

FLEMING COUNTY BOARD OF EDUCATION

FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
And
INDEPENDENT AUDITOR'S REPORTS

Year Ended June 30, 2019

Denise M. Keene
Certified Public Accountant
P.O. Box 1444
Georgetown, Kentucky 40324
859-421-5062

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**DENISE M. KEENE
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1444
GEORGETOWN, KENTUCKY 40324
859-421-5062**

INDEPENDENT AUDITOR'S REPORT

State Committee For School District Audits
Members of the Board of Education
Fleming County Board of Education
Flemingsburg, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fleming County Board of Education as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *Audits of States and Local Governments*, and *Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note Q to the financial statements, the District adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, including direct Borrowings and Direct Placements*, effective for July 1, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 11 and budgetary comparison information on pages 57 and 58, the Schedules of Proportionate Share of the Net Pension Liability and Schedule of Contributions on pages 59 and 60, the Schedule of Proportionate Share of the Net OPEB Liability and Schedule of the OPEB Contributions on pages 61 and 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The combining statements for nonmajor governmental funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Fleming County High School are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200. Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements for nonmajor funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Fleming County High School, and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements for nonmajor funds and fiduciary funds, the statement of receipts, disbursements, and due to student groups-Fleming County High School, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2019, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
November 13, 2019

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Fleming 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 Fleming County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fleming 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 Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board 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:

Fleming County School District Finance Corporation (the Corporation) – the Fleming County Board of Education has established the Fleming County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Fleming County Board of Education also comprise the Corporation’s Board of Directors.

Basis of Presentation

District-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 Board that are governmental and those that are considered business-type activities.

The district-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 reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

The district-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 proprietary 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 total net position. 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 meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund (Fund 1) is the primary operating fund of the District. It accounts for and reports all financial resources not accounted for and reported in another fund. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund (Fund 2) accounts for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

- C. Capital Project Funds are used to account for and report financial resource that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund (Fund 310) receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) Fund (Fund 320) accounts for funds generated by the building tax levy 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.
 3. The Construction Fund (Fund 360) includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or renovations.

II. Debt Service Fund

The Debt Service Fund (Fund 400) is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years are reported in debt service funds. This is a major fund.

III. Proprietary Funds (Enterprise Fund)

1. The School Food Service Fund (Fund 51) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). This is a major fund of the District.

IV. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

1. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.
2. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments. The District does not currently have any Private Purpose Trust Funds.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

V. Permanent Funds

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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 – Exchanges and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are 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.

Nonexchange 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 resources are required to be used or the fiscal year when used 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 they 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 deferred 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 of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities 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.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

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. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2019, to finance operations were \$.442 per \$100 valuation for real property, \$.442 per \$100 valuation for business personal property and \$.559 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 District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Fund Balance Classification Policies and Procedures

The Board intends that accounting practices follow state and federal laws and regulations and generally accepted accounting policies.

Nonspendable Fund Balance

Amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact will be classified as Nonspendable Fund Balance.

Restricted Fund Balance

Fund Balance will be reported as restricted when constraints placed on the use of resources are either; (a) externally imposed by creditors, grantors, contributors, or laws or regulations or other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

The Board will use restricted amounts before unrestricted amounts when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education will be reported as committed fund balance.

Assigned Fund Balance

Amounts that have been assigned for a specific purpose by formal resolution of the Board of Education will be reported as assigned fund balance for a specific purpose.

Unassigned Fund Balance

Unassigned Fund Balance is the residual classification for the general fund.

When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classification could be used, the funds will first be spent from committed, then assigned, and then finally unassigned.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund 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.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

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 governmental funds. These assets are reported in the governmental activities column of the government-wide 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 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 asset's life are not.

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

<u>Description</u>	<u>Governmental Activities 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	12 years
Furniture and fixtures	20 years
Rolling stock	15 years
Other	10 years

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 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.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

Budgetary Process

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 treasurer at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method. Prepaid assets are only recorded if material to the financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expenses, information about the fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Postemployment Benefits Other than Pensions (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources and expense information about the fiduciary net position of the CERS and TRS and additions to /deductions from the fiduciary net position have been determined on the same basis as they are reported by CERS and TRS. The plans recognize benefit payments when due and payable in accordance with the benefit term.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-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 judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represent the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools and collections for services such as child care.

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.

Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through November 13, 2019, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the fiscal year ended June 30, 2019, have not been evaluated by the District.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

Interfund Activity

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 nonoperating 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.

Uses of Estimates

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

Encumbrances

Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

NOTE B – PROPERTY TAX CALENDAR

Property taxes for fiscal year 2019 were levied on the assessed valuation of property located in the School District as of January 1, 2018 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	per KRS 134.020
Due date for payment of taxes	Upon receipt
Face value amount payment date	December 31
Delinquent date, 5% penalty	January 1- 31
Delinquent date, 10% penalty	February 1

Vehicle taxes are collected by the County Clerk and are due and collected in the birth month of the vehicle's licensee.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$6,519,005. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2019, consisted of the following:

	Bank Balance	Book Balance
General Checking Account		
General Fund	\$	\$ 1,401,833
Special Revenue		11,998
Fund 310		0
Fund 320		21,481
Fund 360		0
Fund 51		<u>1,001,334</u>
Total General Checking Account	4,221,818	2,436,646
Agency Funds	296,911	288,542
Debt Service Funds	<u>3,793,817</u>	<u>3,793,817</u>
TOTALS	\$ 8,312,546	\$6,519,005
Breakdown per financial statements:		
Governmental Funds		\$ 5,229,129
Proprietary Funds		1,001,334
Agency Funds		<u>288,542</u>
TOTALS		\$ 6,519,005

DEPOSITS AND INVESTMENTS

Interest rate risk. In accordance with the District’s investment policy, interest rate risk is limited by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio.

Credit risk. The District’s investment policy limits the types of authorized investment instruments to obligations of the United States, its agencies, and instrumentalities. In addition, certificates of deposit or bonds of a bank or the Commonwealth of Kentucky, securities issued by a state or local government or shares of mutual funds are acceptable investments.

Concentration of credit risk. The district may invest, at any one time, funds in any one of the above listed categories with no limitation of the total amount of funds invested on behalf of the District.

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2019, the District’s deposits are entirely insured and/or collateralized with securities held by the financial institutions on the District’s behalf and the FDIC insurance.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE D – CAPITAL ASSETS

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

	Beginning	Additions	Retirements	Ending
Land	572,899		8,154	564,745
Land & Land Improvements	1,346,341		68,463	1,277,878
Buildings and Improvements	47,132,403		920,796	46,211,607
Technology Equipment	1,476,914	293,000	573,835	1,196,079
Vehicles	2,555,609		827,575	1,728,034
General Equipment	373,143		42,051	331,092
Construction in Progress	<u>14,225,259</u>	<u>978,537</u>		<u>15,203,796</u>
Totals at historical cost	67,682,568	1,271,537	2,440,874	66,513,231
Accumulated Depreciation				
Land & Land Improvements	1,038,141	29,906	57,652	1,010,395
Buildings and Improvements	15,075,871	868,402	439,664	15,504,609
Technology Equipment	1,355,730	94,944	568,460	882,214
Vehicles	2,324,372	59,977	823,215	1,561,134
General Equipment	<u>349,635</u>	<u>9,722</u>	<u>42,594</u>	<u>316,763</u>
Total Accumulated Depreciation	20,143,749	1,062,951	1,931,585	19,275,115
Totals for Governmental	47,538,819	208,586	509,289	47,238,116
Business type Activities				
	Beginning	Additions	Retirements	Ending
Technology Equipment	1,420		720	700
General Equipment	<u>519,033</u>		<u>102,928</u>	<u>416,105</u>
Totals at historical cost	520,453		103,648	416,805
Accumulated Depreciation				
Technology Equipment	1,303	0	720	583
General Equipment	<u>468,098</u>	<u>12,310</u>	<u>100,012</u>	<u>380,396</u>
Total Accumulated Depreciation	469,401	12,310	100,732	380,979
Totals for Business	51,052	(12,310)	2,916	35,826

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE D – CAPITAL ASSETS (continued)

Depreciation expense was charged to functions of the governmental activities as follows:

Instruction	\$ 533,544
Support Services	
Student	3,191
School Administration	468
Business	130
Plant operations & maintenance	465,641
Student transportation	<u>59,977</u>
Total Depreciation expense, governmental activities	\$1,062,951

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued aggregating the original amount of each issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
2008R	\$ 2,320,000	3.00% - 3.30%
2010R	2,875,000	1.00% - 2.50%
2011	2,665,000	1.20% - 4.25%
2011 QSCB	11,918,000	4.65%
2012R	2,820,000	.50% - 2.40%
2012K	1,000,000	2.00% - 3.375%
2013	4,520,000	1.40% - 3.00%
2013K	157,950	2.00%
2013K	300,000	1.50% - 3.625%
2014K	355,408	2.00% - 3.25%
2016	14,890,000	2.00% - 3.00%
2016R	960,000	2.00% - 2.25%
2017R	1,815,000	2.00% - 3.00%

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

There are a number of limitations and restrictions contained in the various bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2019.

The District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS (continued)

The following is a summary of the District's long-term debt transactions for the year ended.

	Beginning Balance	Additions	Payments	Ending Balance	Current	Long Term
Bonds	38,823,000	0	1,685,000	37,138,000	1,700,000	35,438,000
Capital Lease	1,563,179	0	80,824	1,482,355	81,028	1,401,327
Sick Leave	<u>558,620</u>	<u>0</u>	<u>208,964</u>	<u>349,656</u>	<u>26,782</u>	<u>322,874</u>
Total	40,944,799	0	1,974,788	38,970,011	1,807,810	37,162,201

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2019, for debt service (principal and interest) are as follows:

	SFCC Participation		US Treasury		Fleming County Schools		Total
	Principal	Interest	Interest	Principal	Interest		
2020	842,601	324,398	554,187	857,399	338,158	2,916,743	
2021	797,240	307,889	554,187	872,760	317,712	2,849,788	
2022	813,188	291,941	554,187	801,812	294,498	2,755,626	
2023	829,469	275,663	554,187	820,531	275,894	2,755,744	
2024	846,742	258,389	554,187	838,258	255,181	2,752,757	
2025	802,347	240,973	554,187	862,653	232,790	2,692,950	
2026	819,426	223,892	554,187	800,574	212,609	2,610,688	
2027	802,892	206,640	554,187	822,108	189,980	2,575,807	
2028	737,624	188,680	554,187	847,376	166,144	2,494,011	
2029	729,422	170,212	554,187	875,578	141,219	2,470,618	
2030	683,185	151,744	554,187	781,815	116,156	2,287,087	
2031	3,592,388	131,248	277,094	9,860,612	89,846	13,951,188	
2032	724,789	110,140	0	785,211	61,629	1,681,769	
2033	746,534	88,395	0	618,466	40,304	1,493,699	
2034	711,764	66,000	0	233,236	21,750	1,032,750	
2035	733,118	44,646	0	241,882	14,754	1,034,400	
2036	<u>755,111</u>	<u>22,654</u>	<u>0</u>	<u>249,889</u>	<u>7,496</u>	<u>1,035,150</u>	
	15,967,840	3,103,504	6,373,151	21,170,160	2,776,120	49,390,775	

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE F – CAPITAL LEASE PAYABLE

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

<u>Classes of Property</u>	<u>Book value as of June 30, 2019</u>
School Buses	\$ 331,092

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2020	63,895
2021	63,945
2022	55,955
2023	55,956
2024	41,382
Thereafter	<u>41,382</u>
Total minimum lease payments	322,515
Less: Amount representing interest	(25,160)
Present Value of Net Minimum Lease Payments	\$ 297,355

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

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

Year ending June 30,	
2020	\$ 78,019
2021	26,007
2022	0
2023	0
2024	0
Later years	<u>0</u>
Total	\$ 104,026

NOTE H – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have 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 unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE I – 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, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE J – 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 accumulated sick leave. At June 30, 2019, this amount totaled \$349,656 for those employees who were eligible for retirement..

NOTE K – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2019, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue	\$ 50,252
General Fund	Construction Fund	\$ 1,312

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District purchases various commercial insurance.

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

NOTE M – DEFICIT OPERATING/FUND BALANCES

Funds with a current year deficit of revenues over expenditures

Fund 360	(983,422)
Fund 51	(22,820)

NOTE N – 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. The District notifies the Department of Employee Insurance (DEI) when an employee is no longer employed. DEI sends the employee the COBRA requirements.

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	KETS Matching	\$ 42,691
COFT	310	1	COFT	203,289
BFFT	320	1	BFFT	26,501
Debt Service	320	400	Bond Payment	1,667,291

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE P – ON-BEHALF PAYMENTS

The financial statements include payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational and retirement benefits. The following amounts are included in each of the functions.

Health Insurance	\$ 2,478,579
Life Insurance	3,825
Administrative Fees	31,646
HRA/Dental/Vision	95,117
Federal Reimbursement	(147,121)
TRS	2,990,092
Technology On Behalf Payments	81,327
Debt Service On Behalf Payments	<u>1,307,308</u>
Total On-Behalf Payments	\$ 6,840,773
Fund 1	\$ 5,003,927
Fund 400	1,307,308
Fund 51	<u>529,538</u>
Total On-Behalf Payments by Fund	\$ 6,840,773

NOTE Q – GASB 88

The provisions of GASB 88 were adopted by the District for the fiscal year beginning July 1, 2018. The primary objective of the Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The District has the following lines of credit:

American Express	\$ 50,000
Walmart	\$ 4,000
Lowe's	\$ 12,000

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS

	Government	Food Service	Total
Deferred Outflows			
CERS Pension Contributions	372,652	82,693	455,345
CERS Pension	1,172,976	212,702	1,385,678
CERS OPEB Contributions	120,848	26,816	147,664
CERS OPEB	360,072	65,294	425,366
TRS OPEB	72,000	0	72,000
TRS OPEB Contributions	<u>267,050</u>	<u>0</u>	<u>267,050</u>
	2,365,598	387,505	2,753,103
Deferred Inflows			
CERS Pension	466,543	84,601	551,144
CERS OPEB	349,683	63,410	413,093
TRS OPEB	<u>329,000</u>	<u>0</u>	<u>329,000</u>
	1,145,226	148,011	1,293,237
Pension Liability			
CERS	6,184,727	1,121,507	7,306,234
OPEB Liability			
CERS	1,802,932	326,934	2,129,866
TRS	<u>5,206,000</u>	<u>0</u>	<u>5,206,000</u>
	7,008,932	326,934	7,335,866
Pension Expense			
CERS	996,732	180,742	1,177,474
OPEB Expense			
CERS	227,721	41,294	269,015
TRS	<u>264,000</u>	<u>0</u>	<u>264,000</u>
	491,721	41,294	533,015

NOTE R – RETIREMENT PLANS (continued)

Teachers' Retirement System of the State of Kentucky (TRS)

Plan Description – Teaching-certified employees of the District are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS) – 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 education 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://trs.ky.gov/financial-reports-information>.

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of services, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

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

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

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

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

Funding policy – In order to fund the post-retirement healthcare benefit, seven and one half percent (7.50%) of the gross annual payroll of members is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three and three quarter percent (3.75%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

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

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

State’s proportionate share of the net pension liability associated with the District	<u>\$ 38,050,808</u>
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The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District’s proportion was 0.2906 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$2,757,075 and revenue of \$2,757,075 for support provided by the State on the Fund financial statements.

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

Investment rate of return	7.50%, net of pension plan investment expense, including inflation.
Projected salary increases	3.50 – 7.30%, including inflation
Inflation rate	3.00%
Municipal Bond Index Rate	3.89%
Single Equivalent Interest Rate	7.50%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

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.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	22.0%	5.2%
Fixed Income	15.0%	1.2%
Additional Categories	8.0%	3.3%
Real Estate	6.0%	3.8%
Private Equity	7.0%	6.3%
Cash	2.0%	0.9%
Total	100.0%	

Discount rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount assumed that plan member contributions will be made at the current contribution rates and that Employer contributions will be made at the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the District’s proportionate share of the net pension liability of the System, calculated using the discount rate of 7.50%, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.5%) than the current rate (\$ thousands):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
System's net pension liability	\$48,774,311	\$38,050,808	\$29,028,413

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

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

June 30, 2017 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of June 30, 2018 using standard roll forward techniques for the TPL using a discount rate of 7.50%. An expected TPL was also determined using the prior year discount rate of 4.49%, which was based on a municipal bond index rate of 3.56%. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate (SEIR) for the year. The difference between these two roll-forward amounts as of June 30, 2018 is the gain or loss due to changes in assumptions and other inputs.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported (as of June 30, 2015 for the fiscal year 2018 contributions). The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule.

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29.3 years
Asset valuation method	5*year smoothed market
Inflation	3.50 percent
Salary increase	4.00 to 8.20 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

The Total OPEB Liability (TOL) as of June 30, 2018 was determined based on an actuarial valuation prepared as of June 30, 2017, using the following actuarial assumptions and other inputs:

Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 7.20%
Long-term Investment Rate of Return, net of OPEB plan investment expense, including Inflation	
MIF	8.00%
LIF	7.50%
Municipal Bond Index Rate	3.89%
Year FNP is projected to be depleted	
MIF	n/a
LIF	n/a
Single Equivalent Interest Rate, net of OPEB Plan investment expense, including price	
Inflation	
MIF	8.00%
LIF	7.50%
MIF Health Care Cost Trends	
Under Age 65	7.75% for FYE 2018 decreasing to an Ultimate rate of 5.00% by FYE 2023
Ages 65 and Older	5.75% for FYE 2018 decreasing to an Ultimate rate of 5.00% by FYE 2020
Medicare Part B Premiums	1.02% for FYE 2018 with an ultimate Rate of 5.00% by 2029

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, 2017 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.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends) used in the June 30, 2017 valuation of the MIF were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation. The health care cost trend assumption was updated for the June 30, 2017 valuation and was shown as an assumption change in the TOL roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

The following exhibit presents the NOL of the Plan, calculated using the health care cost trend rates, as well as what the Plan’s NOL would be if it were calculated using a health care cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. This chart is not shown for the Life Insurance Fund (LIF) since there is no health care trend component of the liabilities:

	<u>Health Care Cost Trend Rate Sensitivity</u>		
	1% Decrease	Current	1% Increase
MIF Net OPEB Liability	\$4,317,000	\$5,206,000	\$6,303,000

MIF Discount rate (SEIR): The discount rate used to measure the TOL at June 30, 2018 was 8.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projection’s basis was an actuarial valuation performed as of June 30, 2017. In addition to the actuarial methods and assumptions of the June 30, 2017 actuarial valuation, the following 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 in all years except in Fiscal Year 2020. If these costs are not paid by the State or the retirees themselves and are instead paid by the Fund for all future years, we have calculated that the FNP would be projected to be depleted in 2040 and an SEIR of 4.88% would need to be used in the determination of the TOL as of the Measurement Date.

As administrative expenses, other than the administrative fee of \$7.44 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.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

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

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

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

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

- Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.

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

The MIF's FNP was not projected to be depleted.

LIF Discount rate (SEIR). The discount rate used to measure the TOL as of the Measurement Date was 7.50%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projection's basis was an actuarial valuation performed as of June 30, 2017. In addition to the actuarial methods and assumptions of the June 30, 2017 actuarial valuation, the following actuarial methods and assumptions were used in the projection of the LIF's 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 employer will contribute the Actuarially Determined Contribution (ADC) in accordance with the LIF's funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.

- As administrative expenses were assumed to be paid in all years by the employer as they come due they were not considered.

- Active employees do not explicitly contribute to the plan.

- Cash flows occur mid-year.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

Based on these assumptions, the LIF's FNP was not projected to be depleted.

Periods of projected benefit payments: Projected future benefit payments for all current plan members were projected through 2115.

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

<u>Asset Class</u>	<u>MIF</u> Target <u>Allocation</u>	30 Year Expected Geometric <u>Real Rate of Return</u>
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Other Additional Categories *	20.0%	3.3%
Cash (LIBOR)	<u>1.0%</u>	0.9%
Total	100.0%	

<u>Asset Class</u>	<u>LIF</u> Target <u>Allocation</u>	30 Year Expected Geometric <u>Real Rate of Return</u>
U.S. Equity	40.00%	4.20%
International Equity	23.00%	5.20%
Fixed Income	18.00%	1.20%
Real Estate	6.00%	3.80%
Private Equity	5.00%	6.30%
Other Additional Categories	6.00%	3.30%
Cash (LIBOR)	<u>2.00%</u>	0.90%
Total	100.00%	

There is no LIF Net OPEB Liability.

There were no changes between the measurement date of the collective net OPEB liability and the employer's reporting date.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

Please see Section V of the report on the website for the development of the collective OPEB expense. The District's proportionate share of the net OPEB expense is \$264,000, the state contributed \$326,000 on behalf of the District for a total OPEB expense of \$590,000.

Since certain items are amortized over closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce OPEB expense they are labeled deferred inflows. If they will increase OPEB expense they are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average remaining service life of the active and inactive system members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five year period.

The collective amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Deferred Amounts to be recognized in Fiscal Years Ending	Deferred Outflows/ (Inflows) of Resources OPEB
2020	\$(51,000)
2021	\$(51,000)
2022	\$(51,000)
2023	\$(41,000)
2024	\$(43,000)_
thereafter	\$(20,000)

There are no non-employer contributions recognized for the support provided by non-employer contributing entities in PEEHIP.

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

KENTUCKY RETIREMENT SYSTEM

County Employees Retirement System (CERS)

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

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

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

Contributions: Funding for CERS is provided by members who contribute 5% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions and by employers of members who contribute 21.48% of the member's salary. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30, 2018, the District's proportion was .070730%.

For the year ended June 30, 2019, the District recognized pension expense of \$1,177,474. At June 30, 2019, the District reported deferred outflows of resources for District contributions subsequent to the measurement date of \$455,345, deferred outflows of resources from change of assumptions and expectations of \$1,385,678, and deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$551,144.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

District contributions subsequent to the measurement date of \$455,345 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to CERS will be recognized in pension expense as follows:

<u>Year</u>	Deferred Outflows (Inflows)
2020	\$ 634,364
2021	324,269
2022	(84,885)
2023	(39,214)
2024	<u>0</u>
	<u>\$ 834,534</u>

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

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, closed
Payroll Growth Rate	4.00%
Inflation	3.25%
Salary Increase	4.00% average
Investment Rate of Return	7.50%,
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

The long-term expected return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	17.50%	
Non U.S. Equity	17.50%	
Global Bonds	10.00%	3.00%
Credit Fixed	17.00%	
Real Estate	5.00%	7.00%
Absolute Return	10.00%	5.00%
Private Equity	10.00%	6.50%
Real Return	10.00%	5.00%
Cash	<u>3.00%</u>	1.50%
	<u>100.0%</u>	

Discount Rate: The projection of cash flows used to determine the discount rate of 6.25% for the CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The Schedule of Deferred Inflows and Outflows, and Pension Expense 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 does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2019, is based on the June 30, 2017, actuarial valuation rolled forward. 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.

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

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

	1% Decrease <u>(5.25%)</u>	Current discount rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
District's proportionate share of the net pension liability	\$ 9,197,792	\$ 7,306,234	\$ 5,721,440

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

Payables to the pension plan: At June 30, 2019 the District had payables to CERS in the amount of \$0 for June's covered payroll with contributions required to be paid in July.

OPEB

CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits (OPEB) plan for members that cover all regular full-time members. The plan provides for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances.

The net OPEB liability is the total OPEB liability, less the amount of the plan's fiduciary net position. The total OPEB liability, net OPEB liability, and sensitivity information shown in this report are based on an actuarial valuation performed as of June 30, 2017. The total OPEB liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles.

There have been no changes in actuarial assumptions since June 30, 2017.

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

The long-term expected return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the tables below:

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	17.50%	
Non U.S. Equity	17.50%	
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Private Equity	10.00%	6.50%
Real Return	10.00%	7.00%
Cash	<u>2.00%</u>	1.50%
	<u>100.0%</u>	

Discount Rate: The projection of cash flows used to determine the discount rate of 5.85% for CERS Non-hazardous assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, an a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index", as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

The District's proportionate share of the Net OPEB Liability as of June 30, 2018 is \$2,129,866. The District's proportionate share is 0.119960%. The District's proportionate share of the OPEB expense is \$269,015. The total Deferred Outflows of Resources is \$425,366 and the total Deferred Inflows of Resources is \$413,093. Total employer contributions were \$139,746, implicit subsidy was \$25,419 for a total contributions of \$165,165.

	Discount Rate Sensitivity		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	4.85%	5.85%	6.85%
Net OPEB Liability	2,766,354	2,129,866	1,587,694

	Healthcare Cost Trend Rate Sensitivity		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	1,585,706	2,129,866	2,771,274
Net OPEB Liability	1,585,706	2,129,866	2,771,274

FLEMING COUNTY SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 For The Year Ended June 30, 2019

NOTE R – RETIREMENT PLANS (continued)

The following actuarial methods and assumptions, for actuarially determined contributions effective for the fiscal year ending June 30, 2018:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	27 Years, Closed
Payroll Growth Rate	4.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increases	4.00% average
Investment Rate of Return	7.50%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years,
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years,

The following is a summary of collective deferred outflows and Inflows of Resources arising from current and prior reporting periods.

Deferred Amounts to be recognized in Fiscal Years Ending

	Deferred Outflows/ (Inflows) of Resources MIF
2020	\$ 4,875
2021	\$ 4,875
2022	\$ 4,875
2023	\$33,367
2024	\$(21,205)
thereafter	<u>\$(14,514)</u>
Total	\$12,273

NOTE S – PRIOR PERIOD ADJUSTMENT

Net Position as of June 30, 2018, has been restated as follows, for difference between MUNIS and the audit report.

	Original	Change	Adjusted
Special Revenue Fund	\$ 9,097	\$(6,918)	\$ 2,179
Construction Fund	\$ 997,218	4,739	\$1,001,957

SUPPLEMENTARY INFORMATION

FLEMING COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2019

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of FLEMING County School District (the "District") under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 – Summary of 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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent 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.

The District did not use the 10 percent de minimis indirect cost rate.

Note 3 – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities disbursed, totaling \$106,402.

**DENISE M. KEENE
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1444
GEORGETOWN, KENTUCKY 40324
859-421-5062**

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

State Committee For School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

We have audited, 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, Audits of States and Local Governments, and Non-profit Organizations, and the audit requirement prescribed by the Kentucky Committee for School District Audits, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fleming County Board of Education as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

I noted certain matters that I reported to management of the District in a separate letter dated November 13, 2019.

Purpose of this Report

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

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
November 13, 2019

**DENISE M. KEENE
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1444
GEORGETOWN, KENTUCKY 40324
859-421-5062**

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

State Committee For School District Audits
Members of the Board of Education
Fleming County School District
Flemingsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Fleming County School District's (the "District") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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) Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky Committee for School District Audits. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be significant deficiencies..

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Denise M. Keene

Denise M. Keene, CPA
Georgetown, Kentucky
November 13, 2019

FLEMING COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting

Material weakness(es) identified? __ yes no

Significant deficiency(s) identified that are not
considered to be material weakness(es)? __yes none reported

Noncompliance material to financial statements noted? __ yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? __ yes no

Significant deficiency(s) identified that are not
Considered to be material weakness(es)? __ yes none reported

An unmodified opinion was issued on compliance for all major programs.

Any audit findings disclosed that are required to be reported
in accordance with 2CFR 200.516(a)? __ yes no

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.215	Innovative Approaches to Literacy

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? __ yes no

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

2019-001

Information on the Federal Program

CFDA 84.010

2019 Award

U.S. Department of Education

Kentucky Department of Education

Criteria or Specific Requirement:

Compliance Supplement Special Tests and Provisions

Participation of Private School Children

Condition:

The District did not conduct timely consultation with private school officials.

Statement of Cause:

The District sent letter to private school officials for other federal programs. The Title I coordinator thought Title I was included in those letters.

Possible Asserted Effect:

The effect of the omission is that private school officials were not given an opportunity to participate in the Title I program..

Questioned Costs:

Questioned costs are unknown. The District has not had a history of private schools participating in federal programs.

Prospective:

There were no private school letter sent to review and no personal consultations done.

Repeat Finding:

No, this was not a repeat finding from the prior year.

Recommendation:

I recommend Title I contact private school officials each year,

Views of Responsible Officials of the Auditee:

This error was due to incorrect assumptions that Title I was included on the participation forms provided to the school district by KDE. Instead, Title I was not included and all other federal programs were. This error was not due to harmful intent but will be corrected. A corrective action plan will be included. The plan is to have Federal Program Directors, including Title I Coordinator, to work with Senior Management team to ensure all correspondence is completed appropriately and in a timely manner. The correct forms will be completed and documented to verify correspondence is correct and follows regulation.

FLEMING COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For The Year Ended June 30, 2019

PRIOR YEAR – FINANCIAL STATEMENT FINDINGS

2018-001

The District corrected the condition. The District went through extensive measures to identify internal control weaknesses and correct them. The District has placed a heavy emphasis on introducing new procedures to ensure segregation of duties and enhance internal controls. The District established new purchasing procedures, implementing an electronic approval system when each purchase has multiple approvers, examined by the board and reviewed by the Superintendent and Assistant Superintendent before checks are delivered to vendors. Access to MUNIS financial system is being monitored and the amount of access has been limited to specific job duties. The District has implemented a new payroll review process. An initial proof of Payroll is performed by Personnel Director to ensure correct employees are being paid. Then a second proof is conducted by Benefits Coordinator and the Financial Director.

PRIOR YEAR – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None were reported last year.

MANAGEMENT LETTER

**DENISE M. KEENE
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1444
GEORGETOWN, KENTUCKY 40324
859-421-5062**

Fleming County Board of Education
Flemingsburg, Kentucky

We have audited the financial statements of the Fleming County School District for the year ended June 30, 2019 and have issued our report thereon dated November 13, 2019. As part of our audit, we made a study and evaluation of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of the Fleming County School District is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors, or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting control. Accordingly, we do not express an opinion on the system of internal accounting control of the Fleming County School District taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness.

The following of last year's management letter points were corrected during the current fiscal year as outlined in the District's response: 2018-02, 2018-03,

The following of last year's management letter points were not corrected during the current fiscal - year: 2018-001,.

Denise M. Keene, CPA
November 13, 2019

CURRENT YEAR MANAGEMENT POINTS

2019-001

The District did not conduct timely consultation with private school officials

Management's Response:

This error was due to incorrect assumptions that Title I was included on the participation forms provided to the school district by KDE. Instead, Title I was not included and all other federal programs were. This error was not due to harmful intent but will be corrected. A corrective action plan will be included. The plan is to have Federal Program Directors, including Title I Coordinator, to work with Senior Management team to ensure all correspondence is completed appropriately and in a timely manner. The correct forms will be completed and documented to verify correspondence is correct and follows regulation.

2019-002

Year end adjustments relating to accounts receivable, accounts payable, and transfers for debt service were not made. **This is a repeat finding from last year. (2018-01)**

Management's Response:

Year-end entries will be identified and made timely by the Finance Officer during year end process moving forward.

2019-003

According to Board policies, "travel vouchers shall be submitted within one (1) week of the travel." Testing disclosed that this policy is not being followed. Some are turning in expenses for six months at a time.

Management's Response:

Policy needs to be updated, with the one week requirement being removed.

2019-004

The Construction Fund balances in the four open projects is \$153,477.62. The cash balance in the Construction Fund is \$(1,312.38). The Construction Fund is out of balance by \$154,790.00 and has been for at least three years. I recommend the finance officer investigate why the fund is out of balance.

Management's Response:

During the 2020 fiscal year, Finance Officer will review Construction Fund issues and correctly balance fund when errors are found.

2019-005

The process for recording fixed assets needs to improve. Testing disclosed several food service fixed assets that had not been added to the fixed asset list. I recommend the District develop a procedure for staff to inform the finance officer when a fixed asset is purchased.

Management's Response:

Fixed Asset procedures will be reviewed by Finance Officer. If needed, procedures will be updated. Additional training on the proper handling of fixed assets will be provided to staff. Also, purchasing process will be updated to ensure Finance Officer is notified when a fixed asset is purchased.

2019-006

According to the Redbook, "The district finance office will work with the superintendent to submit all school budgets to the local board for approval by the end of May." This is not being done. I recommend the finance officer get the Principal's Combining Budget from each school and present to the Board for approval at the May board meeting.

Management's Response:

Moving forward, budgets will be presented and approved by the Board.

2019-007

The Superintendent's travel reimbursement was approved by the Assistant Superintendent. The State Auditor's office recommends the Superintendent's travel be approved by the board.

Management's Response:

Travel will be approved by Chairman of the Board

2019-008

Payroll testing disclosed several problems with Form I-9. The forms are not always listing the documents used to verify citizenship. The forms are not always being signed by a District representative. I recommend a review of current employee files to verify Form I-9 has been completed accurately.

Management's Response:

Files will be reviewed and records will be updated. Personnel staff will review processes to ensure documentation is completed in an appropriate manner.

2019-009

Procedures for credit card use needs to improve. There were five (5) credit card expenditures that were not preapproved. There were four (4) credit card expenditures without the original invoice. I recommend credit card procedures be strengthened.

Management's Response:

Purchasing procedures will be reviewed with all staff, including purchases made by credit card. AP Clerk, who secures credit cards, will ensure they are not being used until purchase order is approved.

2019-010

Board policy states, "All purchases shall require the prior approval of the Superintendent or the Superintendent's designee." Testing disclosed three (3) or seventy-two (72) expenditures tested did not have prior approval. I recommend the finance officer follow up on any expenditures without prior approval.

Management's Response:

Purchasing procedures will be reviewed with all staff. Purchases without prior approval will not be allowed to be made and staff making error will be contacted by Finance Officer. AP Clerk and School Bookkeepers will be trained to help identify these purchasing errors.

2019-011

None of the board minutes for the year were signed. The Chair and Secretary of the Board should sign the board minutes after they have been approved by the board.

Management's Response

Board minutes will be signed at monthly board meetings

2019-012

During the year, the Superintendent was paid \$408 more than the amount approved by his contract. The Superintendent's contract states the board will pay for a Life Insurance policy. The Life Insurance reimbursement was paid at a set rate, which was more than the actual cost of the insurance which created the overpayment. I recommend the cost of the life insurance and the reimbursement be monitored to ensure the two amounts agree.

Management's Response:

Finding will be corrected in current year payroll process. This finding was due to an error in properly recording cost of life insurance policy, which is included in the Superintendent's contract. Life insurance was being reimbursed at a set monthly rate instead of true cost of life insurance premium. To correct this, the life insurance premium will be included in pay record at cost and will be reviewed on an annual basis by Finance Officer to ensure the premium's cost is being recorded correctly.

2019-013

The District did not comply with model procurement with one vendor. I recommend the District monitor expenditures and bid all purchases as required.

Management's Response:

Vendor expenditures will be reviewed and bids will be submitted when needed. Procurement will be reviewed with all Department leaders to ensure they are following the model procurement regulations and guidelines.

Fleming County High School

2019-014

According to the Red Book, each month the Principal will "review the bank statement, signing and dating the front page after review." Testing disclosed that none of the bank statements were signed all had been initialed. Two of the statements had not been dated. I recommend the Principal sign and date the front page of the bank statement after reviewing.

Management's Response:

Principal will sign and date each statement going forward.

2019-015

According to the Red Book, "If an activity account ends the year with a negative balance (after taking receivable and accounts payable into consideration), then the general activity account must cover the deficit by June 30." The FBLA account had a balance of \$324.51 before accounts payable. Accounts payable were \$1,554.15, which recreated a negative balance of \$\$1,229.64. The deficit was not covered by the general activity account. The general account only had \$380.08 at year end.

Management's Response:

Will monitor accounts closely as the year comes to a close and make sure there is enough money to cover invoices.

2019-016

According to the Red Book, "All checks shall contain the signatures of the principal's designee, and the school treasurer." Eighteen (18) checks had only one signature. I recommend the Principal verify each check has two signatures prior to distribution.

Management's Response:

Will closely monitor checks before sending them out in the mail that all have been signed.

2019-017

According to the Red Book, "The Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated." Three (3) out of nineteen (19) expenditures tested had invoice dates before the purchase order date. I recommend the Principal remind all staff that purchase orders must be approved prior to obligating the school.

Management's Response:

Will remind staff of procedures and require all sponsors to go thru redbook training.

2019-018

According to the Red Book, "Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice." Testing disclosed one (1) disbursement did not have an original invoice. Testing also disclosed two (2) disbursements without a purchase order. These two items were referees. A standard invoice was done, but not a purchase order. I recommend the Principal verify each disbursement has an original invoice and a purchase order prior to signing the check.

Management's Response:

Will monitor paperwork more closely.

2019-019

According to the Red Book, "The Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated." Testing disclosed ten (10) out of nineteen (19) expenditures tested were not approved by the sponsor. I recommend the Principal not approve a purchase order until the sponsor has approved it.

Management's Response:

Will meet with staff and advise all purchase orders need to be signed by them before purchase order number is put on purchase order.

2019-020

According to the Red Book, "District and school administrators cannot be reimbursed expenses for travel from the activity fund unless students are on the trip." The Athletic Director was reimbursed for travel when students were not on the trip. I recommend the Principal not approve reimbursement for nonallowed travel.

Management's Response:

Funds will be transferred to district and paid out of there.

2019-021

According to Board policy, the board creates all new positions in the district. The school created an Intramural Director for Junior Pro Boys and Girls and paid the individual from the activity account. This is not allowed. I recommend the Principal request the position be created by the Board and pay the individual through payroll.

Management's Response:

We were advised to pay out of activity fund. In the future the positions will be done at board.

2019-022

There were several problems with transfers during the year. The Principal did not sign four(4) of the seventy-five (75) transfer forms. The sponsor did not sign twenty-nine (29) of the seventy-five (75) forms. Transfer form 67 was for \$100.00 but only \$10.00 was transferred, Student Council owes FCCLA \$90.00 I recommend the Principal monitor transfers to make sure all forms are signed properly and all are recorded.

Management's Response

This was a transpose of numbers and will be corrected in this fiscal year.

2019-023

There were numerous problems with ticket sales. Twenty-three (23) forms were not signed properly. There were twenty-two events when the same person sold the tickets and was the ticket taker. According to the Red Book, "Two people (ticket seller, ticket taker) are required to work the gate." I recommend the Principal remind the athletic director to have two people at each event to work the gate, and to monitor the completion of the ticket sale form.

Management's Response:

Will speak with athletic director and advise him of requirements. As the book keeper I will make sure 3 signatures are on form.

2019-024

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Will meet with staff and inform them that all students must sign forms.

2019-025

Some teachers are not completing the line on the Multiple Receipt Form for "teacher", therefore the teacher cannot be identified. I recommend the Principal remind all staff to complete all forms in their entirety.

Management's Response:

Will inform teachers to sign where the signature is legible and I will monitor forms more closely.

2019-026

Testing disclosed the “Adrenaline Fundraiser” did not complete a Fundraiser Approval or a Fundraiser Worksheet form. I recommend the Principal monitor fundraisers to assure compliance with the Red Book.

Management’s Response:

Will go over procedures with staff on the correct steps for fundraisers.

2019-027

According to the Red Book, fundraiser activities involving inventory for sale shall use the Inventory Control Worksheet. Inventory Control Worksheets are not being used. I recommend the Principal remind all staff involved in fundraisers with inventory to complete the Inventory Control Worksheet as required.

Management’s Response:

Will have training with staff and inform them on how to fill out worksheets.

2019-028

External Booster organizations are required to provide the following information to the Principal each year, the federal identification number, names of officers, budget, annual financial report, and insurance. The Choral did not provide a budget or annual financial report. The Girls Basketball did not provide insurance or annual financial report. I recommend the Principal not approve any fundraisers until the required information is provided.

Management’s Response:

All boosters are internal as of July 1, 2019

Simons Middle School

2019-029

According to the Red Book, each month the Principal will “review the bank statement, signing and dating the front page after review.” Testing disclosed that three of the bank statements were not signed. Ten of the statements had not been dated. I recommend the Principal sign and date the front page of the bank statement after reviewing.

Management’s Response:

Principal will date and sign bank statements.

2019-030

According to the Red Book, "If an activity account ends the year with a negative balance (after taking receivable and accounts payable into consideration), then the general activity account must cover the deficit by June 30." The P.A.T.S. account had a deficit of \$11.09 at year end. Athletics had a deficit of \$1,447.76 after accounts payable. The deficit was not covered by the general activity account.

Management's Response:

PATS was overspend and negative balances will be reviewed at year end and corrected.

2019-031

According to the Red Book, "The Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated." Three (3) out of nineteen (19) expenditures tested had invoice dates before the purchase order date. I recommend the Principal remind all staff that purchase orders must be approved prior to obligating the school.

Management's Response:

Purchasing processes will be reviewed with all staff.

2019-032

According to the Red Book, "Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice." Testing disclosed three (3) disbursements did not have an original invoice. I recommend the Principal verify each disbursement has an original invoice prior to signing the check.

Management's Response:

Disbursement process will be addressed with staff. No check will be written until original invoice is present.

2019-033

According to the Red Book, "The Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated." Testing disclosed thirteen (13) out of nineteen (19) expenditures tested were not approved by the sponsor. I recommend the Principal not approve a purchase order until the sponsor has approved it.

Management's Response:

Principal will practice not approving a Purchase Order until Sponsor has approved first.

2019-034

Schools are exempt from the payment of sales tax. However, testing disclosed five (5) out of nineteen (19) disbursements reimbursed sales tax. I recommend the Principal not sign any checks when sales tax is included.

Management's Response:

Staff and Bookkeeper will be informed to not pay invoices with sales tax included. Principal will not sign checks where sales tax is being paid.

2019-035

According to the Red Book, "If there is a need to reimburse or refund monies to students, use the Student Refund/Disbursement Form and have students sign as they receive their refund. The school reimbursed monies during the year, but did not use the Student Refund/Disbursement Form. I recommend the Principal remind staff to use the proper form when issuing refunds.

Management's Response:

Principal will review process with staff to inform them to use proper forms and to complete appropriately.

2019-036

The Red Book does not allow expenditures that benefits the adult sponsors or district personnel. Testing disclosed the purchase of pizza on two occasions, one for coaches and one for teachers. Both are not allowed. I recommend the Principal not approve expenditures for coaches, teachers or any personnel from school activity funds.

Management's Response:

Principal will review allowable and unallowable expenditures with sponsors. Approval for these unallowable expenditures will not be approved by the Principal.

2019-037

According to the Red Book, "Amounts may be transferred between accounts only by proper completion of a Transfer Form. The sponsor of the remitting (paying) activity account and the principal shall sign the Transfer Form." Three (3) out of thirteen (13) transfer forms did not have the sponsor signature. I recommend the Principal monitor transfers to make sure all forms are signed properly.

Management's Response

Principal will review and monitor transfers among school activity accounts to ensure documentation is being completed correctly.

2019-038

There were numerous problems with ticket sales. Seventeen (17) forms were not signed properly. There were thirty-two (32) events when the same person sold the tickets and was the ticket taker. According to the Red Book, "Two people (ticket seller, ticket taker) are required to work the gate." I recommend the Principal remind the athletic director to have two people at each event to work the gate, and to monitor the completion of the ticket sale form.

Management's Response:

Issue with this point is the proper completion of the ticket sales form. Two individuals work the gate at each event but these individuals need to be aware of how to properly complete form.

2019-039

According to the Red Book, "The money and the report (ticket sales report) are to be given to the school treasurer the first business day following the event. Testing disclosed the money from one sporting event was not turned in for four (4) school days. I recommend the Principal remind staff to turn money in daily.

Management's Response:

Sponsors and staff will be informed to turn in money on a daily basis and to not hold funds.

2019-040

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Teachers will be reminded to have students sign the Multiple Receipt Form.

2019-041

Some teachers are not completing the line on the Multiple Receipt Form for "teacher", therefore the teacher cannot be identified. I recommend the Principal remind all staff to complete all forms in their entirety.

Management's Response:

Principal will review proper completion of the Multiple Receipt Form.

2019-042

External Booster organizations are required to provide the following information to the Principal each year, the federal identification number, names of officers, budget, annual financial report, and insurance. The external booster organization did not provide the required data.. I recommend the Principal not approve any fundraisers until the required information is provided.

Management's Response:

External Boosters were moved to internal.

Ewing Elementary School

2019-043

According to the Red Book, each month the Principal will "review the bank statement, signing and dating the front page after review." Testing disclosed that four (4) of the bank statements were initialed, but not signed. I recommend the Principal sign and date the front page of the bank statement after reviewing.

Management's Response:

Principal will sign bank statement after reviewing.

Flemingsburg Elementary School

2019-044

The bank reconciliation does not agree with the Activity Accounts Total. The Activity Accounts Total is \$44,687.56 and the bank reconciliation balance is \$44,679.91, a difference of \$7.65. This should be reconciled. I recommend the bookkeeper and Principal make sure the two balance prior to signing the financial statements and bank reconciliations.

Management's Response:

Difference has been identified and corrected. Balances will be reviewed by Principal to ensure proper reconciliations.

2019-045

According to the Red Book, "The principal shall prepare the Principal's Combining Budget. The Combining Budget is due to the District finance officer by May 15." A Combining Budget was not made available to the auditors. I recommend the Principal do the Combining Budget and turn into the finance officer each year by May 15.

Management's Response:

Principal will ensure Budget is completed and turned into the Finance Officer by May 15.

2019-046

According to the Red Book, "The Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated." Four (4) out of fourteen (14) expenditures tested had invoice dates before the purchase order date. One was not approved by the Principal. I recommend the Principal remind all staff that purchase orders must be approved prior to obligating the school.

Management's Response:

Principal will review purchasing procedures with staff.

2019-047

According to the Red Book, "Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice." Testing disclosed two (2) disbursement did not have an original invoice. Testing also disclosed two (2) disbursements without a purchase order. I recommend the Principal verify each disbursement has an original invoice and a purchase order prior to signing the check.

Management's Response:

Principal will review invoices prior to signing checks and ensure invoice is included with payment.

2019-048

Schools are exempt from the payment of sales tax. However, testing disclosed five (5) out of nineteen (19) disbursements reimbursed sales tax. I recommend the Principal not sign any checks when sales tax is included.

Management's Response:

Checks including payment for sales tax will not be signed by Principal.

2019-049

There were seven transfer forms not found, form numbers 76, 77, 78, 79, 80, 81, and 82. I recommend the Principal monitor transfers to make sure all forms are filed.

Management's Response

Principals will monitor transfer process and verify forms are documented.

2019-050

According to the Red Book, "The Requisition and Report of Ticket Sales (Form F-SA-1) is to be used to report and reconcile the number of tickets sold and the funds collected. The School sold tickets for Grandparents breakfast. Names of those attending were written on a sheet of paper. The Ticket Sales Form was not used. The event was held and money collected on September 19, 2018, but the money was not turned in until October 24, 2018. I recommend the Principal remind staff to complete the ticket sale form and to turn money in daily.

Management's Response:

Principal will discuss with staff and remind them to turn money in daily.

2019-051

The bookkeeper used "Misc Vendor" for all transactions. I recommend the bookkeeper set up vendors for disbursements and receipts based on whom is paid, or from whom money is received.

Management's Response:

Bookkeeper will work to set up appropriate vendors for disbursements and receipts.

2019-052

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Principal will review MR form procedures with staff.

2019-053

Some teachers are not completing the line on the Multiple Receipt Form for “teacher”, therefore the teacher cannot be identified. I recommend the Principal remind all staff to complete all forms in their entirety.

Management’s Response:

Principal will review MR form procedures with staff.

2019-054

According to the Red Book, “All money collected by a teacher or sponsor shall be given to the school treasurer on the day collected...” Testing disclosed that money is not being turned in daily. Some checks were dated two weeks prior to being turned in. I recommend the Principal remind all staff to turn money in daily.

Management’s Response:

Principal will make sure that staff are turning in their money on a daily basis.

2019-055

According to the Red Book, all fundraisers must be approved and the Fundraiser Worksheet must be completed when items are sold. The fundraiser approval and worksheet was not found for the Yankee Candle fundraiser. I recommend the Principal monitor fundraiser to assure approval and forms are being completed.

Management’s Response:

Principal will ensure that fundraisers are approved before they begin.

2019-056

External Booster organizations are required to provide the following information to the Principal each year, the federal identification number, names of officers, budget, annual financial report, and insurance. The PTO provided only the names of the officers.. I recommend the Principal not approve any fundraisers until the required information is provided.

Management’s Response:

Principal will make sure that annual documentation is received from External Boosters.

Hillsboro Elementary School

2019-057

According to the Red Book, "The Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated." Two (2) out of eleven (11) expenditures tested were not approved by the Principal, one was not approved by the sponsor.. I recommend the Principal remind all staff that purchase orders must be approved prior to obligating the school.

Management's Response:

Principal will review purchasing procedures and steps will staff.

2019-058

According to the Red Book, "If there is a need to reimburse or refund monies to students, use the Student Refund/Disbursement Form and have students sign as they receive their refund. The school reimbursed monies during the year, but did not use the Student Refund/Disbursement Form. I recommend the Principal remind staff to use the proper form when issuing refunds.

Management's Response:

Principal will ensure staff are using proper forms to reimburse students.

2019-059

The Principal did not sign two (2) of the twenty-eight (28) transfer forms. The Principal is to sign all transfer forms prior to the transfer being made. I recommend the Principal monitor transfers to make sure all forms are signed properly.

Management's Response

Principal will monitor transfers to ensure they are signed properly.

2019--060

According to the Red Book, "Students third grade and above must sign the Multiple Receipt Form." Testing disclosed that some teachers were not having their students sign the Multiple Receipt Form. The Principal should remind teachers/sponsors who are receiving money to have the students sign the Multiple Receipt Form.

Management's Response:

Principal will review the process for signing the Multiple Receipt Form.

2019-061

External Booster organizations are required to provide the following information to the Principal each year, the federal identification number, names of officers, budget, annual financial report, and insurance. The PTO did not provide a budget, annual financial report, proof of insurance, or federal identification number.. I recommend the Principal not approve any fundraisers until the required information is provided.

Management's Response:

Principal will verify proper information has been received from External Boosters.

Ward Elementary

2019-062

Schools are exempt from the payment of sales tax. However, testing disclosed two (2) out of twelve (12) disbursements reimbursed sales tax. I recommend the Principal not sign any checks when sales tax is included.

Management's Response:

Principal will assure that sales tax is not included on future disbursements.

2019-063

According to the Red Book, "Any purchase that benefits the adult sponsors or district personnel and not the student organization." Is no allowed. Testing disclosed retirement gifts were purchased from the school activity account. I recommend the Principal not approve expenses that are not allowed.

Management's Response:

Principal will monitor expenses from school activity account to make sure appropriate expenditures.

2019-064

There was a transfer during the year from an activity account to the lounge account. Transfers into the staff account from other activity accounts are not allowed. I recommend the Principal monitor transfers to make sure transfers are appropriate before signing the form.

Management's Response

Principal will monitor the transfer of funds from one account to another to make sure they allowed.

2019-065

Some teachers are not completing the line on the Multiple Receipt Form for "teacher", therefore the teacher cannot be identified. The student signature section is not always being completed. I recommend the Principal remind all staff to complete all forms in their entirety.

Management's Response:

Principal will review multiple receipt forms to make sure they are completed in their entirety.

2019-066

External Booster organizations are required to provide the following information to the Principal each year, the federal identification number, names of officers, budget, annual financial report, and insurance. The PTO did not provide the federal identification number, names of officers, budget or insurance.. I recommend the Principal not approve any fundraisers until the required information is provided.

Management's Response:

Principal will ensure proper documentation from external groups are collected annually.