(206,331)
Earnings from investments		3,121
Total nonoperating revenues (expenses)		<u>3,184,746</u>
CHANGE IN NET POSITION		517,211
NET POSITION-BEGINNING		<u>380,562</u>
NET POSITION-ENDING	\$	<u>897,773</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2022

	Enterprise Fund
	School Food Services
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 443,112
Payments to suppliers	(1,316,375)
Payments to employees	(1,789,182)
Net cash provided (used) by operating activities	(2,662,445)
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Addition of capital assets	(33,162)
Net cash provided (used) by noncapital financing activities	(33,162)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(206,331)
Operating grants and contributions	3,387,956
Net cash provided (used) by noncapital financing activities	3,181,625
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	3,121
Net cash provided (used) by investing activities	3,121
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	489,139
CASH AND CASH EQUIVALENTS-BEGINNING	683,540
CASH AND CASH EQUIVALENTS-ENDING	\$ 1,172,679
Reconciliation of operating income (loss) to net cash provided (used)	
by operating activities:	
Operating income (loss)	\$ (2,667,535)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	43,239
Changes in assets and liabilities:	
Inventory	97,449
Outflow Deferrals	56,059
Inflow Deferrals	150,254
Pension liability	(256,319)
OPEB liability	(89,356)
Payables	3,764
Net cash provided (used) by operating activities	\$ (2,662,445)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$35,962 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 \$508,557 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, 2022

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, 2022, 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)

Special Revenue Fund Expenditures exceeded budgeted appropriations by \$7,339,255.

New Accounting Pronouncements

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. As a result of implementation of GASB Statement No. 87, capital assets and liabilities have been restated to reflect the inclusion of finance purchases. Therefore, net position-beginning was \$10,422,849, a prior period adjustment was made in the amount of \$69,804 and restated net position-beginning is now \$10,492,653 for Governmental Activities.

GASB Statement No. 89-In June, 2018, GASB issued Statement No. 89, *Accounting For Interest Cost Incurred Before The End Of A Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

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. 98-In October, 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The requirements of this Statement are effective for fiscal years ending after December 15, 2021.

There is no effect on current year financial statements for GASB 89, GASB 91, GASB 92, or GASB 98.

Effective in Future Years:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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. 99-In April, 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2023.

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 \$8,261,980. The bank balance for the same time was \$11,402,277.

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, 2022

Investments	Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	10 or More
Certificate of Deposits	N/R	\$ 99,320	\$ 99,320	\$ -	\$ -
Certificate of Deposit	N/R	248,240	248,240	-	-
Certificate of Deposit	N/R	245,433	245,433	-	-
Certificate of Deposit	N/R	92,245	92,245	-	-
Certificate of Deposit	N/R	244,843	-	244,843	-
Federal Home Ln Mtg Corp Debt	Aaa	2,111,081	-	2,111,081	-
Total		<u>3,041,162</u>	<u>\$ 685,238</u>	<u>\$ 2,355,924</u>	<u>\$ -</u>
Money Market Funds		<u>44</u>			
Total Investments		<u>\$ 3,041,206</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 or risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

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

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

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

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:

	Fair Value	Level 1
Certificates of Deposit	\$ 930,081	\$ 930,081
U.S. Bonds	<u>2,111,081</u>	<u>2,111,081</u>
Total Investments by Fair Value Level	<u>3,041,162</u>	<u>3,041,162</u>
Money Market Funds	<u>44</u>	<u>44</u>
Total Investments	<u>\$ 3,041,206</u>	<u>\$ 3,041,206</u>

NOTE C – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

SEE SCHEDULE NEXT PAGE

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2022</u>
Land	\$ 2,014,472	\$ 12,000	\$ -	\$ 2,026,472
Land improvements	1,301,811	-	-	1,301,811
Buildings	79,536,297	-	-	79,536,297
Technology equipment	4,387,840	-	-	4,387,840
Vehicles	10,911,022	2,031,059	-	12,942,081
General equipment	1,125,601	343,236	-	1,468,837
Construction in progress	5,922,877	1,150,697	-	7,073,574
Total at historical cost	<u>\$ 105,199,920</u>	<u>\$ 3,536,992</u>	<u>\$ -</u>	<u>\$ 108,736,912</u>
Less: Accumulated depreciation				
Land improvements	\$ 1,127,952	\$ 50,937	\$ -	\$ 1,178,888
Buildings	29,832,319	1,790,432	-	31,622,751
Technology equipment	4,086,878	89,574	-	4,176,452
Vehicles	7,643,335	522,906	-	8,166,241
General equipment	668,723	52,008	-	720,732
Total accumulated depreciation	<u>\$ 43,359,207</u>	<u>\$ 2,505,857</u>	<u>\$ -</u>	<u>\$ 45,865,064</u>
Finance Purchases				
General equipment	\$ -	\$ 398,466	\$ -	\$ 812,810
Less: Accumulated depreciation	-	(121,754)	-	(536,098)
Finance Purchases-net	<u>\$ -</u>	<u>\$ 276,712</u>	<u>\$ -</u>	<u>\$ 276,712</u>
Intangible Right-of-Use Asset				
Leased equipment	\$ 366,002	\$ -	\$ -	\$ 366,002
Less: Accumulated amortization	(94,275)	(80,478)	-	(174,753)
Right-of-Use Asset-net	<u>\$ 271,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,249</u>
Governmental Activities				
Capital Assets-net	<u>\$ 62,112,440</u>	<u>\$ 1,227,369</u>	<u>\$ -</u>	<u>\$ 63,339,809</u>
<u>Business-Type Activities</u>	<u>July 1, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2022</u>
Technology equipment	\$ 77,540	\$ -	\$ -	\$ 77,540
Vehicles	110,896	-	-	110,896
General equipment	997,381	33,162	-	1,030,543
Total at historical cost	<u>\$ 1,185,817</u>	<u>\$ 33,162</u>	<u>\$ -</u>	<u>\$ 1,218,979</u>
Less: Accumulated depreciation				
Technology equipment	77,540	-	-	77,540
Vehicles	81,324	22,179	-	103,503
General equipment	864,162	21,060	-	885,222
Total accumulated depreciation	<u>\$ 1,023,026</u>	<u>\$ 43,239</u>	<u>\$ -</u>	<u>\$ 1,066,265</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 162,791</u>	<u>\$ (10,077)</u>	<u>\$ -</u>	<u>\$ 152,714</u>

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

NOTE D – LONG TERM DEBT OBLIGATIONS

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2022 the District refunded \$2,440,000 in bonds to fund the construction projects at Wallins Elementary School.

Defeased Bonds

In 2022, the District defeased Series 2012 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 \$2,382,104. 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 \$204,598. As a result of this advance, the District obtained a net present value savings of \$177,904. The amount outstanding on old debt was paid before year end. The amount in escrow was paid before year end.

The bonds payable are collateralized by education facilities constructed by the District with bond proceeds. Bondholders are protected against default by a mechanism whereby the Commonwealth of Kentucky would withhold state SEEK payments and remit required debt service payments directly to the debt service paying agent. All bonds are subject to federal arbitrage regulations.

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2022 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2021 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2022 Outstanding Balance</u>
2012R	2,990,000	6/1/2024	.90 - 2.0%	\$ 940,000	\$ -	\$ 310,000	\$ 630,000
2015R	26,635,000	8/1/2026	2.0 - 3.0%	15,485,000	-	2,380,000	13,105,000
2016R	4,225,000	8/1/2030	2-2.5%	3,470,000	-	185,000	3,285,000
2012B R	1,955,000	12/1/2024	1.0 - 2.125%	755,000	-	210,000	545,000
2012	2,350,000	6/1/2033	3.375%	2,305,000	-	2,305,000	-
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	740,000	-	55,000	685,000
2012	229,900	6/1/2022	2.0 - 3.0%	18,000	-	18,000	-
2019	3,920,000	5/1/2029	3.0-3.125%	3,760,000	-	95,000	3,665,000
2020	6,080,000	2/1/2040		5,870,000	-	205,000	5,665,000
2020R	2,135,000			2,095,000	-	25,000	2,070,000
2021R	2,440,000			-	2,440,000	35,000	2,405,000
				<u>\$ 35,438,000</u>	<u>\$ 2,440,000</u>	<u>\$ 5,823,000</u>	<u>\$ 32,055,000</u>
Add:	Premium			162,664	-	27,448	135,216
Less:	Discount			(139,332)	(17,010)	(18,110)	(138,232)
Totals				<u>\$ 35,461,332</u>	<u>\$ 2,422,990</u>	<u>\$ 5,832,338</u>	<u>\$ 32,051,984</u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2022 for debt service, (principal and interest) are as follows:

Fiscal Year Ended <u>30-Jun</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	<u>Local</u>	<u>SFCC</u>	<u>Local</u>	<u>SFCC</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 1,700,329	\$ 1,859,671	\$ 469,582	\$ 274,333	\$ 3,560,000	\$ 743,915
2024	1,746,941	1,898,059	433,387	236,043	3,645,000	669,431
2025	1,797,924	1,587,076	388,471	190,997	3,385,000	579,468
2026	1,880,654	1,639,346	334,699	146,772	3,520,000	481,471
2027	1,930,486	1,384,514	278,468	105,681	3,315,000	384,149
2028-2032	6,980,349	1,694,651	905,086	336,055	8,675,000	1,241,141
2033-2037	2,639,469	1,300,531	360,093	179,108	3,940,000	539,201
2038-2040	1,198,055	816,945	56,890	38,716	2,015,000	95,606
	<u>\$ 19,874,207</u>	<u>\$ 12,180,793</u>	<u>\$ 3,226,677</u>	<u>\$ 1,507,705</u>	<u>\$ 32,055,000</u>	<u>\$ 4,734,383</u>

Finance Purchases

The following is an analysis of the financed property under finance purchases by class:

<u>Finance Purchases</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2021 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2022 Outstanding Balance</u>
2012 Kista	176,231	3/1/2022	2.0 - 2.625%	\$ 16,255	\$ -	\$ 16,255	\$ -
2013 Kista	433,036	3/1/2023	2.0%	77,574	-	38,403	39,171
2018 Kista	465,306	3/1/2028	2-3%	321,944	-	44,529	277,415
Rosspoint Modular	398,466	6/18/2024	2%	-	398,466	122,739	275,727
Totals				<u>\$ 415,773</u>	<u>\$ 398,466</u>	<u>\$ 221,926</u>	<u>\$ 592,313</u>

The following is a schedule by years of the future minimum payments under finance purchases together with the present value of the net minimum payments as of June 30, 2022:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total Payments</u>
2023	\$ 221,427	\$ 13,374	\$ 234,801
2024	186,563	8,462	195,025
2025	48,563	5,530	54,093
2026	50,115	4,073	54,188
2027	42,202	2,569	44,771
2028	43,443	1,303	44,746
	<u>\$ 592,313</u>	<u>\$ 35,311</u>	<u>\$ 627,624</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Total minimum payments	\$	627,624
Less: Amount representing interest		<u>(35,311)</u>
Present Value of Net Minimum Payments	\$	<u>592,313</u>

In order to secure the payment of all of the Board's obligations under a KISTA Lease, the Board grants to KISTA a security interest constituting a first lien on the Equipment and on all additions, attachments, accessories, and substitutions thereto, and on all proceeds therefrom. In the Event of Default, title to the Equipment shall immediately vest in KISTA, and the Board will immediately surrender possession of the Equipment to KISTA or to KISTA's order; by the execution of this Lease the Board agrees upon demand by KISTA or the Second Trustee, and without order of court, to execute a bill of sale or such other instrument as may be required in favor of KISTA or the Second Trustee in order to permit liquidation of the equipment in an Event of Default by the Board.

Intangible Right-of-Use Assets

The following is an analysis of the operating leases under right-of-use assets by class as of June 30, 2022:

<u>Operating Leases (ROU)</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2021 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2022 Outstanding Balance</u>
Xerox C8145H2	7,887	11/1/2025	2%-3%	\$ 6,869	\$ -	\$ 1,533	\$ 5,336
Kyocera 5002, 5003, 5004	26,566	9/14/2023	2%-3%	13,280	-	6,574	6,706
kyocera 7003i, 4003i, M4125idn	77,291	9/6/2024	2%-3%	53,678	-	17,540	36,139
Kyocera 7002, 5003, 4003, 307ci	49,409	9/27/2023	2%-3%	24,947	-	12,350	12,597
Kyocera 7003i, 5003i,3253ci, 3212i, M3645	74,221	8/28/2023	2%-3%	48,989	-	24,252	24,737
4 Konica Minolta 458e Copier	37,065	3/5/2025	2%-3%	27,494	-	7,300	20,194
xerox c8045H	7,991	8/22/2024	2%-3%	5,014	-	1,592	3,421
Estudio 5008A	12,298	3/25/2023	2%-3%	4,038	-	2,407	1,631
kyocera 5002i, 4052ci	23,769	3/22/2024	2%-3%	9,599	-	4,752	4,847
2 xerox B7025	11,047	2/5/2025	2%-3%	8,015	-	2,180	5,835
Totals				<u>\$ 201,923</u>	<u>\$ -</u>	<u>\$ 80,480</u>	<u>\$ 121,443</u>

The following is a schedule by years of the future minimum payments under operating leases together with the present value of the net minimum payments as of June 30, 2022:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total Payments</u>
2023	\$ 81,266	\$ 2,291	\$ 83,557
2024	31,366	685	32,051
2025	8,262	77	8,339
2026	549	2	551
	<u>\$ 121,443</u>	<u>\$ 3,055</u>	<u>\$ 124,498</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2022 for accumulated sick leave is as follows:

	<u>2021 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2022 Outstanding Balance</u>
Sick Leave	\$ 219,492	\$ 122,890	\$ -	\$ 342,382

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 2022 for workers compensation liability is as follows:

	<u>2021 Outstanding Balance</u>	<u>Claims & Changes In Estimates Additions</u>	<u>Claims Payments Retirements</u>	<u>2022 Outstanding Balance</u>
Workers Compensation Liability	\$ 1,114,430	\$ 96,659	\$ 237,828	\$ 937,261

Net Pension & OPEB Liability

The net pension liability is \$13,127,222 for governmental activities and \$641,922 for business-type activities for a total of \$13,769,144 as of June 30, 2022. (See Note E for additional information) The net OPEB liability is \$8,811,035 for governmental activities and \$193,353 for business-type activities for a total of \$9,004,388 as of June 30, 2022. (See Note F for additional information)

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

<u>Description</u>	<u>2021 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2022 Outstanding Balance</u>	<u>Amount Due in One Year</u>
Bonds, Net of Premium and Discount	\$ 35,461,332	\$ 2,422,990	\$ 5,832,338	\$ 32,051,984	\$ 3,560,000
Finance Purchases	415,773	398,466	221,926	592,313	221,427
Right-of-Use Asset	201,923	-	80,480	121,443	81,266
Sick Leave	219,492	122,890	-	342,382	-
Workers Compensation Liability	1,114,430	96,659	237,828	973,261	-
Net Pension Liability	16,983,881	-	3,214,737	13,769,144	-
Net OPEB Liability	11,092,436	-	2,088,048	9,004,388	-
Totals	\$ <u>65,489,267</u>	\$ <u>3,041,005</u>	\$ <u>11,675,357</u>	\$ <u>56,854,915</u>	\$ <u>3,862,693</u>

NOTE E – 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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 for life, members must either:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 is equal to the greater of the service retirement allowance or 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.

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, Deferred Outflows of Resources and Deferred Inflows of Resources Related to TRS

At June 30, 2022 the District did not report a liability for the District's proportionate share of the net pension liability, pension expense, and deferred inflows and outflows of resources 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

TRS

State's proportionate share of the TRS net pension liability associated with the District \$ 54,999,050

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020. 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, 2021, the District's proportion was 0.4226%.

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry age
Inflation Rate	2.5%
Single Equivalent Interest Rate	7.10%
Municipal Bond Index Rate	2.13%
Projected Salary Increase	3.0-7.5%, including inflation
Investment Rate of Return	7.10%, net of pension plan investment expense, including inflation.

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups; service, retirees, contingent annuitants, disabled retirees, and active members. The actuarial assumptions used were based on the results of an actuarial experience study for the 5-year period ending June 30, 2020, adopted by the board on September 20, 2021. The assumed long-term investment rate of return was changed from 7.50 percent to 7.10 percent and the price inflation assumption was lowered from 3.0 percent to 2.5 percent. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

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

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 returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

Asset Class:	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	40 %	4.60 %
Non US Equity	22 %	5.60 %
Credit Fixed	15 %	0.00 %
Private Equity	7 %	7.70 %
Real Estate	7 %	4.30 %
Cash	2 %	-0.50 %
High Yield Non US Developed Bonds and Private Equity	7 %	2.50 %

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. 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 7.10%, 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 (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

TRS	1% Decrease	Current Discount Rate	1% Increase
	6.10%	7.10%	8.10%
State's proportionate share of net pension liability	\$ 73,761,841	\$ 54,999,050	\$ 38,632,771

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)

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 and overseen by the Kentucky Public Pensions Authority (KPPA). The plan covers substantially all regular full-time members employed in non-hazardous duty positions of the school board. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

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

Benefits provided

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

Contributions

Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2022, employers were required to contribute 26.95% of the member’s salary. During the year ending June 30, 2022, the District contributed \$1,780,671 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2022, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021 on an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2021. The District’s proportion was 0.215960%.

CERS

District's proportionate share of CERS net pension liability \$ 13,769,144

Deferred Inflows and Outflows of Resources, and Pension Expense included in the Schedule of Pension Amounts include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of Pension

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Amounts does not include deferred outflow/inflows of resources for changes in the employer’s proportionate share of contribution or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2021, is based on the June 30, 2020, actuarial valuation rolled forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are amortized over a closed five-year period.

For the year ended June 30, 2022, the District recognized pension revenue of \$517,618 and reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
CERS		
Differences between expected and actual experience	\$ 158,112	\$ 133,639
Changes of assumptions	184,798	-
Net difference between projected and actual earnings on pension plan investments	534,151	2,369,347
Changes in proportion and differences between District contributions and proportionate share of contributions	-	317,948
District contributions subsequent to the measurement date	<u>1,677,748</u>	<u>-</u>
	<u>\$ 2,554,809</u>	<u>\$ 2,820,934</u>

The \$1,677,748 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, 2023.

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	\$	(389,340)
Year 2		(559,405)
Year 3		(420,439)
Year 4		<u>(574,689)</u>
	\$	<u>(1,943,873)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRS). The total pension liability, net pension liability, and sensitivity information were based on an actuarial valuation date June 30, 2020. The total pension liability was rolled forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using generally accepted accounting principles. The financial reporting actuarial valuation used the following actuarial principles.

The actuarial assumptions are:

Valuation Date	June 30, 2020
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 2019. 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.

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) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class:	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	15.75 %	4.50 %
Non US Equity	15.75 %	5.25 %
Core Bonds	20.5 %	-0.25 %
Private Equity	7 %	5.15 %
Real Estate	5 %	5.30 %
Opportunistic	3 %	2.25 %
Real Return	15 %	3.95 %
Cash	3 %	-0.75 %

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, 2021:

Valuation Date	June 30, 2019
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, Closed <i>Gains/losses incurring after 2019 will be amortized over Separate closed 20-year amortization bases</i>
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 10.30%, varies by service
Investment Rate of Return	6.25%
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

The retiree mortality is 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 2019.

Sensitivity of the District’s proportionate share of net pension liability to changes in the discount rate

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 6.25%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25%) or 1-percentage-point higher (7.25%) than the current rate:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

CERS	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 17,659,580	\$ 13,769,144	\$ 10,549,899

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, 2022, there are no payables to CERS.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

TRS – General Information about the OPEB Plans

Health Insurance Trust (Medical Insurance Fund)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The District reported a liability of \$4,857,000 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. The District's proportion was .226351%.

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	\$	4,857,000
State's proportionate share of the TRS net OPEB liability associated with the District		<u>3,944,000</u>
	\$	<u><u>8,801,000</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

MIF	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 2,888,000
Changes of assumptions	1,270,000	-
Net difference between projected and actual earnings on pension plan investments	-	518,000
Changes in proportion and differences between District contributions and proportionate share of contributions	43,000	305,000
District contributions subsequent to the measurement date	<u>399,409</u>	<u>-</u>
	<u>\$ 1,712,409</u>	<u>\$ 3,711,000</u>

The \$399,409 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, 2023. 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:

MIF	<u>Year Ended June 30,</u>
Year 1	\$ (614,000)
Year 2	(617,000)
Year 3	(556,000)
Year 4	(491,000)
Year 5	(121,000)
Thereafter	<u>1,000</u>
	<u>\$ (2,398,000)</u>

Actuarial Methods and Assumptions

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	6.49% 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).

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation Percentage	30 Year Expected Geometric Real Rate of Return
Global Equity	58.00	5.40
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 pre-65 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 (ADC), as determined by the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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).

- 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.
 - For the purposes of developing estimates for new entrants, active headcounts were assumed to remain flat for all future years.

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

The following table presents the net OPEB liability of the District, calculated using the discount rate of 7.10%, and what the liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10%) or 1-percentage-point higher (8.10%) than the current discount rate:

MIF	1% Decrease	Current Discount Rate	1% Increase
	6.10%	7.10%	8.10%
District's proportionate share of net OPEB liability	\$ 6,218,000	\$ 4,857,000	\$ 3,731,000

The following presents the District’s proportionate share of the collective net OPEB liability, as well as what it 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	\$ 3,529,000	\$ 4,857,000	\$ 6,510,000

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

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	\$	52,000
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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, 2017
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Amortization Period	27 years, Closed
Asset Valuation Method	5-year smoothed value
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.20%, 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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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)
	100.0	

As the Life Trust investment policy is to change, the above reflects the pension allocation and returns that achieve the targeted 8.00% long-term rate of return.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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.

Revenue or Expenses for TRS OPEB plans

For the year ended June 30, 2022, the District recognized OPEB revenue in the amount of \$710,634 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

The District reported a liability of \$4,147,388 for its proportionate share of the collective net OPEB liability which is .216636%.

Deferred Inflows and Outflows of Resources, and OPEB Expense included in the Schedules of OPEB Amounts include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedules of OPEB Amounts do not include deferred outflow/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net OPEB liability as of June 30, 2021, is based on the June 30, 2020, actuarial valuation rolled forward. Deferred outflows and inflows related to differences between projected and actual

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

earnings on plan investments are amortized over a closed five-year period. For the year ended June 30, 2022, the District recognized OPEB expense of \$48,701. The District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 652,178	\$ 1,238,272
Changes of assumptions	1,099,551	3,856
Net difference between projected and actual earnings on pension plan investments	208,958	857,759
Changes in proportion and differences between District contributions and proportionate share of contributions	-	196,138
District contributions subsequent to the measurement date	<u>239,389</u>	<u>-</u>
	<u>\$ 2,200,076</u>	<u>\$ 2,296,025</u>

The \$239,389 (includes \$136,466 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:

	<u>Year Ended June 30,</u>
Year 1	\$ 42,482
Year 2	(55,981)
Year 3	(56,323)
Year 4	<u>(265,516)</u>
	<u>\$ (335,338)</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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2021, was performed by Gabriel Roeder Smith (GRA). The total OPEB liability, net OPEB liability, and sensitivity information as of June 30, 2021, were based on an actuarial valuation as of June 30, 2020. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021, using the generally accepted actuarial principles.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2021:

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 6.30% at January 1, 2023, and Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 6.30% in 2023 then Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years.
Mortality Pre-retirement	PUB-2010 General Mortality table, projected with the Ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
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 single discount tables used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plan's anticipated long-term healthcare costs.

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, 2019. 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 Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of duty-related disability. The total OPEB liability as of June 30, 2021, is determined using these updated benefit provisions.

Discount rate

Single discount rates of 5.20% were used to measure the total OPEB liability as of June 30, 2021. 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 1.92%, as reported in Fidelity Index’s “20 Year Municipal GO AA Index” as of June 30, 2021. 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 plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy, as most recently revised by House Bill 8, passed during the 2021 legislative session.in accordance with the current funding policy, as most recently revised by Senate Bill 249, passed during the 2020 legislative session. The assumed future employer contributions reflect the provisions of House Bill 362 (passed during the 2018 legislative session) which limit the increases to the employer contribution rates to 12% over the prior fiscal year through June 30, 2028.

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 Net OPEB Liability calculated using the discount rate of 5.20%, 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 (4.20%) or 1-percentage-point higher (6.20%) than the current rate:

CERS	1% Decrease	Current Discount Rate	1% Increase
	4.20%	5.20%	6.20%
District's proportionate share of net OPEB liability	\$ 5,694,332	\$ 4,147,388	\$ 2,877,863

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Actuarial Methods and Assumptions used to determine the Actuarial Determined Contribution for the Fiscal Year 2021

The following actuarial assumptions were used in performing the actuarially determined contributions effective for fiscal year ending June 30, 2021:

Valuation Date	June 30, 2019
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 period at June 30, 2019, Gains/losses Incurring after 2019 will be amortized over separate closed 20-year amortization bases
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	2.30%
Salary Increases	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Mortality	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
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.25% at January 1, 2021, and Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.50% at January 1, 2020, and Gradually decreasing to an ultimate trend rate of 4.05% Over period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Phase-in Provision	Board certified rate is phased into the actuarially Determined rate in accordance with HB 362 enacted in 2018.

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 5.2%, 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 (4.2%) or 1-percentage-point higher (6.2%) than the current rate:

CERS	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 2,985,626	\$ 4,147,388	\$ 5,549,652

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

OPEB plan fiduciary net position

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

NOTE G – COMMITMENTS

The District has commitments for construction projects of \$5,562,524 as of June 30, 2022. In addition, the District has made a commitment for sick leave in the general fund of \$171,191 and \$500,000 for Self-Insurance claims.

NOTE H – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 389,087	Future Construction
FSPK	1,886,693	School Facilities Construction Commission Requirement
Student Activity	375,947	Student Activity
District Activity	9,194	School Activity
Food Service	\$ 745,059	School Food Service Operations

NOTE I - 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 J - LITIGATION

The District has no pending or threatened litigation involving amounts exceeding \$10,000 individually or in the aggregate as of June 30, 2022.

NOTE K – 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 L – DEFICIT FUND AND OPERATING BALANCES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Fund</u>	<u>Deficit change in Fund Balance / Net Position</u>
Student Activity	\$ (31,553)
Construction	(570,963)
District Activity	\$ (2,626)

NOTE M – COBRA

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

NOTE N – 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	\$ 339,837
Debt Service	Building Fund	Debt Service Fund	Debt Payments	1,614,572
Debt Service	General Fund	Debt Service Fund	Debt Payments	208,669
Operations	General Fund	Special Revenue Fund	KETS Matching	140,100
Operations	General Fund	Special Revenue Fund	Operating	5,000
Construction	General Fund	Construction Fund	Construction	275,630
Construction	Special Revenue	Construction Fund	Construction	247,688
Operations	Food Service Fund	General Fund	Indirect Costs	\$ 206,331

NOTE O – ON-BEHALF PAYMENTS

For fiscal year 2022, 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)	\$ 4,724,534
Health Insurance	4,452,707
Life Insurance	7,323
Administrative Fee	58,864
HRA/Dental/Vision	280,088
Federal Reimbursement	(715,842)
Technology	90,918
KSITA Capital Lease Payments	-
SFCC Debt Service Payments	2,155,506
Total	<u>\$ 11,054,097</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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE P – PRIOR PERIOD ADJUSTMENT

As a result of implementation of GASB Statement No. 87, capital assets and liabilities have been restated to reflect the inclusion of finance purchases. Therefore, net position-beginning was \$10,422,849, a prior period adjustment was made in the amount of \$69,804 and restated net position-beginning is now \$10,492,653 for Governmental Activities.

NOTE Q – 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 R– SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 15, 2022, 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, 2022

	Reporting Fiscal Year (Measurement Date) 2022 (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)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):							
Districts' proportion of the net pension liability	0.215960%	0.221435%	0.22591%	0.22708%	0.23100%	0.235920%	0.24140%
District's proportionate share of the net pension liability	\$ 13,769,144	\$ 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	\$ 13,769,144	\$ 16,983,881	\$ 15,888,421	\$ 13,829,681	\$ 13,520,848	\$ 11,615,978	\$ 10,443,302
District's covered-employee payroll	\$ 4,938,247	\$ 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	278.83%	299.43%	278.78%	245.59%	240.25%	203.37%	188.91%
Plan fiduciary net position as a percentage of the total pension liability	57.33%	47.81%	50.54%	53.54%	53.30%	59.00%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):							
Districts' proportion of the net pension liability	0.4226%	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	54,999,050	59,902,160	57,726,962	57,669,901	123,534,828	133,984,475	106,334,109
Total	\$ 54,999,050	\$ 59,902,160	\$ 57,726,962	\$ 57,669,901	\$ 123,534,828	\$ 133,984,475	\$ 106,334,109
District's covered-employee payroll	\$ 16,818,071	\$ 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%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	65.59%	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.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
CERS and TRS
For the year ended June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):							
Contractually required contribution	\$ 1,677,748	\$ 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>1,677,748</u>	<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>	<u>-</u>
District's covered-employee payroll	\$ 6,480,699	\$ 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	25.89%	22.66%	22.67%	20.46%	18.28%	18.94%	17.06%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):							
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 18,551,048	\$ 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%	0.00%

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

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
For the year ended June 30, 2022

Teachers Retirement System (TRS)

Retirement Annuity Trust

Changes of Benefit Terms

None.

Changes of assumptions

In the 2020 experience study, rates of withdrawal, retirement, disability, mortality, and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub2010 Mortality Tables (Teachers Benefit Weighted) projected generationally with MP-2020 with various set forwards, set-backs, and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees, and actives. The assumed long-term investments rate of return was changed from 7.50 percent to, the calculation of the SEIR results in an assumption change from 7.50 percent to 7.10 percent.

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.

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

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry age
Inflation Rate	2.5%
Single Equivalent Interest Rate	7.10%
Municipal Bond Index Rate	2.13%
Projected Salary Increase	3.0-7.5%, including inflation
Investment Rate of Return	7.10%, net of pension plan investment expense, including inflation.

County Employee Retirement System (CERS)

Non-Hazardous

Changes of Benefit Terms

None.

Changes of assumptions

None.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
For the year ended June 30, 2022

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2020
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 10.30%, 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, 2022

	Reporting Fiscal Year (Measurement Date) 2022 (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)
MEDICAL INSURANCE PLAN					
District's proportion of the collective net OPEB liability (asset)	0.226351%	0.227735%	0.23060%	0.22841%	0.24268%
District's proportionate share of the collective net OPEB liability (asset)	\$ 4,857,000	\$ 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>3,944,000</u>	<u>4,604,000</u>	<u>5,450,000</u>	<u>6,830,000</u>	<u>7,069,000</u>
Total	<u>\$ 8,801,000</u>	<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	\$ 16,818,071	\$ 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	28.88%	34.62%	40.48%	48.02%	50.23%
Plan fiduciary net position as a percentage of the total OPEB liability	39.05%	39.10%	32.60%	25.50%	21.20%
LIFE INSURANCE PLAN					
District's proportion of the collective net OPEB liability (asset)	0.00000%	0.00000%	0.00000%	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>52,000</u>	<u>139,000</u>	<u>127,000</u>	<u>117,000</u>	<u>95,000</u>
Total	<u>\$ 52,000</u>	<u>\$ 139,000</u>	<u>\$ 127,000</u>	<u>\$ 117,000</u>	<u>\$ 95,000</u>
District's covered-employee payroll	\$ 16,818,071	\$ 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%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	71.57%	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, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
MEDICAL INSURANCE PLAN					
Contractually required contribution	\$ 399,409	\$ 401,775	\$ 402,243	\$ 402,096	\$ 406,867
Contributions in relation to the contractually required contribution	<u>399,409</u>	<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>	<u>-</u>
District's covered-employee payroll	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511
District's contributions as a percentage of it's covered-employee payroll	2.15%	2.39%	2.42%	2.41%	2.47%
LIFE INSURANCE PLAN					
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 18,551,048	\$ 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%	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
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, 2022

	Reporting Fiscal Year (Measurement Date) 2022 (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)
HEALTH INSURANCE PLAN					
District's proportion of the collective net OPEB liability (asset)	0.216636%	0.221371%	0.22587%	0.22707%	0.23100%
District's proportionate share of the collective net OPEB liability (asset)	\$ 4,147,388	\$ 5,345,436	\$ 3,799,065	\$ 4,031,565	\$ 4,643,790
State's proportionate share of the collective net OPEB liability (asset) associated with the District	-	-	-	-	-
Total	<u>\$ 4,147,388</u>	<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	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	83.99%	94.24%	66.66%	71.59%	82.51%
Plan fiduciary net position as a percentage of the total OPEB liability	62.91%	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, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN					
Contractually required contribution	\$ 239,389	\$ 199,832	\$ 160,451	\$ 123,309	\$ 107,518
Contributions in relation to the contractually	<u>239,389</u>	<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>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
District's covered-employee payroll	\$ 6,480,699	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180
District's contributions as a percentage of it's covered-employee payroll	3.69%	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, 2022

Teachers Retirement System (TRS)

Health Insurance Trust

Changes of Benefit Terms

None.

Changes of Assumptions

Updated Health Care Cost Trend Rates

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	6.49% 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, 2022

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule.

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Amortization Period	27 years, Closed
Asset Valuation Method	5-year smoothed value
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.20%, including wage inflation
Discount Rate	7.5%

County Employee Retirement System (CERS)

Employees' Health Plan

Changes of Benefit Terms

None.

Changes of Assumptions

The single discount rates used to calculate the total OPEB liability decreased from 5.34% to 5.20%. Additional information regarding the single discount rates is provided in Section 1 of this report. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plans' anticipated long-term healthcare cost increases. In general, the updated assumption is assuming higher future increases in healthcare costs. There were no other material assumption changes.

Actuarial Methods and Assumptions

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2021:

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 For the year ended June 30, 2022

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 6.30% at January 1, 2023, and Gradually decreasing to an ultimate trend rate of 4.05 Over period of 13 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 6.30% in 2023 then Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years.
Mortality Pre-retirement	PUB-2010 General Mortality table, projected with the Ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
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.

Harlan County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2022

Other Governmental Funds					
	Special Revenue Student Activity	Capital Outlay	Construction	Special Revenue District Activity	Total
Assets					
Cash and cash equivalents	\$ 380,258	\$ -	\$ 389,087	\$ 9,194	\$ 778,539
Total assets	380,258	-	389,087	9,194	778,539
Liabilities					
Accounts payable	4,311				4,311
Total liabilities	\$ 4,311	\$ -	\$ -	\$ -	\$ 4,311
Fund Balance					
Restricted	375,947		389,087	9,194	774,228
Total fund balance	375,947	-	\$ 389,087	9,194	774,228
Total liabilities & fund balance	\$ 380,258	\$ -	\$ 389,087	\$ 9,194	\$ 778,539

Harlan County School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2022

	Other Governmental Funds				
	Special Revenue Student Activity	Capital Outlay	Construction	Special Revenue District Activity	Total
Revenues					
From local sources					
Earnings on investments	\$ 66	\$ -	\$ -	\$ -	\$ 66
Other local revenue	24,796		56,416		81,212
Intergovernmental - state		339,837			339,837
Food service	28,241				28,241
Student activities	861,370			847	862,217
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	914,473	339,837	56,416	847	1,311,573
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures					
Instruction	437,789			3,223	441,012
Support services					
Other non-instruction	508,237				508,237
Plant operations & maintenance				250	250
Building improvements			1,150,697		1,150,697
Total expenditures	946,026	-	1,150,697	3,473	2,100,196
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Excess (Deficit) of Revenues Over Expenditures	(31,553)	339,837	(1,094,281)	(2,626)	(788,623)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Sources (Uses)					
Operating transfers in			523,318		523,318
Operating transfers (out)		(339,837)			(339,837)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	(339,837)	523,318	-	183,481
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net change in Fund Balances	(31,553)	-	(570,963)	(2,626)	(605,142)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance Beginning	407,500	-	960,050	11,820	1,379,370
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Fund Balance Ending	\$ 375,947	\$ -	\$ 389,087	\$ 9,194	\$ 774,228
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Harlan County School District
Combining Balance Sheet
School Activity Funds
June 30, 2022

SCHOOL ACTIVITY FUNDS

	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	<u>TOTALS</u>
ASSETS										
Cash and cash equivalents	\$ 85,167	\$ 5,887	\$ 6,648	\$ 53,283	\$ 42,707	\$ 26,660	\$ 55,646	\$ 64,472	\$ 39,788	\$ 380,258
Accounts receivable	-	-	-	-	-	-	-	-	-	-
Total assets	<u>85,167</u>	<u>5,887</u>	<u>6,648</u>	<u>53,283</u>	<u>42,707</u>	<u>26,660</u>	<u>55,646</u>	<u>64,472</u>	<u>39,788</u>	<u>380,258</u>
LIABILITIES										
Accounts payable	-	107	-	-	4,002	-	-	202	-	4,311
Total liabilities	<u>-</u>	<u>107</u>	<u>-</u>	<u>-</u>	<u>4,002</u>	<u>-</u>	<u>-</u>	<u>202</u>	<u>-</u>	<u>4,311</u>
FUND BALANCE										
School activities	<u>85,167</u>	<u>5,780</u>	<u>6,648</u>	<u>53,283</u>	<u>38,705</u>	<u>26,660</u>	<u>55,646</u>	<u>64,270</u>	<u>39,788</u>	<u>375,947</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 85,167</u>	<u>\$ 5,887</u>	<u>\$ 6,648</u>	<u>\$ 53,283</u>	<u>\$ 42,707</u>	<u>\$ 26,660</u>	<u>\$ 55,646</u>	<u>\$ 64,472</u>	<u>\$ 39,788</u>	<u>\$ 380,258</u>

Harlan County School District
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds
For the year ended June 30, 2022

SCHOOL ACTIVITY FUNDS										
	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	<u>TOTALS</u>
REVENUES										
Student revenues	\$ 439,884	\$ 45,838	\$ 31,688	\$ 62,888	\$ 76,477	\$ 38,095	\$ 75,961	\$ 89,794	\$ 53,848	\$ 914,473
EXPENSES										
Student activities	428,996	45,778	37,587	102,074	91,650	33,708	62,353	83,554	60,326	946,026
Excess (Deficit) of Revenues Over Expenses	10,888	60	(5,899)	(39,186)	(15,173)	4,387	13,608	6,240	(6,478)	(31,553)
Fund balance, beginning	<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>
Fund balance, ending	<u>\$ 85,167</u>	<u>\$ 5,780</u>	<u>\$ 6,648</u>	<u>\$ 53,283</u>	<u>\$ 38,705</u>	<u>\$ 26,660</u>	<u>\$ 55,646</u>	<u>\$ 64,270</u>	<u>\$ 39,788</u>	<u>\$ 375,947</u>

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Harlan County High School
For the year ended June 30, 2022

	<u>FUND BALANCE</u> <u>BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>ENDING</u>
GENERAL FUND	\$ 63	\$ 8,980	\$ 8,194	\$ (292)	\$ 558
BLACK BEAR PHOTOGRAPHY	116				116
GRADUATION FUND	-				-
CONTINGENCY	7				7
DUAL CREDIT COLLEGE TOURS	834	2,635	1,158		2,311
SCHOOL PICTURES	872	751	496		1,127
SENIOR PICTURES	24				24
1ST PRIORITY	92	2,000	2,061		31
1ST PRIORITY AQUARIUM	-				-
PEP CLUB	403	860	481	(569)	213
COMMUNITY PROBLEM SOLVING	39				39
ECLRP TEAM	43				43
ANATOMY FUNDS	866		347		519
FISHING TEAM	108	687	636		159
SCHOOL CONCESSION	279	5,531	4,529	(1,280)	1
LETTERMAN JACKET	8,861	18,003	9,314	(3,321)	14,229
HARLAN COUNTY WRESTLING	-	1,020	1,335	320	5
TECHNOLOGY STUDENT ASSOC	-	16,224	15,356	40	908
TEACHER VENDING	-	616	1,989	1,372	-
ESPORTS	-	4,240	2,118		2,122
PARKING	609	2,340	2,027		923
ATHLETICS	3,211	66,464	64,539	(2,647)	2,489
DECA	353	488	454		388
CHEERLEADING	63	12,233	12,932	651	15
DANCE TEAM	3,602	10,223	9,760		4,065
FOOTBALL	3,839	50,601	51,203		3,237
GIRLS BASKETBALL	1,461	1,632	837		2,256
BOYS BASKETBALL	18	44,864	48,204	3,321	(1)
SOFTBALL	169	16,822	12,820		4,171
BASEBALL	5,488	11,914	8,869	(250)	8,283
GOLF	537	8,353	7,516	150	1,524
BOYS SOCCER	2,901	657	2,450	(185)	923
TENNIS	85				85
ARCHERY	1	272			273
VOLLEYBALL	417	18,852	20,318	2,689	1,640
ACADEMIC TEAM	4	326			330
ART CLUB	1,148				1,148
AP/SAT PLAN	116				116
HCHS FEEDER BAND	272		75		197
BAND	797	1,034	1,841	33	24
HONOR BAND	3			(3)	0
BETA CLUB	6,639	2,867	4,378		5,128
BLACK BEAR STORE	940	14,746	14,941	375	1,120
CROSS COUNTRY/TRACK	6,600	19,045	21,771	350	4,224
CHORUS	390	1,998	2,061		327
DRAMA CLUB	2,928	5,670	6,055		2,543
FBLA	652	230	284		598
FCCLA	127	1,151	1,178		100
FFA-FUTURE FARMERS	473	3,660	3,103		1,030
FFA-GREENHOUSE	3,259	4,555	4,777		3,037
FUTURE EDUCATORS	52				52
HOME EC/MCCORMICK	3	1,375	1,369		9
JROTC	15	8,480	8,787	292	(1)
LIBRARY	457	550	643	(117)	247
NATIONAL HONORS	775	1,985	2,181		579
GEAR UP	276	560	278		558
PEP CLUB	81			(82)	(1)
PROM	100	17,055	14,089		3,066
YEARBOOK	11,927	21,101	27,029	130	6,129
SPANISH CLASS	81	10	34		57
SPANISH HONOR SOCIETY	101	7,710	7,803		8
YOUTH SERVICE CENTER	572	18,512	16,375	(947)	1,761
GUIDANCE OFFICE FUND	100				100
PEP CLUB	30			(30)	-
TOTALS	\$ 74,279	\$ 439,884	\$ 428,995	\$ (0)	\$ 85,167

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2022

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
US Department of Agriculture					
Passed Through State Department of Education					
* School Breakfast Program	10.553				
Fiscal Year 21		7760005 21	\$ -	N/A	\$ 141,286
Fiscal Year 22		7760005 22	-	N/A	666,222
* National School Lunch Program	10.555				
Fiscal Year 21		7750002 21	-	N/A	300,705
Fiscal Year 22		7750002 22	-	N/A	1,404,136
Fiscal Year 22		9980000 22	-	N/A	90,555
* Summer Feeding Program	10.559				
Fiscal Year 21		7740023 21	-	N/A	30,676
Fiscal Year 21		7690024 21	-	N/A	3,145
* Fruit & Vegetable Program	10.582				
Fiscal Year 21		7720012 21	-	N/A	23,973
Fiscal Year 22		7720012 22	-	N/A	139,107
Child Nutrition Cluster Subtotal					<u>2,799,806</u>
Child & Adult Care Food Program	10.558				
Fiscal Year 21		7790021 21	-	N/A	754
Fiscal Year 22		7790021 22	-	N/A	8,112
Fiscal Year 21		7800016 21	-	N/A	51
Fiscal Year 22		7800016 22	-	N/A	442
Fiscal Year 21		7980000 21	-	N/A	2,776
					<u>12,136</u>
State Administrative Grant for Nutrition	10.560				
Fiscal Year 21		7700001 21	-	N/A	8,233
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 21		510.4950	-	N/A	35,962
Pandemic Electronic Benefit Transfer Administrative Costs	10.649				
Fiscal Year 21		9990000	-	N/A	3,063
Total US Department of Agriculture					<u>2,859,200</u>
US Department of Education					
Passed Through State Department of Education					
Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 20		3100002 19	-	2,510,839	385
Fiscal Year 21		3100002 20	-	3,045,787	1,537,337
Fiscal Year 22		3100002 21	-	3,015,688	1,333,284
					<u>2,871,007</u>
Special Education Grants to States	84.027A				
Fiscal Year 20		3810002 19	-	1,065,643	21,317
Fiscal Year 21		3810002 20	-	1,074,028	519,207
Fiscal Year 22		3810002 21	-	1,076,171	637,753
COVID-19- ARP Individuals with Disabilities Education Act	84.027X				
Fiscal Year 22		4910002-21	-	225,351	126,477
Special Education - Preschool Grants	84.173A				
Fiscal Year 21		3800002 20	-	97,181	39,472
Fiscal Year 22		3800002 21	-	97,291	63,008
COVID-19- ARP Individuals with Disabilities Education Act	84.173X				
Fiscal Year 22		4900002-21	-	31,259	21,969
Special Education Cluster Subtotal					<u>1,429,204</u>
Homeless Youth & Children	84.196				
Fiscal Year 21		3990002 20	-	116,354	115,196
Vocation Education - Basic Grants to States	84.048				
Fiscal Year 21		3710002 20	-	56,592	12,808
Fiscal Year 22		3710002 21	-	68,612	68,612
					<u>81,420</u>
Rural Education	84.358B				

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, 2022

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 20		3140002 19	-	72,514	18,404
Fiscal Year 21		3140002 20	-	70,225	60,707
					<u>79,111</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 21		3230002 20	-	289,427	124,196
Fiscal Year 22		3230002 21	-	284,021	78,756
					<u>202,952</u>
Title IV Part A	84.424				
Fiscal Year 20		3420002 19	-	190,361	1,484
Fiscal Year 21		3420002 20	-	192,439	46,246
Fiscal Year 22		3420002 21	-	224,085	154,026
					<u>201,756</u>
Striving Readers Literacy Grant	84.371C				
Fiscal Year 19		S371C170016	-	229,917	162,218
* COVID-19- CARES Act Educational Stabilization Fund ESSI	84.425D				
Fiscal Year 20		4000002 20	-	2,045,757	338,599
Fiscal Year 21		4000003 21	-	2,470	2,470
Fiscal Year 21		4000002 21	-	10,197,496	4,135,451
Fiscal Year 21		4200003 21	-	4,462	4,435
* COVID-19- ARP ESSER	84.425U				
FY21 ARP Emergency Relief Fund		4300002-21	-	21,984,227	3,871,755
Fiscal Year 22		4300003 21	-	4,590	4,590
* COVID-19- ARP Homeless Children and Youth	84.425W				
Fiscal Year 22		4980002-21	-	66,067	41,563
					<u>8,398,862</u>
Passed Through Berea College					
Gaining Early Awareness and Readiness for Undergraduate	84.334A				
Fiscal Year 21		379G	-	622,750	23,802
Fiscal Year 22		379I	-	622,785	301,343
					<u>325,145</u>
Total US Department of Education					<u>13,866,870</u>
US Department of Defense					
Passed directly from the US Department of the Army					
ROTC	12.000				
Fiscal Year 22		504I	-	N/A	65,819
Total US Department of the Army					<u>65,819</u>
US Department of Health and Human Services					
Passed directly from the US Department of the Army					
Promoting Adolescent Health	93.079				
Fiscal Year 20		493F	-	N/A	650
BHDID Disaster Response	93.982				
Fiscal Year 21		495G	-	7,000	6,100
		495I	-	26,333	26,333
Total US Department of Health and Human Services					<u>33,083</u>
Total Expenditure of Federal Awards					<u>\$ 16,824,973</u>

* Major program

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

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, 2022. 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, 2022, the District received food commodities totaling \$35,962.

NOTE D – INDIRECT COST RATE

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

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

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

And the State Committee for School District Audits

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits, 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, 2022, 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, 2022.

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harlan County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly,

we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Harlan County School District in a separate letter dated November 15, 2022.

Purpose of This Report

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

White & Associates, PSC

Richmond, Kentucky

November 15, 2022

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, Kentucky

And the State Committee for School District Audits

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Harlan County School District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Harlan County School District's major federal programs for the year ended June 30, 2022. The 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.

In our opinion, the Harlan County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

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. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Harlan County School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Harlan County School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Harlan County School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and

express an opinion on the Harlan County School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Harlan County School District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Harlan County School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Harlan County School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Harlan County School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

White & Associates, PSC

Richmond, Kentucky

November 15, 2022

HARLAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2022

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, 2022, 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, 2022. This letter does not affect our report dated November 15, 2022, on the financial statements of the Harlan County School District. The conditions observed are as follows:

CAWOOD ELEMENTARY

No conditions

GREEN HILLS ELEMENTARY

No conditions

BLACK MOUNTAIN ELEMENTARY

Nothing of concern

CUMBERLAND ELEMENTARY

No conditions

EVARTS ELEMENTARY

1-22

Statement of Condition: Sales from Concessions/Bookstore/School Store/Pencil Machine Form (F-SA-17) are not being signed by both parties.

Recommendation for Correction: Sales from Concessions/Bookstore/School Store/Pencil Machine Form (F-SA-17) needs to be correctly filled out and signed for all activities that require one. Completed worksheets need to be reviewed and signed by the school treasurer then filed with all the documents for the receipt.

Management Response to the Recommendation:

Sales from Concessions/Pencil Machine Form F-SA-17 will be correctly filled out and signed for all activities that require one.

Attend Redbook training.

2-22

Statement of Condition: Monthly Financial Reports were not being submitted to the superintendent or finance officer at the close of each month.

Recommendation for Correction: Monthly financial reports shall be prepared and submitted to the superintendent or finance officer no later than the 15th of the following month. The original shall be signed and reviewed for accuracy and reasonableness by the principal and submitted to the superintendent or finance officer and a copy retained in the files. A list of accounts payables and receivables shall accompany the report.

Management Response to the Recommendation:

Monthly financial reports will be prepared and submitted to the finance officer no later than the 15th of the following month.

Attend Redbook training.

JAMES A CAWOOD ELEMENTARY

Nothing of concern

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.

All, 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, 2022