

Frankfort Independent School District
Audited Financial Statements
and Required Supplementary Information

June 30, 2019

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SUMMERS, McCRARY & SPARKS, P.S.C.

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INDEPENDENT AUDITOR'S REPORT

To the Kentucky State Committee of School District Audits
Members of the Board of Education
Frankfort Independent School District
Frankfort, KY 40601

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 Frankfort Independent School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of District's Proportionate Share of Net Pension Liability, Schedule of District Contributions – Pension, Schedule of District's Proportionate Share of Net OPEB Liability – Medical Insurance Plan, Schedule of District Contributions – Medical Insurance Plan, Schedule of District's Proportionate Share of Net OPEB Liability – Life Insurance Plan, and Schedule of District Contributions – Life Insurance Plan on pages 3-9 and 66-74 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 Frankfort Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 and individual nonmajor fund financial statements and the schedule of expenditure of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 14, 2019, on our consideration of Frankfort Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

Summers, McCrary & Sparks, PSC

Lexington, KY
November 14, 2019

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

As management of the Frankfort Independent School District, we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes.

FINANCIAL HIGHLIGHTS/OVERALL DISTRICT HIGHLIGHTS

- The General Fund had \$8,950,617 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$9,103,523 in General Fund expenditures with an ending fund balance of \$145,860.
- Fund-wide governmental revenue totaled \$11,259,815 with expenditures of \$11,518,294 an ending fund balance of \$411,767.
- Major expenses for the 2018-19 included the completion of a major renovation of Second Street Elementary School. This major projects are part of our District Facility Plan and was funded through state-approved construction bonding.
- Our greatest financial commitment is to providing our staff competitive salaries and benefits to ensure our students are served by a well-compensated, motivated, professional staff. We seek to provide a world class educational opportunity to the students of the district.
- Future plans for 2019-2020 include several upgrades and improvements including the installation of a second boiler and related upgrades at Frankfort High School to be funded through the use of building (5¢) funds; a districtwide Guaranteed Energy Savings Contract funded through a combination of energy cost savings and local funds; and major renovations at Second Street School, Frankfort High School, and F.D. Wilkinson Gymnasium funded through state-approved construction bonding. These major projects are part of our District Facility Plan
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s debt expenditures for 2018-19 fiscal year totaled \$684,514.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

The statement of net position presents information on all of the District’s assets and liabilities, with the difference between the two reported as net position.

Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds.

Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-65 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets plus deferred outflows of resources were less than liabilities plus deferred inflows of resources by \$2,541,733 as of June 30, 2019 as compared to \$2,482,823 in the prior year.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves are not likely to be used to liquidate these liabilities.

The District’s financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

The breakdown of assets, deferred outflows of resources, liabilities, and net position can be seen on page 10 in the statement of net position, government wide basis.

Net position for the years ending June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current Assets	\$ 816,045	\$ 802,548	\$ 13,497
Noncurrent Assets	10,369,573	10,520,276	(150,703)
Total Assets	<u>11,185,618</u>	<u>11,322,824</u>	<u>(137,206)</u>
Deferred Outflows of Resources	<u>1,482,879</u>	<u>1,520,735</u>	<u>(37,856)</u>
Current Liabilities	784,738	801,348	(16,610)
Noncurrent Liabilities	13,584,478	13,849,574	(265,096)
Total Liabilities	<u>14,369,216</u>	<u>14,650,922</u>	<u>(281,706)</u>
Deferred Inflows of Resources	<u>841,032</u>	<u>429,631</u>	<u>411,401</u>
Net Position			
Investment in capital assets (net)	2,850,185	2,479,819	370,366
Restricted	265,907	395,966	(130,059)
Unrestricted	(5,657,825)	(5,112,779)	(545,046)
Total Net Position	<u>\$ (2,541,733)</u>	<u>\$ (2,236,994)</u>	<u>\$ (304,739)</u>

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2019 and 2018, Governmental Wide Basis.

	Summary of Revenue and Expenditures					
	Governmental		Business-type		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Local revenue sources	\$3,390,862	\$3,453,017	\$189,661	\$119,530	\$3,580,523	\$3,572,547
State revenue sources	8,000,666	3,626,715	110,441	35,263	8,111,107	3,661,978
Federal revenue sources	787,447	5,151,548	705,520	753,475	1,492,967	5,905,023
Investments	2,862	3,807	1,283	804	4,145	4,611
Total Revenue	12,181,837	12,235,087	1,006,905	909,072	13,188,742	13,144,159
Expenses:						
Instruction	7,562,842	7,780,613	-	-	7,562,842	7,780,613
Student support services	648,910	654,398	-	-	648,910	654,398
Instructional support	492,666	786,769	-	-	492,666	786,769
District administration	302,804	334,793	-	-	302,804	334,793
School administration	790,549	811,806	-	-	790,549	811,806
Business support	667,545	510,226	-	-	667,545	510,226
Plant operations	1,064,508	961,182	-	-	1,064,508	961,182
Student transportation	437,606	421,700	-	-	437,606	421,700
Community service	110,166	114,276	-	-	110,166	114,276
Interest on long-term debt	152,406	172,597	-	-	152,406	172,597
Day care service	-	-	200,900	208,305	200,900	208,305
Food service	-	-	816,750	748,581	816,750	748,581
Total Expenses	12,230,002	12,548,360	1,017,650	956,886	13,247,652	13,505,246
Transfers	42,408	-	(42,408)	-	-	-
Change in net position	(5,757)	(313,273)	(53,153)	(47,814)	(58,910)	(361,087)
Beginning net position	(2,236,994)	812,466	(245,829)	340,990	(2,482,823)	1,153,456
Prior period adjustment	-	302,540	-	(355,430)	-	(52,890)
Effect of adoption of GASB 75	-	(3,038,727)	-	(183,575)	-	-
Beginning net position restated	(2,236,994)	(1,923,721)	(245,829)	(198,015)	(2,482,823)	1,100,566
Ending net position	\$(2,242,751)	\$(2,236,994)	\$(298,982)	\$(245,829)	\$(2,541,733)	\$ 739,479

Governmental Activities

Instruction comprises 62% of governmental program expenses. Plant Operations expense makes up 9% of government expenses. District and School Administration total 8% of governmental expenses. The remaining expenses for support services, community service activities, transportation and interest account for the final 21% of total governmental expense.

Business-Type Activities

The business-type activities include the food service and day care operations. These programs had total revenues of \$1,006,905 and expenses of \$1,017,650 for the fiscal year. Of the revenues, \$189,661 was charges for services, and \$815,961 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

FUND FINANCIAL ANALYSIS

Comments on Budget Comparisons

- General Fund budget compared to actual revenue varied from line item to line item with the ending actual revenue being \$1,125,250 more than budgeted.
- General Fund budget expenditures to actual expenditures varied from line item to line item ending with actual expenditures more than budgeted by \$1,099,813.
- Significant variations in the actual results of operations and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

The following table presents a summary of revenue and expense, excluding transfers, for selected funds (including on- behalf payments). Food service amounts are presented on the accrual basis while general and special revenue funds are on the modified accrual basis:

For the Year ending June 30, 2019

	GENERAL FUND	SPECIAL REVENUE FUND	FOOD SERVICE FUND
REVENUES:			
From local sources:			
Taxes:			
Property	\$ 1,913,831	\$ -	\$ -
Motor vehicle	104,802	-	-
Utilities	826,507	-	-
Franchise	73,646	-	-
Earnings on investments	2,216	-	1,283
Tuition & fees	29,656	11,012	-
Other local revenues	53,673	130,018	108,740
Intergovernmental - state	5,936,361	660,979	41,075
Intergovernmental - federal	9,925	777,522	705,520
TOTAL REVENUES	\$ 8,950,617	\$ 1,579,531	\$ 856,618
EXPENDITURES:			
Instruction:	\$ 5,257,500	\$ 1,301,179	\$ -
Support Services:			
Student	553,109	12,500	-
Instructional staff	250,787	199,538	-
District administration	364,904	-	-
School administration	701,610	-	-
Business	621,678	-	-
Plant operations and maintenance	948,287	-	-
Student transportation	355,599	5,445	-
Food Service	-	-	816,750
Community Service	12,742	87,841	-
Facilities acquisition and construction	18,493	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	\$ 9,084,709	\$ 1,606,503	\$ 816,750
Excess (Deficit) of Revenues over Expenditures	\$ (134,092)	\$ (26,972)	\$ 39,868

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

For the Year ending June 30, 2018

	GENERAL FUND	SPECIAL REVENUE FUND	FOOD SERVICE FUND
REVENUES:			
From local sources:			
Taxes:			
Property	\$ 1,710,281	\$ -	\$ -
Motor vehicle	99,618	-	-
Utilities	834,057	-	-
Franchise	207,319	-	-
Earnings on investments	3,807	13,837	804
Tuition & fees	28,066	-	-
Other local revenues	142,857	151,798	14,125
Intergovernmental - state	5,862,614	353,076	35,263
Intergovernmental - federal	14,064	769,884	692,071
TOTAL REVENUES	\$ 8,902,683	\$ 1,288,595	\$ 742,263
EXPENDITURES:			
Instruction:	\$ 5,520,235	\$ 824,818	\$ -
Support Services:			
Student	509,794	25,470	-
Instructional staff	351,525	336,591	-
District administration	377,089	-	-
School administration	664,514	-	-
Business	455,087	-	-
Plant operations and maintenance	809,243	-	-
Student transportation	306,396	17,765	-
Food Service	-	-	748,581
Community Service	13,636	83,951	-
Facilities acquisition and construction	78,931	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	\$ 9,086,450	\$ 1,288,595	\$ 748,581
Excess (Deficit) of Revenues over Expenditures	\$ (183,767)	\$ -	\$ (6,318)

Capital Assets

At June 30, 2019, the School District’s investment in capital assets for its governmental and business-type activities was \$10,369,573, representing a decrease of \$352,575, net of depreciation, from the prior year. The District continued renovations during the year increasing its construction work in progress by \$123,754.

Debt

At June 30, 2019, the School District had \$7,659,057 in capital lease and bond debt outstanding; of this amount \$1,734,447 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$554,427 is due within one year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT – FRANKFORT, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

FUTURE BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency.

Questions regarding this report should be directed to Dr. Huston Barber, Superintendent (502) 875-8661, or to Tom Campbell, Finance Officer (502) 875-8661 or by mail at 959 Leestown Lane, Frankfort, Kentucky 40601.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 141,863	\$ 91,355	\$ 233,218
Accounts receivable			
Taxes	169,918	-	169,918
Accounts	-	155,049	155,049
Intergovernmental - federal	250,154	-	250,154
Inventory	-	7,706	7,706
Due from other funds	-	-	-
Other assets	-	-	-
Total Current Assets	561,935	254,110	816,045
Noncurrent Assets			
Non-depreciated capital assets	3,819,756	-	3,819,756
Net depreciated capital assets	6,383,385	166,432	6,549,817
Total Noncurrent Assets	10,203,141	166,432	10,369,573
TOTAL ASSETS	10,765,076	420,542	11,185,618
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on refunding	95,092	-	95,092
Pension	737,943	178,741	916,684
OPEB	415,075	56,046	471,121
Total deferred outflows of resources	1,248,110	234,787	1,482,897
LIABILITIES:			
Current Liabilities			
Accounts payable	24,823	26,858	51,681
Due to other funds	-	-	-
Accrued payroll	5,818	-	5,818
Accrued interest expense	34,480	-	34,480
Current portion of accrued sick leave	31,871	-	31,871
Unearned revenue	87,647	-	87,647
Current portion of KSBIT payable	18,814	-	18,814
Current portion of lease obligations	9,427	-	9,427
Current portion of bond obligations	545,000	-	545,000
Total Current Liabilities	757,880	26,858	784,738
Noncurrent Liabilities			
Noncurrent portion of KSBIT payable	18,814	-	18,814
Noncurrent portion of lease obligations	69,630	-	69,630
Noncurrent portion of bond obligations	7,035,000	-	7,035,000
Noncurrent portion of accrued sick leave	22,021	-	22,021
Net pension liability	2,498,996	583,430	3,082,426
Net OPEB liability	3,154,384	202,203	3,356,587
Total Noncurrent Liabilities	12,798,845	785,633	13,584,478
TOTAL LIABILITIES	13,556,725	812,491	14,369,216
DEFERRED INFLOWS OF RESOURCES:			
Pension	347,354	85,892	433,246
OPEB	351,858	55,928	407,786
Total deferred inflow of resources	699,212	141,820	841,032
NET POSITION			
Net Investment in Capital Assets	2,683,753	166,432	2,850,185
Restricted - Capital Projects	265,907	-	265,907
Unrestricted	(5,192,411)	(465,414)	(5,657,825)
TOTAL NET POSITION	\$ (2,242,751)	\$ (298,982)	\$ (2,541,733)

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Primary Government							
Governmental Activities:							
Instructional	\$ 7,562,842	\$ 40,668	\$ 3,155,443	\$ -	\$ (4,366,731)	\$ -	\$ (4,366,731)
Support Services:							
Student	648,910	-	270,745	-	(378,165)	-	(378,165)
Instructional staff	492,666	-	205,555	-	(287,111)	-	(287,111)
District administration	302,804	-	126,339	-	(176,465)	-	(176,465)
School administration	790,549	-	329,841	-	(460,708)	-	(460,708)
Business	667,545	-	278,520	-	(389,025)	-	(389,025)
Plant operations and maintenance	1,064,508	-	444,145	-	(620,363)	-	(620,363)
Student transportation	437,606	-	182,582	-	(255,024)	-	(255,024)
Non-Instructional	110,166	-	45,965	-	(64,201)	-	(64,201)
Interest on long-term debt	152,406	-	63,588	174,688	85,870	-	85,870
Total Governmental Activities	12,230,002	40,668	5,102,722	174,688	(6,911,924)	-	(6,911,924)
Business-Type Activities:							
Food Service	816,750	108,740	746,595	-	-	38,585	38,585
Day Care	200,900	80,921	69,366	-	-	(50,613)	(50,613)
	1,017,650	189,661	815,961	-	-	(12,028)	(12,028)
Total Primary Government	\$ 13,247,652	\$ 230,329	\$ 5,918,683	\$ 174,688	\$ (6,911,924)	\$ (12,028)	\$ (6,923,952)
			General Revenues:				
			Taxes:				
			Property	\$ 2,161,548	\$ -	\$ 2,161,548	
			Motor vehicle	104,802	-	104,802	
			Utilities	826,507	-	826,507	
			Franchise	73,646	-	73,646	
			State aid formula grants	3,510,703	-	3,510,703	
			Interest and investment earnings	2,862	1,283	4,145	
			Miscellaneous	183,691	-	183,691	
			Transfers	42,408	(42,408)	-	
			Total General Revenues	6,906,167	(41,125)	6,865,042	
			Change in Net Position	(5,757)	(53,153)	(58,910)	
			Net Position beginning	(2,236,994)	(245,829)	(2,482,823)	
			Net Position ending	\$ (2,242,751)	\$ (298,982)	\$ (2,541,733)	

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	FSPK BUILDING FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash and cash equivalents	\$ 35,379	\$ (159,423)	\$ 257,814	\$ 8,093	\$ 141,863
Accounts receivable					
Taxes	169,918	-	-	-	169,918
Intergovernmental - federal	-	250,154	-	-	250,154
Due from other funds	-	-	-	-	-
Other assets	-	-	-	-	-
TOTAL ASSETS	\$ 205,297	\$ 90,731	\$ 257,814	\$ 8,093	\$ 561,935
LIABILITIES:					
Accounts payable	\$ 21,739	\$ 3,084	\$ -	\$ -	\$ 24,823
Accrued salaries and benefits	5,818	-	-	-	5,818
Accrued sick leave	13,066	-	-	-	13,066
Unearned revenue	-	87,647	-	-	87,647
TOTAL LIABILITIES	40,623	90,731	-	-	131,354
FUND BALANCES:					
Restricted					
Capital projects	-	-	257,814	8,093	265,907
Assigned	18,853	-	-	-	18,853
Unassigned	145,821	-	-	-	145,821
TOTAL FUND BALANCES	164,674	-	257,814	8,093	430,581
TOTAL LIABILITIES AND FUND BALANCES	\$ 205,297	\$ 90,731	\$ 257,814	\$ 8,093	\$ 561,935

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Governmental Fund Balances	\$	430,581
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in the fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		10,203,141
<p>Deferred outflows of resources are not recorded in the governmental fund financials because they do not affect current resources but are recorded in the statement of net position</p>		
Deferred loss on refunding		95,092
Pension contributions subsequent to measurement date		737,943
OPEB contributions subsequent to measurement date		415,075
<p>Certain assets (obligations) are not a use of financial resources and therefore, are not reported in the government funds, but are presented in the statement of net position</p>		
Net pension liability		(2,498,996)
Net OPEB liability		(3,154,384)
<p>Deferred inflows of resources are not recorded in the governmental fund financials because they do not affect current resources but are recorded in the statement of net position</p>		
Pension plan investment differences		(347,354)
OPEB plan investment differences		(351,858)
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and other accrued liabilities) are not reported in the fund financial statement because they are not due and payable, but are presented in the statement of net position as follows:</p>		
Bonds payable		(7,580,000)
Leases payable		(79,057)
KSBIT payable		(37,628)
Accrued interest		(34,480)
Accrued sick leave		(40,826)
Net Position of Governmental Activities	\$	(2,242,751)

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	GENERAL FUND	SPECIAL REVENUE (GRANT) FUNDS	FSPK BUILDING FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
From local sources:					
Taxes:					
Property	\$ 1,913,831	\$ -	\$ 247,717	\$ -	\$ 2,161,548
Motor vehicle	104,802	-	-	-	104,802
Utilities	826,507	-	-	-	826,507
Franchise	73,646	-	-	-	73,646
Earnings on investments	2,216	-	-	646	2,862
Tuition & fees	29,656	11,012	-	-	40,668
Other local revenues	53,673	130,018	-	-	183,691
Intergovernmental - state	5,936,361	660,979	232,340	248,964	7,078,644
Intergovernmental - federal	9,925	777,522	-	-	787,447
TOTAL REVENUES	<u>8,950,617</u>	<u>1,579,531</u>	<u>480,057</u>	<u>249,610</u>	<u>11,259,815</u>
EXPENDITURES:					
Current:					
Instruction:	5,257,500	1,301,179	-	-	6,558,679
Support Services:					
Student	553,109	12,500	-	-	565,609
Instructional staff	250,787	199,538	-	-	450,325
District administration	364,904	-	-	-	364,904
School administration	701,610	-	-	-	701,610
Business	621,678	-	-	-	621,678
Plant operations and maintenance	948,287	-	-	-	948,287
Student transportation	355,599	5,445	-	-	361,044
Community Service	12,742	87,841	-	-	100,583
Capital Outlay	18,493	-	-	123,754	142,247
Debt service	-	-	-	684,514	684,514
TOTAL EXPENDITURES	<u>9,084,709</u>	<u>1,606,503</u>	<u>-</u>	<u>808,268</u>	<u>11,499,480</u>
Excess (Deficit) of Revenues over Expenditures	<u>(134,092)</u>	<u>(26,972)</u>	<u>480,057</u>	<u>(558,658)</u>	<u>(239,665)</u>
OTHER FINANCING SOURCES (USES):					
Sale of equipment	-	-	-	-	-
Operating transfers in	205,515	29,803	-	509,826	745,144
Operating transfers out	(138,621)	(2,831)	(439,552)	(121,732)	(702,736)
TOTAL OTHER FINANCING SOURCES (USES)	<u>66,894</u>	<u>26,972</u>	<u>(439,552)</u>	<u>388,094</u>	<u>42,408</u>
Net Change in Fund Balances	<u>(67,198)</u>	<u>-</u>	<u>40,505</u>	<u>(170,564)</u>	<u>(197,257)</u>
Fund Balance beginning of year	<u>231,872</u>	<u>-</u>	<u>217,309</u>	<u>178,657</u>	<u>627,838</u>
Fund Balance end of year	<u>\$ 164,674</u>	<u>\$ -</u>	<u>\$ 257,814</u>	<u>\$ 8,093</u>	<u>\$ 430,581</u>

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ (197,257)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the fund financial statement because they are current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.

Capital outlays	142,247
Depreciation expense	(459,382)

Generally expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

Accrued interest	3,958
Sick leave	83,034
Amortization of deferred loss from refunding of bonds	(17,887)

Governmental funds report CERS contributions as expenditures when paid. However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

KTRS on-behalf revenue	922,023
KTRS on-behalf pension expense	(878,054)
KTRS on-behalf OPEB expense	(43,969)
Pension Expense	(173,066)
OPEB Expense	47,746

Long-term debt proceeds are reported as other financing resources in funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Debt principal repaid	<u>564,850</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (5,757)</u></u>
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FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL GENERAL FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2019

	GENERAL FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From Local Sources:				
Taxes:				
Property	\$ 1,836,123	\$ 1,860,655	\$ 1,913,831	\$ 53,176
Motor vehicle	95,000	100,000	104,802	4,802
Utilities	760,000	800,000	826,507	26,507
Franchise	116,000	140,000	73,646	(66,354)
Tuition & fees	32,500	32,000	29,656	(2,344)
Earnings on investments	5,200	3,500	2,216	(1,284)
Other local revenues	72,500	63,500	53,673	(9,827)
Intergovernmental - state	4,999,751	4,795,712	5,936,361	1,140,649
Intergovernmental - indirect federal	14,000	30,000	9,925	(20,075)
TOTAL REVENUES	<u>7,931,074</u>	<u>7,825,367</u>	<u>8,950,617</u>	<u>1,125,250</u>
EXPENDITURES:				
Current:				
Instruction:	4,617,495	4,554,537	5,257,500	(702,963)
Support Services:				
Student	508,025	510,687	553,109	(42,422)
Instructional staff	312,947	254,047	250,787	3,260
District administration	294,609	276,586	364,904	(88,318)
School administration	610,369	595,019	701,610	(106,591)
Business	401,518	399,947	621,678	(221,731)
Plant operations and maintenance	795,243	890,469	948,287	(57,818)
Student transportation	304,353	314,884	355,599	(40,715)
Community service	-	-	12,742	(12,742)
Capital Outlay	-	-	18,493	(18,493)
Contingency	347,501	207,534	-	207,534
TOTAL EXPENDITURES	<u>8,192,060</u>	<u>8,003,710</u>	<u>9,084,709</u>	<u>(1,080,999)</u>
Excess (Deficit) of Revenues over Expenditures	<u>(260,986)</u>	<u>(178,343)</u>	<u>(134,092)</u>	<u>44,251</u>
OTHER FINANCING SOURCES (USES):				
Sale of equipment	-	-	-	-
Operating transfers in	32,175	41,157	205,515	164,358
Operating transfers out	(109,924)	(108,818)	(138,621)	(29,803)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(77,749)</u>	<u>(67,661)</u>	<u>66,894</u>	<u>134,555</u>
Net Change in Fund Balance	(338,735)	(246,004)	(67,198)	178,806
Fund Balance beginning	338,735	246,004	231,872	(14,132)
Fund Balance ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,674</u>	<u>\$ 164,674</u>

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL SPECIAL REVENUE FUND (NON-GAAP BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2019

	SPECIAL REVENUE FUND			VARIANCE Favorable (Unfavorable)
	BUDGETED AMOUNTS		ACTUAL	
	ORIGINAL	FINAL		
REVENUES:				
From Local Sources:				
Tuition & fees	\$ -	\$ -	\$ 11,012	\$ 11,012
Other local revenues	-	2,316	130,018	127,702
Intergovernmental - state	273,916	231,589	660,979	429,390
Intergovernmental - indirect federal	810,994	800,526	777,522	(23,004)
TOTAL REVENUES	<u>1,084,910</u>	<u>1,034,431</u>	<u>1,579,531</u>	<u>545,100</u>
EXPENDITURES:				
Current:				
Instruction:	802,217	785,675	1,301,179	(515,504)
Support Services:				
Student	25,000	-	12,500	(12,500)
Instructional staff	163,376	160,104	199,538	(39,434)
Student transportation	17,294	2,906	5,445	(2,539)
Community Services	77,023	85,746	87,841	(2,095)
TOTAL EXPENDITURES	<u>1,084,910</u>	<u>1,034,431</u>	<u>1,606,503</u>	<u>(572,072)</u>
Excess (Deficit) of Revenues over Expenditures	-	-	(26,972)	(26,972)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	39,268	44,299	29,803	(14,496)
Operating transfers out	(39,268)	(44,299)	(2,831)	41,468
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>26,972</u>	<u>26,972</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance beginning	-	-	-	-
Fund Balance ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

	FOOD SERVICE FUND	DAY CARE FUND	TOTAL PROPRIETARY FUNDS
ASSETS:			
Current Assets			
Cash and cash equivalents	\$ 129,142	\$ (37,787)	\$ 91,355
Accounts receivable	151,275	3,774	155,049
Inventory	7,706	-	7,706
Total Current Assets	<u>288,123</u>	<u>(34,013)</u>	<u>254,110</u>
Noncurrent Assets			
Machinery & equipment	516,981	-	516,981
Accumulated depreciation	<u>(350,549)</u>	<u>-</u>	<u>(350,549)</u>
Total Noncurrent Assets	<u>166,432</u>	<u>-</u>	<u>166,432</u>
TOTAL ASSETS	<u>454,555</u>	<u>(34,013)</u>	<u>420,542</u>
DEFERRED OUTFLOW OF RESOURCES			
Pension Plan	108,519	70,222	178,741
OPEB	<u>34,355</u>	<u>21,691</u>	<u>56,046</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>142,874</u>	<u>91,913</u>	<u>234,787</u>
LIABILITIES:			
Current Liabilities			
Accounts payable	26,858	-	26,858
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>
Noncurrent Liabilities			
Net pension liability	357,798	225,632	583,430
Net OPEB liability	<u>123,896</u>	<u>78,307</u>	<u>202,203</u>
TOTAL LIABILITIES	<u>508,552</u>	<u>303,939</u>	<u>812,491</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Plan	52,793	33,099	85,892
OPEB	<u>35,106</u>	<u>20,822</u>	<u>55,928</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>87,899</u>	<u>53,921</u>	<u>141,820</u>
NET POSITION:			
Net Investment in Capital Assets	166,432	-	166,432
Unrestricted	<u>(165,454)</u>	<u>(299,960)</u>	<u>(465,414)</u>
TOTAL NET POSITION	<u>\$ 978</u>	<u>\$ (299,960)</u>	<u>\$ (298,982)</u>

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	FOOD SERVICE FUND	DAY CARE FUND	TOTAL PROPRIETARY FUNDS
OPERATING REVENUES:			
Lunchroom sales	\$ 108,740	\$ -	\$ 108,740
Other operating revenues	-	80,921	80,921
TOTAL OPERATING REVENUES	108,740	80,921	189,661
OPERATING EXPENSES:			
Salaries and wages	199,710	116,693	316,403
Employee benefits	159,789	73,470	233,259
Contract services	10,190	25	10,215
Materials and supplies	374,158	10,712	384,870
Property	36,051	-	36,051
Miscellaneous	1,412	-	1,412
Depreciation	35,440	-	35,440
TOTAL OPERATING EXPENSES	816,750	200,900	1,017,650
Operating income (loss)	(708,010)	(119,979)	(827,989)
NON-OPERATING REVENUES (EXPENSES)			
Federal grants	676,315	-	676,315
Federal commodities	29,205	-	29,205
State grants	41,075	69,366	110,441
Interest income	1,283	-	1,283
NON-OPERATING REVENUES (EXPENSES)	747,878	69,366	817,244
Net income (loss) before operating transfers	39,868	(50,613)	(10,745)
Operating transfers	(42,408)	-	(42,408)
Change in net position	(2,540)	(50,613)	(53,153)
Total net position - beginning of year	3,518	(249,347)	(245,829)
Total net position - end of year	\$ 978	\$ (299,960)	\$ (298,982)

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	FOOD SERVICE FUND	DAY CARE FUND	TOTAL PROPRIETARY FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 6,266	\$ 82,232	\$ 88,498
Cash paid to suppliers	(399,804)	(20,344)	(420,148)
Cash paid to employees	(287,342)	(150,312)	(437,654)
Net Cash Provided (Used) by Operating Activities	<u>(680,880)</u>	<u>(88,424)</u>	<u>(769,304)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Governmental grants	706,820	50,637	757,457
Net Cash Provided (Used) by Noncapital Activities	<u>706,820</u>	<u>50,637</u>	<u>757,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	-	-	-
Net Cash Provided (Used) by Capital Activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	1,283	-	1,283
Net Cash Provided (Used) by Investing Activities	<u>1,283</u>	<u>-</u>	<u>1,283</u>
Net Increase (Decrease) in Cash and Cash Equivalents	27,223	(37,787)	(10,564)
Cash and cash equivalents - beginning of year	101,919	-	101,919
Cash and cash equivalents - end of year	<u>\$ 129,142</u>	<u>\$ (37,787)</u>	<u>\$ 91,355</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (708,010)	\$ (119,979)	\$ (827,989)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:			
Federal commodities	29,205	-	29,205
On-behalf payments	36,007	18,729	54,736
Depreciation	35,440	-	35,440
Changes in Assets and Liabilities:			
Accounts Receivable	(102,474)	1,311	(101,163)
Inventory	(4,124)	-	(4,124)
Deferred outflows	66,285	38,731	105,016
Accounts payable	(3,074)	(127)	(3,201)
Due to other funds	-	(9,480)	(9,480)
Deferred inflows	26,196	15,306	41,502
Net pension liability	(24,596)	(14,372)	(38,968)
Net OPEB liability	(31,735)	(18,543)	(50,278)
Net Cash Provided (Used) by Operating Activities	<u>\$ (680,880)</u>	<u>\$ (88,424)</u>	<u>\$ (769,304)</u>
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$ 29,205	\$ -	\$ 29,205
On-behalf payments	\$ 36,007	\$ 18,729	\$ 54,736

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	SPECIAL PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS:		
Cash and cash equivalents	\$ 16,034	\$ 132,325
Accounts receivable	-	-
TOTAL ASSETS	\$ 16,034	\$ 132,325
LIABILITIES:		
Accounts payable	\$ -	\$ 4,931
Due to student groups	-	127,394
TOTAL LIABILITIES	-	132,325
NET POSITION:		
Net position	\$ 16,034	\$ -

See Accompanying Notes to the Financial Statements

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

		<u>SPECIAL PURPOSE TRUST FUNDS</u>
ADDITIONS		
Contributions	\$	500
Interest Income		119
Total Additions		<u>619</u>
DEDUCTIONS		
Community Service Activities		<u>3,515</u>
Change in Net Position		(2,896)
Total net position - beginning of year		<u>18,930</u>
Total net position - end of year	\$	<u><u>16,034</u></u>

See Accompanying Notes to the Financial Statements

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 – REPORTING ENTITY

The Frankfort Independent 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 Frankfort Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, 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 District, for financial purposes, includes all the funds and account groups relevant to the operation of the Frankfort Independent 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 Booster Clubs, Parent-Teacher Associations and other student association entities.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Blended Component Unit

Frankfort Independent Board of Education Finance Corporation - In a prior year, the Board resolved to authorize the establishment of the Frankfort Independent School District Finance Corporation (a non-stock, non-profit corporation organized under School Bond Act and Chapter 273 and KRS 58.180) (the Corporation) as an agency of the District for financing the costs of school building improvements. The Board members of the Frankfort Independent Board of Education also comprise the corporation's Board of Directors. The Corporation does not publish individual component unit financial statements.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

BASIS OF PRESENTATION

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide Financial Statements

The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activity of the reporting entity, except for fiduciary funds. The statements distinguish between governmental and business-type activities. The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary 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 government-wide financial statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

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 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 the total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

(A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. The Special Revenue Fund is a major fund.

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

- 1) The Capital Outlay Fund, Support Education Excellence in Kentucky (SEEK), receives resources that are designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is generally restricted for use in financing capital acquisitions. This is a non-major fund of the District.
- 2) The Building fund, Facility Support Program of Kentucky (FSPK), 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. This is a major fund of the District.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Financial Statements (Cont'd)

3) The Construction Fund accounts for funds from two sources. First, funds generated by sales of bonds issues are used for various construction and renovation projects. Second, proceeds from the sale of properties and equipment owned by the District are to be used at the discretion of the Board for construction projects in future years. This is a non-major fund of the District.

(D) The Debt Service Fund accounts for financial resources used for payment of principal and interest and other debt related costs. This is a non-major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

(A) The Food Service Fund accounts for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture ("USDA"). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

(B) The Day Care Fund is used to account for child care revenue. The Day Care Fund is a major fund.

III. Fiduciary Fund Type (Agency)

(A) 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 the *Uniform Program of Accounting for School Activity Funds*.

(B) The Special Purpose Trust Fund accounts for funds donated to the District for special purposes.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-Exchange Transactions

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis of accounting, 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 60 days of the fiscal year-end.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Revenues – Exchange and Non-Exchange Transactions (Cont'd)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises during the period for which taxes are levied, but only after the District has completed certain legal steps to establish the enforceable legal claim. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are 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 use is first permitted; matching requirements when in which the District must provide local resources to be used for a specified purpose and expenditure requirements for in which the resources that are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized in the governmental fund statements.

In the Government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Unearned Revenue (Cont'd)

Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The proprietary fund utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Revenues from local sources consist primarily of property taxes. Property taxes collected are recorded as revenues in the fund for which they were levied. Revenue is recognized when susceptible to accrual. Miscellaneous revenues are recorded on the same basis, if measurable. Investment earnings are recorded as earned since they are measurable and available.

Grant funds which are recorded in the special revenue fund as restricted funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are received they are recorded as unearned revenues until all eligibility requirements have been met.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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.

Inventory

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

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.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Capital Assets (Cont'd)

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 acquisition values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed.

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:

Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1st for all real and personal property in the city. The billings are due by December 31. Property taxes are deemed delinquent on March 31st and are turned over to the City Attorney for collection.

Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund; and then, transferred to the appropriate fund, if the taxes are restricted to a specific purpose, such as the Building Fund (FSPK).

The property tax rates assessed for the year ended June 30, 2019 to finance the General Fund operations were \$.918 per \$100 valuation for real property, \$.918 per \$100 valuation for business personal property and \$.474 per \$100 valuation for motor vehicles. The District levies a 3% utility tax on all businesses and households within the County.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund advances 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.

Budgetary Process

The District’s budgetary process accounts for certain transactions on a basis of accounting other than Generally Accepted Accounting Principles (GAAP). The major difference between the budgetary basis and the GAAP basis is that on-behalf payments made by the state for the District are not budgeted. As a result, several programs exceeded budgetary appropriations. However, these amounts were funded by the on-behalf revenues from the State. (See Note 15)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per District policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end in accordance with state law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end. The budget for the Special Revenue Fund consists of the sum of each active grant’s budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current 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.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of the accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

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 amount "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

Fund Balances

The District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) for fiscal year 2011 for its governmental funds. Fund balances for each of the District's governmental funds (general fund, special revenue funds, capital projects funds, and debt service funds) will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *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.
- *Restricted fund balance*—amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. Fund balance in the SEEK and FSPK funds are restricted for capital projects with a total of \$265,907 at June 30, 2019.
- *Committed fund balance*—amounts that can be spent only for specific purposes determined by a formal action of the Board's highest level of decision-making authority.
- *Assigned fund balance*—amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board or a delegated entity has the authority to assign amounts to be used for specific purposes. Assigned fund balance in the General Fund includes amounts that have been appropriated for expenditures in the budget for the District's subsequent fiscal year. As of June 30, 2019, \$18,853 has been assigned for FY2020 expenditures.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Fund Balances (Cont'd)

- *Unassigned fund balance*—amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities less deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets and any deferred outflows/inflows related to debt issued for capital financing. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the School 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 School District, those revenues are primarily charges for meals provided by various schools and fees charged for day care services. All other revenues are non-operating. Operating expenses can be tied directly to the production of the goods and services, such as the materials and labor and direct overhead. Other expenses are non-operating.

Receivables from and payables to external parties are reported separately and are not offset in the proprietary fund financial statements and business-type activities of the government-wide financial statements, unless a right of offset exists.

Interfund Activity

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports three types of deferred outflows- contributions to the CERS and KTRS pension systems after the measurement period, differences between actual and estimated actuarial assumptions in the two pension systems (see Notes 7 and 8), and the unrecognized portion of a deferred loss on the refinancing of long-term debt (see Note 5).

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until appropriate period. The District reports one type of deferred inflows- those related to the net differences between projected and actual actuarial assumptions for pension and OPEB plans (see Notes 7 and 8).

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the CERS and KTRS, respectively. 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. Both systems publish separate financial statements as described in Note 7.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS (Cont'd)

Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("KTRS") and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by these multiple-employer cost-sharing OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized by the pension systems when due and payable in accordance with the benefit terms. Investments are reported at fair value by the pension systems. Both systems publish separate financial statements as described in Note 8.

New Accounting Pronouncements

GASB Statement No. 87, *Leases* (GASB 87), increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that lease are financings of the right to use an underlying asset. GASB 87 will be effective for reporting periods beginning after December 15, 2019. The District has not determined the financial impact of the implementation of GASBS No. 87, but many of the leases reported in Note 6 will be reported as intangible assets and lease liabilities with the implementation of GASBS No. 87.

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. This statement establishes criteria for identifying fiduciary activities for all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. GASB 84 will be effective for reporting periods beginning after December 15, 2018. The District has not determined the financial impact of the implementation of GASBS No. 84, but the school activity funds will be reviewed to determine which funds will be reported as special revenue funds, which will increase net position, and which will be reported as fiduciary custodial funds.

NOTE 3 - CASH AND CASH EQUIVALENTS

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 - CASH AND CASH EQUIVALENTS (Cont'd)

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. At year end, the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC Insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$746,104. The bank balance for the same time was \$1,077,687. Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities:				
Capital Assets not being depreciated:				
Land	\$798,378	\$0	\$0	\$798,378
Construction in Progress	2,897,624	123,754	0	3,021,378
Total Capital Assets not being depreciated	3,696,002	123,754	0	3,819,756
Other Capital Assets				
Land Improvements	222,610	0	0	222,610
Buildings & Improvements	12,795,986	0	0	12,795,986
Technological Equipment	1,182,837	0	0	1,182,837
Vehicles	896,676	0	0	896,676
General Equipment	173,537	18,493	0	192,030
Total Other Assets	15,271,645	18,493	0	15,290,138
Less accumulated depreciation for:				
Land Improvements	(221,236)	(916)	0	(222,152)
Buildings & Improvements	(6,244,945)	(397,988)	0	(6,642,933)
Technological Equipment	(1,122,123)	(13,386)	0	(1,135,510)
Vehicles	(716,639)	(41,642)	0	(758,282)
General Equipment	(142,428)	(5,449)	0	(147,877)
Total accumulated depreciation	(8,447,372)	(459,382)	0	(8,906,754)
Other Capital Assets, net	6,824,274	(440,889)	0	6,383,385
Governmental Activities, net	\$10,520,275	(\$317,135)	\$0	\$10,203,141
Business Activities:				
Technological Equipment	\$13,975	\$0	\$0	\$13,975
General Equipment	503,006	0	0	503,006
Total	516,981	0	0	516,981
Less accumulated depreciation for:				
Technological Equipment	(13,983)	0	0	(13,983)
General Equipment	(301,126)	(35,440)	0	(336,566)
Total accumulated depreciation	(315,109)	(35,440)	0	(350,549)
Business Activities, net	\$201,872	(\$35,440)	\$0	\$166,432

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 - CAPITAL ASSETS (cont'd)

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

Governmental Activities:	
Instruction	\$332,881
Support Services:	
Student	15,059
Instructional Staff	123
District Administration	8,500
School Administration	-
Business	-
Plant Operations & Maintenance	61,176
Student Transportation	41,642
Total depreciation expense, governmental activities	\$459,382

NOTE 5 – LONG-TERM DEBT AND LEASE OBLIGATIONS

Bonds

The District, through the General Fund, the Building Fund, and the SEEK Capital Outlay Fund are obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Frankfort Independent School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has “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.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (Cont'd)

The original amount of each issue, the issue date, interest rates, and outstanding balances of each bond are summarized below:

Issue	Proceeds	Rates	Maturity Dates	Outstanding Balance June 30, 2019
2006	\$435,000	3.70% - 4.40%	8/1/2019	\$95,000
2009	1,115,000	2.00% - 3.00%	7/1/2019	145,000
2014	1,910,000	1.20% - 3.375%	5/1/2034	1,560,000
2014A	1,235,000	1.20% - 3.375%	8/1/2026	2,150,000
2014E	2,275,000	1.00% - 4%	6/1/2030	890,000
2016	3,000,000	0.00%	6/30/2032	2,740,000
	<u>\$9,970,000</u>			<u>\$7,580,000</u>

The bonds which 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:

Year	Frankfort Independent School District		Kentucky School Construction Commission		Total
	Principal	Interest	Principal	Interest	
2020	\$419,025	\$77,224	\$125,975	\$48,712	\$670,936
2021	421,546	70,661	128,454	46,234	666,895
2022	428,794	64,220	131,206	43,481	667,701
2023	435,982	57,684	134,018	40,669	668,354
2024	437,885	50,829	137,115	135,748	761,577
2025-2029	2,337,242	136,523	587,758	135,748	3,197,271
2030-2034	1,365,079	25,815	489,921	55,093	1,935,908
	<u>\$5,845,553</u>	<u>\$482,957</u>	<u>\$1,734,447</u>	<u>\$505,685</u>	<u>\$8,568,642</u>

Capital Leases

Following is an analysis of the leased property under capital lease through KISTA:

<u>KISTA Issue</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>6/30/18 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>6/30/19 Outstanding Balance</u>
2017	3/1/2027	2.55%	\$90,094	\$0	\$11,037	\$79,057

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 - LONG-TERM DEBT AND LEASE OBLIGATIONS (Cont'd)

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

Year Ending June 30	Capital Lease Payable
2020	\$11,443
2021	11,440
2022	11,431
2023	11,443
2024	11,447
Thereafter	<u>30,941</u>
Total minimum lease payments	88,144
Less: Amount of interest	<u>(9,087)</u>
Present value of net minimum lease payments	<u>\$79,057</u>

The following is an analysis of the leased property under capital leases by class at June 30, 2019:

Class of Property	Amount
Buses	\$85,291
Less: Accumulated Depreciation	<u>(10,307)</u>
Book Value	<u>\$74,984</u>

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2019:

	06/30/18 Ending Balance	Additions	Reductions	06/30/19 Ending Balance	Amounts Due Within One Year
Bonds	\$8,115,000	\$0	\$535,000	\$7,580,000	\$545,000
Bond Discount	(112,979)	0	(17,887)	(95,092)	0
Capital Leases	90,094	0	11,037	79,057	9,427
Sick Leave	123,863	0	69,971	53,892	13,066
KSBIT	56,441	0	18,814	37,627	18,814
Total	<u>\$8,272,419</u>	<u>\$0</u>	<u>\$616,935</u>	<u>\$7,655,484</u>	<u>\$586,307</u>

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 - COMMITMENTS UNDER NON-CAPITALIZED LEASES

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

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 1,716
2021	840
2022	840
2023	210
	<u>\$ 3,606</u>

Expenditures for equipment under operating leases for the year ended June 30, 2019 totaled \$10,520.

NOTE 7 - RETIREMENT PLAN

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

General information about the County Employees Retirement System Non-Hazardous ("CERS")

Plan Description

Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky.

Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and the General Assembly of the Commonwealth has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided

CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Benefits provided (cont'd)

For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service and 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Beginning in 2015, COLAs were suspended until the retirement funds reach 100% funded status.

Retirement benefits are calculated using factors for the number of years' service multiplied by the "final compensation." Reduced benefits are based on factors of both of these components. Again, the definitions of "final compensation" and the benefit factor for years' of service depend on the Tier in which the member participates. Benefits in Tier 3, the cash balance plan, are limited to the accumulated contributions and earnings credited to the member's account, similar to a defined contribution plan.

There are, however, minimum rates of return that are guaranteed and funded with employer contributions when actual earnings are less than these minimum rates.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Benefits provided (cont'd)

Tier 1	Final Compensation	Average of the highest 5 fiscal years
	Benefit Factor	2.2% prior to 8/1/2004 or 2% after 8/1/2004
	Interest on member accounts	2%
Tier 2	Final Compensation	5 complete fiscal years preceding retirement
	Benefit Factor	Scale of 1.1% to 2% based on number of years of service
	Interest on member accounts	2.50%
Tier 3	Final Compensation	N/A
	Benefit Factor	N/A
	Interest on member accounts	4% plus 75% of the 5 year geometric average earnings in excess of 4%
	Employer Pay Credit	4% of creditable compensation

Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are provided in a \$5,000 lump sum payment.

- Death benefits before retirement are based on the member's eligibility for normal or early retirement at the time of death, or five years of service if the member is under the age of 55, or 144 months of service if the member is no longer working for a participating agency.
- If beneficiaries are eligible for benefits, they may choose a lifetime monthly benefit or a lump sum payment for an actuarial refund, or annuities for 5 or 10 years of monthly payments.
- If the beneficiary is not eligible for monthly benefits, a lump sum payment of the member's contributions and accumulated interest will be paid. Beneficiaries of Tier 3 members will also include the employer pay credit if the member has at least 5 years of service at the time of death.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Benefits provided (cont'd)

- If the member dies as a result of a duty-related death, the decedent's beneficiary will receive the higher of the normal death benefit or \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children.
- Dependent children also receive benefits for duty-related deaths as a monthly benefit equal to 10% of the member's monthly final rate of pay. But, dependent children benefits cannot total more than 40% of the monthly final rate of pay.

Contributions

Required contributions by the employee are based on the tier:

	<u>Required contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

General information about the Kentucky Teachers' Retirement System ("KTRS")

Plan description

Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided

For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service.

To qualify for monthly retirement benefits, payable for life, employees must either:

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Benefits provided (cont'd)

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees 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 employees (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 employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

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

Contributions

Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.400% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 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 employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Other Retirement Plans

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

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements. Employee contributions made to the plans during the year totaled \$49,753. The District does not contribute to these plans.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District.

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

District's proportionate share of the net CERS pension liability	\$	3,082,425
Commonwealth's proportionate share of the net KTRS pension liability associated with the District		<u>18,157,917</u>
	\$	<u><u>21,240,342</u></u>

The net pension liability for CERS was based on the total pension liability that was determined by an actuarial valuation as of June 30, 2017.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont'd)

The total pension liability was rolled-forward from the valuation date to the plan's fiscal year end, June 30, 2018, using generally accepted actuarial principles. The District's proportion of the net pension liability for CERS 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 .050612%. For the year ended June 30, 2019, the District recognized pension expense of \$228,894 (\$173,064 in Governmental funds and \$51,830 in Proprietary fund) related to CERS. The net pension liability for KTRS was based on the total pension liability that was measured as of June 30, 2018, determined by an actuarial valuation as of that date. The district recognized pension expense of \$2,193,736 related to KTRS. The District also recognized revenue of \$2,193,736 for KTRS support provided by the Commonwealth.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 100,540	\$ 45,120
Changes of assumptions	301,243	-
Net difference between projected and actual earnings on pension plan investments	143,335	180,295
Changes in proportion and differences between District contributions and proportionate share of contributions	157,172	207,832
District contributions subsequent to the measurement date	<u>214,394</u>	<u>-</u>
	<u>\$ 916,684</u>	<u>\$ 433,247</u>

\$214,394 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (cont'd)

Year ended June 30:

2020	\$ 245,982
2021	\$ 107,118
2022	\$ (67,514)
2023	\$ (16,543)
2024	\$ -

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:

	<u>CERS</u>	<u>KTRS</u>
Inflation	2.30%	3.0%
Projected salary increases	3.30%-11.55% (varies by service)	3.5-7.3%
Investment rate of return, net of investment expense & inflation	6.25%	7.5%

For CERS, 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 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. At the time of the last experience study, performed as of June 30, 2013, this mortality assumption provided 37% and 19% margin for future improvement for males and females, respectively. This will be reviewed again when the next experience investigation is conducted for the 2019 actuarial analysis.

For KTRS, 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 last experience study was performed for the period July 1, 2010 – June 30, 2015.

Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Actuarial assumptions (cont'd)

In May 2017, the Kentucky Retirement Systems Board of Trustees adopted a new asset allocation policy based on recommendations from the investment professionals serving as trustees on the Board, the actuarial valuation used a long-term expected rate of return 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 rates of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS' investment trustees, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.0%</u>	

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

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

Actuarial assumptions (cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	40.00%	4.20%
International Equity	22.00%	5.20%
Fixed Income	15.00%	1.20%
Additional Categories*	8.00%	3.30%
Real Estate	6.00%	3.80%
Private Equity	7.00%	6.30%
Cash	2.00%	0.90%
Total	<u>100.00%</u>	

**Includes High Yield, Non-US Developed Bonds, and Private Credit Strategies*

Discount rate

For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments. The change in the discount rate from the 4.49% used in the 2017 disclosure reports is considered a change in the actuarial assumptions or other inputs under GASBS No. 68.

Sensitivity of CERS and KTRS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 - RETIREMENT PLAN (cont'd)

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 3,880,454	\$ 3,082,425	\$ 2,413,817
KTRS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	\$ -	\$ -	\$ -

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB)

The District's employees are provided with two OPEB plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree. Retired District employees receive some health care benefits depending on their length of service. In accordance with Kentucky Revised Statutes, these benefits are provided and advance funded on an actuarially determined basis through the CERS and KTRS plans. The Kentucky Retirement System's publicly available financial report may be obtained from <http://kyret.ky.gov/>. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

CERS Other Postemployment Benefits

Plan Description—CERS health insurance benefits are also subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance covered based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium. Hazardous members receive a contribution subsidy for both the member and dependent coverage.

Benefits Provided—Percentage of premium subsidies ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

CERS Other Postemployment Benefits (cont'd)

Hazardous retirees receive \$15 toward the monthly premium and the hazardous retiree's spouse may also receive this contribution upon the retiree's death. The monthly insurance benefit has been increased annually by a Cost of Living Adjustment (COLA) since July 2004.

Contributions—CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the 2018 measurement period, CERS allocated 4.70% of the 19.18% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1% of the Tier 2 and 3 employee contributions of 6% are allocated to the health insurance plan.

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

At June 30, 2019, the District reported a liability of \$898,588 for its proportionate share of the collective net CERS OPEB liability. The total OPEB liability, net OPEB liability, and sensitivity information for CERS 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. The collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was 0.050611%.

The amount recognized by the District as its proportionate share of the OPEB liability was \$898,588 as of June 30, 2019. For the year ended June 30, 2019, the District recognized OPEB expense of \$23,618.

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

CERS Other Postemployment Benefits (cont'd)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 104,719
Changes of assumptions	179,461	2,076
Net difference between projected and actual earnings on OPEB plan investments	-	61,895
Changes in proportion and differences between District contributions and proportionate share of contributions	-	75,095
District contributions subsequent to the measurement date	69,526	-
	\$ 248,987	\$ 243,785

Of the total amount reported as deferred outflows of resources related to OPEB, \$69,526 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year ended June 30:</u>	
2020	\$ (11,065)
2021	\$ (11,065)
2022	\$ (11,065)
2023	\$ 956
2024	\$ (22,037)
Thereafter	\$ (10,047)

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

CERS Other Postemployment Benefits (cont'd)

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% - 11.55%, depending on years of service
Inflation rate	2.30%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal Bond Index Rate	3.62%
Discount Rate	5.85%

Mortality rates were based on the RP-2000 Combined Mortality Table updated with Scale BB from the year 2000 to the year 2013. Pre-retirement mortality male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%. Post-retirement mortality rates for females are set back one year. The RP-2000 Disabled Mortality Table is used for post-retirement mortality using the Scale BB projected to 2025. Male mortality rates are set back four years.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2013 valuation. The investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2018 valuation in order to reflect future economic expectations.

The long-term expected rate of return on OPEB plan investments was determined 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 class are summarized in the table below.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

CERS Other Postemployment Benefits (cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
Emerging Market Debt	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.0%</u>	

Discount rate – The single discount rate of 5.85% for CERS-Nonhazardous was used to measure the total OPEB liability as of June 30, 2018. The Single discount rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. Future contributions are projected in accordance with the current funding policy mandated in Ky Revised Statutes 61.565, as amended, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2018) and the actuarial assumptions and methods adopted by the Board of Trustees. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently included in the calculation of the System’s actuarial determined contributions, but any cost associated with the implicit subsidy is not paid out of the System’s trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

CERS Other Postemployment Benefits (cont'd)

	<u>1% Decrease</u>		<u>Current Discount Rate</u>	<u>1% Increase</u>
	4.85%		5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 1,167,122	\$	898,588	\$ 669,846

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

	<u>1% Decrease</u>		<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
	6.5% decreasing to 4%		7.5% decreasing to 5%	8.5% decreasing to 6%
District's proportionate share of net OPEB liability	\$ 669,008	\$	898,588	\$ 1,169,197

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

KTRS Postemployment Health Care Benefits

The Commonwealth of Kentucky (State) reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the KTRS Medical Insurance and Life Insurance Plans. The following information is about the KTRS plans:

Plan description—In addition to the pension benefits described in Note 7, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Health Care Benefits (cont'd)

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

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

For the state's fiscal year ended June 30, 2018, the State budgeted supplemental appropriations for the Kentucky Teachers Retirement System to improve the system's funded status. Although not actuarially required, these appropriations have been included in the State's share of contributions for the actuarial measurement as of June 30, 2018.

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

At June 30, 2019, the District reported a liability of \$2,458,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was .070854%.

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Health Care Benefits (cont'd)

District's proportionate share of the net KTRS OPEB liability	\$	2,458,000
Commonwealth's proportionate share of the net KTRS OPEB liability associated with the District		2,119,000
Total	\$	4,577,000

For the year ended June 30, 2019, the District recognized OPEB expense of \$82,079 and revenue of \$82,079 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$	126,000
Changes of assumptions	34,000		-
Net difference between projected and actual earnings on OPEB plan investments	-		10,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-		28,000
District contributions subsequent to the measurement date	188,134		-
	\$ 222,134	\$	164,000

Of the total amount reported as deferred outflows of resources related to OPEB, \$188,134 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year ended June 30:</u>	
2020	\$ (26,000)
2021	\$ (26,000)
2022	\$ (26,000)
2023	\$ (21,000)
2024	\$ (22,000)
Thereafter	\$ (9,000)

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Health Care Benefits (cont'd)

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

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.75% for FY 2018 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	1.02% for FY 2018 with an ultimate rate of 5.00% by 2030
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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 remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

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

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Health Care Benefits (cont'd)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Additional Categories*	20.0%	3.3%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Cash	1.0%	.9%
Total	<u>100.0%</u>	

**Includes high yield, non-US developed bonds, and private credit strategies*

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
District's proportionate share of MIF net OPEB liability	\$ 2,883,000	\$ 2,458,000	\$ 2,105,000

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Health Care Benefits (cont'd)

	1% Decrease		Current Health Care Trend Rate	1% Increase
	6.75%		7.75%	8.75%
	decreasing to 4%		decreasing to 5%	decreasing to 6%
District's proportionate share of net OPEB liability	\$ 2,039,000	\$	2,458,000	\$ 2,976,000

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

KTRS Postemployment Life Insurance Benefits

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

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member’s estate or to a party designated by the member.

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

For the state’s fiscal year ended June 30, 2018, the State budgeted supplemental appropriations for the Kentucky Teachers Retirement System to improve the system’s funded status. Although not actuarially required, these appropriations have been included in the State’s share of contributions for the actuarial measurement as of June 30, 2018.

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

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Life Insurance Benefits (cont'd)

District's proportionate share of the net KTRS OPEB liability	\$	-
Commonwealth's proportionate share of the net KTRS OPEB liability associated with the District		36,000
	\$	36,000

The collective net OPEB liability for life insurance was based on an actuarial valuation performed as of June 30, 2018. The total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the State's long-term share of contributions to the State's life insurance plan for District employees relative to the projected contributions for all employees, actuarially determined. For the year ended June 30, 2019, the District recognized OPEB expense of \$6,000 and revenue of \$6,000 for support provided by the State.

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

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.89%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

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 remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 – OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB) (cont'd)

KTRS Postemployment Life Insurance Benefits (cont'd)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Additional Categories*	6.0%	3.3%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Cash	<u>2.0%</u>	.9%
Total	<u>100.0%</u>	

**Includes high yield, non-US developed bonds, and private credit strategies*

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
District's proportionate share of LIF net OPEB liability	\$ -	\$ -	\$ -

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9 – 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. At June 30, 2019, this amount totaled \$53,892.

NOTE 10- 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 are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated and include workers' compensation insurance.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Funding for the District's Grant Funds is provided by federal, state and local government agencies. These funds are to be used for designated purposes only. If, based upon the grantor's review, the funds are considered not to have been used for the intended purpose the grantor may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U.S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 12 - 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 worker's compensation, errors and omissions, and general liability coverage the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 12 - RISK MANAGEMENT (Cont'd)

Contributions to the Workers' Compensation Fund are based on premium rates established by such a fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after the expiration of the self-insurance term. The liability insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage, and for any reason, by giving ninety days notice. In the event the Trust terminated coverage, any amount remaining in the Fund would be returned to the member on a pro rata basis.

The District purchases 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 several fiscal years.

NOTE 13 - COBRA

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

NOTE 14 - DEFICIT OPERATING/ FUND BALANCES

The Day Care Funds are operating as a deficit fund balance of \$299,960 at June 30, 2019. The following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in the following reductions of fund balances:

Food Service	\$2,540
Day Care	\$50,613
General	\$86,012
Construction	\$170,564

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 15 – INTERFUND TRANSACTIONS

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
Building	Debt Service	Debt Service	\$401,008
Building	General	Capital Funds Request	\$38,544
Capital Outlay	Debt Service	Capital Funds Request	\$74,276
Construction	General	Capital Funds Request	\$47,456
General	Special Revenue	Technology	\$29,803
General	Debt Service	Debt Service	\$108,818
Special Revenue	General	Indirect Cost	\$2,831
Food Service	General	Indirect Cost	\$42,408

NOTE 16 - ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2019, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

Kentucky Teachers Retirement System	\$	1,425,713
Health & Life Insurance		989,294
Technology		65,387
Debt Service		174,688
Recognized at the Fund Level	\$	<u>2,655,081</u>
Additional pension expense recognized at the Government-Wide Level	\$	<u>922,023</u>
Total On-Behalf	\$	<u><u>3,577,104</u></u>

These payments were recorded in the appropriate revenue and expense accounts on the statement of revenue, expenses, and changes in fund balance as follows:

General Fund	\$	2,425,658
Food Service Fund		36,007
Day Care Fund		18,729
Debt Service Fund		174,688
Total	\$	<u><u>2,655,081</u></u>

NOTE 17 – LITIGATION

The District is subject to several legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 18 – SUBSEQUENT EVENTS

In preparing these financial statements, management of the District has evaluated events and transaction for potential recognition or disclosure through November 14, 2019, the date the financial statements were available to be issued.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL SCHEDULES

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019**

	Reporting Fiscal Year (Measurement Date)				
	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
COUNTY EMPLOYEES RETIREMENT SYSTEM:					
District's proportion of the net pension liability	0.050612%	0.055550%	0.046854%	0.055221%	0.056646%
District's proportionate share of the net pension liability	\$ 3,082,425	\$ 3,251,512	\$ 2,306,917	\$ 2,374,243	\$ 1,838,000
District's covered-employee payroll	\$ 1,242,488	\$ 1,320,029	\$ 1,423,125	\$ 1,139,555	\$ 1,309,514
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	248.08%	246.32%	162.10%	208.35%	140.36%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%	66.80%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:					
District's proportion of the net pension liability	0%	0%	0%	0%	0%
District's proportionate share of the net pension liability	-	-	-	-	-
State's proportionate share of the net pension liability associated with the District	\$ 18,157,917	\$ 37,135,272	\$ 37,315,572	\$ 31,369,530	\$ 27,742,148
Total	<u>\$ 18,157,917</u>	<u>\$ 37,135,272</u>	<u>\$ 37,315,572</u>	<u>\$ 31,369,530</u>	<u>\$ 27,742,148</u>
District's covered-employee payroll	\$ 4,814,546	\$ 4,580,828	\$ 4,448,103	\$ 4,103,780	\$ 4,326,318
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	56.40%	54.60%	55.30%	53.60%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.
Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICTS CONTRIBUTIONS - PENSION
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:					
Contractually required contribution	\$ 181,638	\$ 188,674	\$ 198,525	\$ 141,533	\$ 166,963
Contributions in relation to the contractually required contribution	<u>181,638</u>	<u>188,674</u>	<u>198,525</u>	<u>141,533</u>	<u>166,963</u>
Contribution deficiency (excess)	-	-	-	-	-
District's covered-employee payroll	\$ 1,242,488	\$ 1,320,029	\$ 1,423,125	\$ 1,139,555	\$ 1,309,514
District's contributions as a percentage of its covered-employee payroll	14.62%	14.29%	13.95%	12.42%	12.75%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:					
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	-	-	-	-	-
District's covered-employee payroll	\$ 4,814,546	\$ 4,580,828	\$ 4,448,103	\$ 4,103,780	\$ 4,326,318
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION
FOR THE YEAR ENDED JUNE 30, 2019**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Changes of Benefit Terms -

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

2014: A cash balance plan was introduced for member whose participation date is on or after January 1, 2014

Changes of Assumptions -

The actuarially determined contribution rates are determined in an annual basis using the actuarial valuation conducted two years prior to the year in which the contribution will be assessed. The amortization period for the unfunded liability was reset as of July 1, 2013 to a closed 30-year period. For the 2017 actuarial valuation, several key actuarial assumptions were revised. Changes in assumptions prior to 2016 provided minor adjustments to the actuarial measurements. The following table outlines the actuarial methods and assumptions that were used in 2017 and 2016 to determine contribution rates reported for all systems:

Assumption	2017 Valuation	2016 Valuation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level of Percentage of Payroll, closed	Level of Percentage of Payroll, closed
Remaining Amortization Period	26 Years	27 Years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Post-retirement benefit adjustments	0.00%	0.00%
Inflation	2.30%	3.25%
Salary Increase	3.3% to 11.55% varies by service), average, including Inflation	4% , average, including Inflation
Investment Rate of Return	6.25% , Net of Pension Plan Investment Expense, including Inflation	7.5% , Net of Pension Plan Investment Expense, including Inflation

KENTUCKY TEACHER'S RETIREMENT SYSTEM:

Changes of Benefit Terms - None

Changes of Assumptions:

The 2018 actuarial analysis for KTRS indicated that cash flows for the system would be sufficient to pay benefits in all periods. As a result, the discount rate for the 2018 study was the same as the long-term expected yield of 7.5%. In 2017, the analysis used a blended rate of 4.49% which included the application of the municipal bond index to periods after 2038.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY - MEDICAL
INSURANCE PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2019 (2018)	2018 (2017)
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
District's proportion of the net OPEB liability	0.050611%	0.055550%
District's proportionate share of the net OPEB liability	\$ 898,588	\$ 1,116,745
District's covered-employee payroll	\$ 1,242,488	\$ 1,320,029
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	72.32%	84.60%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.40%
KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
District's proportion of the net OPEB liability	0.070854%	0.071757%
District's proportionate share of the net OPEB liability	2,458,000	2,559,000
State's proportionate share of the net OPEB liability associated with the District	\$ 2,119,000	\$ 2,090,000
Total	<u>\$ 4,577,000</u>	<u>\$ 4,649,000</u>
District's covered-employee payroll	\$ 4,814,546	\$ 4,580,828
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	51.05%	55.86%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	26.70%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICTS CONTRIBUTIONS - MEDICAL INSURANCE PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>2018</u>	<u>2017</u>
COUNTY EMPLOYEES RETIREMENT SYSTEM:		
Contractually required contribution	\$ 58,958	\$ 63,973
Contributions in relation to the contractually required contribution	<u>58,958</u>	<u>63,973</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,242,488	\$ 1,320,029
District's contributions as a percentage of its covered-employee payroll	4.75%	4.85%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ 126,213	\$ 122,939
Contributions in relation to the contractually required contribution	<u>126,213</u>	<u>122,939</u>
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 4,814,546	\$ 4,580,828
District's contributions as a percentage of its covered-employee payroll	2.62%	2.68%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - MEDICAL INSURANCE PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

COUNTY EMPLOYEES RETIREMENT SYSTEM:

Valuation Date: June 30, 2018

Changes in actuarial assumptions:

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions which were changed from the 2016 actuarial valuation, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4% average
Inflation rate	3.25%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years
Municipal bond index rate	3.56%
Discount rate	5.84%

KENTUCKY TEACHER'S RETIREMENT SYSTEM:

Valuation Date: June 30, 2018

2017 Changes to benefit terms:

With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retire prior to July 1, 2010 is restored, but the State will only finance, via its KEHP "shared responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET OPEB LIABILITY - LIFE
INSURANCE PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

	Reporting Fiscal Year (Measurement Date)	Reporting Fiscal Year (Measurement Date)
	2019 (2018)	2018 (2017)
KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
District's proportion of the net OPEB liability	0%	0%
District's proportionate share of the net OPEB liability	-	-
State's proportionate share of the net OPEB liability associated with the District	\$ 36,000	\$ 28,000
Total	<u>\$ 36,000</u>	<u>\$ 28,000</u>
District's covered-employee payroll	\$ 4,814,546	\$ 4,580,828
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	75.00%	87.80%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICTS CONTRIBUTIONS - LIFE INSURANCE PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

	2018	2017
KENTUCKY TEACHER'S RETIREMENT SYSTEM:		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 4,814,546	\$ 4,580,828
District's contributions as a percentage of its covered-employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Note: These amounts are based on the prior year's measurement period, not the District's fiscal year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - LIFE INSURANCE
PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

KENTUCKY TEACHER'S RETIREMENT SYSTEM:

Valuation Date: June 30, 2018

Changes to benefit terms:

With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retire prior to July 1, 2010 is restored, but the State will only finance, via its KEHP "shared responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
SUPPLEMENTAL SCHEDULES

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2019

	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
ASSETS:				
Cash and cash equivalents	\$ 8,093	\$ -	\$ -	\$ 8,093
TOTAL ASSETS	\$ 8,093	\$ -	\$ -	\$ 8,093
 FUND BALANCES:				
Restricted	\$ 8,093	\$ -	\$ -	\$ 8,093
 TOTAL FUND BALANCES	\$ 8,093	\$ -	\$ -	\$ 8,093

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2019

	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
REVENUES:				
Earnings on investments	\$ -	\$ 646	\$ -	\$ 646
Intergovernmental - State	74,276	-	174,688	248,964
TOTAL REVENUES	74,276	646	174,688	249,610
Expenditures:				
Capital outlay	-	123,754	-	123,754
Debt Service	-	-	684,514	684,514
TOTAL EXPENDITURES	-	123,754	684,514	808,268
Excess (Deficit) of Revenues over Expenditures	74,276	(123,108)	(509,826)	(558,658)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	509,826	509,826
Operating transfers out	(74,276)	(47,456)	-	(121,732)
TOTAL OTHER FINANCING SOURCES (USES)	(74,276)	(47,456)	509,826	388,094
Net Change in Fund Balances	-	(170,564)	-	(170,564)
Fund balance beginning	\$ 8,093	\$ 170,564	\$ -	\$ 178,657
Fund balance ending	\$ 8,093	\$ -	\$ -	\$ 8,093

FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 SCHOOL ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2019

	Cash Balances June 30, 2018	Receipts	Disbursements	Cash Balances June 30, 2019	Accounts Receivable June 30, 2019	Accounts Payable June 30, 2019	Deposits Held in Custody for Students June 30, 2019
Frankfor Independent High School	\$ 66,105	\$ 240,002	\$ 216,213	\$ 89,894	\$ -	\$ 2,667	\$ 87,227
Capital City Preparatory	317	2	-	319	-	-	319
Second Street Elementary School	32,894	119,039	109,821	42,112	-	2,264	39,848
	<u>\$ 99,316</u>	<u>\$ 359,043</u>	<u>\$ 326,034</u>	<u>\$ 132,325</u>	<u>\$ -</u>	<u>\$ 4,931</u>	<u>\$ 127,394</u>

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FRANKFORT INDEPENDENT HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2019

ACCOUNTS:	Cash			Cash	Accounts	Accounts	Deposits
	Balances	Receipts	Disbursements				
	June 30,			June 30,	June 30,	June 30,	Custody for
	2018			2019	2019	2019	Students
							June 30,
							2019
ACADEMIC COMPETITION	\$ 1	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 1
PSAT FEES	-	-	-	-	-	-	-
CAPITOLIAN	1,999	2,273	1,144	3,128	-	-	3,128
FACULTY CONCESSIONS	6	410	294	122	-	-	122
INTEREST	660	468	391	737	-	-	737
GRADUATION	500	50	550	-	-	-	-
GUIDANCE	526	1,557	1,398	685	-	-	685
GENERAL	(1,054)	9,827	5,314	3,459	-	188	3,271
AP FEES	243	665	595	313	-	-	313
SBDM STUDENT FUND	1,498	-	-	1,498	-	-	1,498
STUDENT LOCKS	5	-	-	5	-	-	5
C. S. BOYD SCHOLARSHIP	1,122	1,000	500	1,622	-	-	1,622
KSTATE CREDIT	81	-	-	81	-	-	81
FEES	1,408	4,663	6,070	1	-	-	1
STUDENT NETBOOKS	-	-	-	-	-	-	-
GENERAL ATHLETICS	4,342	21,962	23,952	2,352	-	-	2,352
BASEBALL	1,059	13,359	11,117	3,301	-	-	3,301
BOYS BASKETBALL	4,570	26,815	22,825	8,560	-	-	8,560
GIRLS BASKETBALL	385	9,537	6,848	3,074	-	-	3,074
CHEERLEADERS	1,217	1,089	1,007	1,299	-	-	1,299
CROSS COUNTRY	315	120	260	175	-	-	175
FOOTBALL	1,033	28,494	28,055	1,472	-	-	1,472
BOYS GOLF	270	50	210	110	-	-	110
GIRLS GOLF	62	-	-	62	-	-	62
BOYS SOCCER	3,998	10,842	8,694	6,146	-	-	6,146
GIRLS SOCCER	3,694	5,715	5,740	3,669	-	-	3,669
GIRLS SOFTBALL	326	5,719	6,061	(16)	-	-	(16)
BOYS TENNIS	868	288	922	234	-	-	234
GIRLS TENNIS	376	-	313	63	-	-	63
TRACK	243	2,392	924	1,711	-	349	1,362
SWIM TEAM	40	2,493	2,213	320	-	-	320
BOYS SOCCER TRIP	2,789	465	3,257	(3)	-	-	(3)
ATHLETIC TOUNREY	4,261	11,821	10,979	5,103	-	-	5,103
ATHLETIC FEE	-	90	90	-	-	-	-
VOLLEYBALL	120	12,897	10,180	2,837	-	-	2,837
SIGN PROGRAM	475	500	-	975	-	-	975
PRESEASON TOURNAMENT	-	-	-	-	-	-	-
HS SOCCER ALL A	-	-	-	-	-	-	-
ART CLUB	423	135	458	100	-	-	100
BETA CLUB	353	1,160	775	738	-	-	738
EARTH CLUB	111	-	-	111	-	-	111
STUDENT YMCA CO-ED	226	-	226	-	-	-	-
DRAMA CLUB	6,573	4,891	4,251	7,213	-	779	6,434
SPANISH HONOR SOCIETY	78	-	-	78	-	-	78
INTERACT	294	-	294	-	-	-	-
NATIONAL HONOR SOCIETY	385	(42)	-	343	-	-	343
PEP CLUB	748	200	273	675	-	-	675
STUDENT COUNCIL	1,491	347	970	868	-	-	868
MISS FHS PAG	1,513	1,526	970	2,069	-	-	2,069
ARCHERY CLUB	626	1,200	1,302	524	-	-	524
Y-CLUB	368	12,660	12,935	93	-	-	93
DANCE CLUB	(1,193)	-	-	(1,193)	-	-	(1,193)
TRAVELING PANTHERS	-	4,996	5,660	(664)	-	-	(664)
CLASS OF 2018	662	-	661	1	-	-	1
CLASS OF 2019	1,556	1,660	2,360	856	-	220	636
CLASS OF 2020	685	2,014	1,535	1,164	-	-	1,164
CLASS OF 2021	209	2,217	40	2,386	-	-	2,386
CLASS OF 2022	-	25	22	3	-	-	3
PROJECT GRAD	823	2,453	1,198	2,078	-	994	1,084
LIBRARY	482	-	-	482	-	-	482
ATHLETIC CONCESSION	5,854	20,885	15,129	11,610	-	137	11,473
ART	-	-	-	-	-	-	-
BAND	3,318	7,186	6,612	3,892	-	-	3,892
ENGLISH	-	-	-	-	-	-	-
MATH	180	-	-	180	-	-	180
PE/HEALTH	-	-	-	-	-	-	-
CHEMISTRY	30	-	-	30	-	-	30
SPECIAL ED	530	-	-	530	-	-	530
TECHNOLOGY	-	-	-	-	-	-	-
AVIATION	536	-	-	536	-	-	536
SCIENCE ACADEMY	605	360	382	583	-	-	583
BIOLOGY	-	-	-	-	-	-	-
PHOTOGRAPHY	200	-	-	200	-	-	200
CERAMICS	-	-	-	-	-	-	-
FOLKBIKE	980	100	42	1,038	-	-	1,038
JAG	-	100	25	75	-	-	75
FCCLA	21	368	190	199	-	-	199
TOTALS	\$ 66,105	\$ 240,002	\$ 216,213	\$ 89,894	\$ -	\$ 2,667	\$ 87,227

FRANKFORT INDEPENDENT
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2019

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
Passed Through Kentucky Department of Education			
United States Department of Agriculture			
<i>Child Nutrition Cluster-Cluster</i>			
National School Lunch Program			
National School Lunch Program	10.555	4001903	\$29,205
National School Lunch Program	10.555	7750002-18	117,612
National School Lunch Program	10.555	7750002-19	285,699
School Breakfast Program	10.553	7760005-18	61,455
School Breakfast Program	10.553	7760005-19	150,969
Child and Adult Care	10.558	7790021-18	3,420
Child and Adult Care	10.558	7790021-19	3,519
Child and Adult Care	10.558	7800016-18	212
Child and Adult Care	10.558	7800016-19	225
Summer School Feeding Program	10.559	7690024-18	5,633
Summer School Feeding Program	10.559	7690024-19	1,327
Summer School Feeding Program	10.559	7740023-18	7,078
Summer School Feeding Program	10.555	7740023-19	39,166
<i>Total Child Nutrition Cluster-Cluster</i>			<u>705,520</u>
Total United States Department of Agriculture			<u>705,520</u>
United States Department of Education			
<i>Special Education Cluster (IDEA)-Cluster</i>			
Special Education_Grants to States			
Special Education_Grants to States	84.027	3810002-17	41,650
Special Education_Grants to States	84.027	3810002-18	224,707
Total Special Education_Grants to States			<u>266,357</u>
Special Education_Preschool Grants			
Special Education_Preschool Grants	84.173	3800002-17	14,490
Special Education_Preschool Grants	84.173	3800002-18	20,984
Total Special Education_Preschool Grants			<u>35,474</u>
<i>Total Special Education Cluster (IDEA)-Cluster</i>			<u>301,831</u>
Title I Grants to Local Educational Agencies			
Title I Grants to Local Educational Agencies	84.010	3100002-18	424,717
Title I Grants to Local Educational Agencies	84.010	3100002-17	7,286
Total Title I Grants to Local Educational Agencies			<u>432,003</u>
Career and Technical Education -- Basic Grants to States			
Career and Technical Education -- Basic Grants to States	84.048	3710002-17	2,540
Career and Technical Education -- Basic Grants to States	84.048	3710002-18	1,057
Total Career and Technical Education -- Basic Grants to States			<u>3,597</u>
Gaining Early Awareness and Readiness for Undergraduate Programs			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	614E	3,497
Total Gaining Early Awareness and Readiness for Undergraduate Programs			<u>3,497</u>

The accompanying notes are an integral part of this schedule

FRANKFORT INDEPENDENT
Schedule of Expenditures of Federal Awards By Grant
For the Year Ended June 30, 2019

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Name of Grant - Grant ID No.</i>	<i>Federal Expenditures(\$)</i>
Rural Education			
Rural Education	84.358	3140002-18	\$4,377
Total Rural Education			<u>4,377</u>
English Language Acquisition State Grants			
English Language Acquisition State Grants	84.365	3300002-17	1,556
English Language Acquisition State Grants	84.365	3300002-18	1,095
Total English Language Acquisition State Grants			<u>2,651</u>
Teacher Quality			
Teacher Quality	84.367	3230002-18	44,299
Teacher Quality	84.367	3230002-17	222
Total Teacher Quality			<u>44,521</u>
Student Support and Academic Enrichment Program			
Student Support and Academic Enrichment Program	84.424	3420002-18	6,702
Student Support and Academic Enrichment Program	84.424	3420002-17	10,000
Total Student Support and Academic Enrichment Program			<u>16,702</u>
Total United States Department of Education			<u><u>809,179</u></u>
Total Expenditures of Federal Awards			<u><u>\$1,514,699</u></u>

The accompanying notes are an integral part of this schedule

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019**

NOTE 1- BASIS OF PRESENTATION

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

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Frankfort Independent School District did not elect to use the 10% de minimus indirect cost rate.

NOTE 3 – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. For the year ended June 30, 2019, the District received food commodities totaling \$29,205.

SUMMERS, MCCRARY & SPARKS, P.S.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:

AMERICAN INSTITUTE
OF CERTIFIED PUBLIC ACCOUNTANTS

KENTUCKY SOCIETY
OF CERTIFIED PUBLIC ACCOUNTANTS

PRIVATE COMPANIES
PRACTICE SECTION OF THE AMERICAN INSTITUTE
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LAURENCE T. SUMMERS
1961-1992

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

To the Kentucky State Committee for School District Audits
Members of the Board of Education
Frankfort Independent School District
Frankfort, KY 40601

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Frankfort Independent School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Frankfort Independent School District's basic financial statements, and have issued our report thereon dated November 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Frankfort Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Frankfort Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Frankfort Independent School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Frankfort Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2019-001.

We noted certain matters that we reported to management for the District in a separate letter dated November 14, 2019.

District's Response to Finding

The District's response to the finding 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 the financial statements and, accordingly, we express no opinion on it.

In addition, the item mentioned above was an instance of noncompliance with specific state statutes or regulations identified in the *Kentucky Public School District's Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits.

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.

Summers, McCrary & Sparks, PSC

Lexington, KY
November 14, 2019

SUMMERS, MCCRARY & SPARKS, P.S.C.
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Kentucky State Committee for School District Audits
Members for the Board of Education
Frankfort Independent School District
Frankfort, KY 40601

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Frankfort Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School District's Audit Contract and Requirements. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Frankfort Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Frankfort Independent 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 Frankfort Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Frankfort Independent School District's internal control over compliance.

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

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

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

Summers, McCrary & Sparks, PSC

Lexington, KY
November 14, 2019

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unmodified

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Significant deficiencies identified
that are not considered to be material
weakness? yes X none reported

Noncompliance material to financial
statements noted? X yes no

Federal Awards

Internal control over majority programs:

Material weakness(es) identified? yes X no

Significant deficiencies identified
that are not considered to be material
weakness(es)? yes X none reported

Type of auditor's report issued on compliance for the major programs - unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.558, 10.559	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? X yes no

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

2019-001 Publication

Condition: District did not publish the budget in the newspaper.

Criteria: School district budget – KRS 424.250.

Cause: The district did not publish the budget.

Effect: Noncompliance with Kentucky Revised Statutes.

Recommendation: At the same time copies of the budget are filed with the clerk of the tax levying authority for the district, the budget should be published in a newspaper.

Views of Responsible Officials and Planned Corrective Actions: This item has been noted. The Finance Officer will familiarize himself with this requirement to ensure Publication (as directed by KDE) in the future.

Section III – Federal Award Findings and Questioned Costs

There were no findings this year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

2018-001 Technology Plan

Condition: The District did not have a Technology Plan in place for FY18.

Criteria: Per KRS 157.650-.660, expenditures from the technology fund must be consistent with the District's approved Technology Plan.

Cause: The District did not approve a Technology Plan for FY18.

Effect: Noncompliance with Kentucky Revised Statutes.

Recommendation: Develop a strategic Technology Plan that spans at least one but no more than three years and have been approved by KDE.

Views of Responsible Officials and Planned Corrective Actions:

The District had a new technology director who was unaware the previously Technology Plan had expired and an approved Technology Plan was not in place. The District has since approved a Technology Plan for FY19 and subsequent years.

Current Status: The recommendation was adopted during the current year. No similar findings were noted in the 2019 audit.

2018-002 Data Security and Breach Notification Best Practice Guide

Condition: The District could not provide documentation the Data Security and Breach Notification Best Practice Guide was conducted and results presented to the Board by August 31, 2017.

Criteria: Per KRS 61.931, KRS 61.932 and KRS 61.993, the District is to conduct and present its finding per the Data Security and Breach notification Best Practice Guide. Per the District's Records Management Policy 01.61, the District is to maintain documentation that this process was completed.

Cause: The District did not follow its' Records Management Policy 01.61.

Effect: Noncompliance with Kentucky Revised Statutes.

Recommendation: Maintain documentation that the board conducted and presented its results of the Data Security and Breach Notification Best Practice Guide.

Views of Responsible Officials and Planned Corrective Actions:

The District will conduct and provide results of the Data Security and Breach Notification Best Practice Guide as required by KRS 61.931, KRS 61.932 and KRS 61.933 as soon as practical in 2019-2019 and by August 31 of subsequent years.

Current Status: The recommendation was adopted during the current year. No similar findings were noted in the 2019 audit.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Section III – Federal Award Findings and Questioned Costs

No findings in the prior year.

SUMMERS, MCCRARY & SPARKS, P.S.C.

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1961-1992

Members of the Board of Education
Frankfort Independent School District
Frankfort, Kentucky 40601

In planning and performing our audit of the financial statements of Frankfort Independent School District for the year ended June 30, 2019, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 14, 2019 on the financial statements of the Frankfort Independent School District

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

Respectfully,

Summers, McCrary & Sparks, PSC

Lexington, KY
November 14, 2019

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

BOARD

Comment: During our review of cash disbursements we noted ten purchase orders missing and one was dated after the purchase was made. We recommend management ensures every expense has a purchase order approved, for an amount equal to or greater than the actual expense, prior to incurring each expense.

Response: The district is continuing to take steps to improve our purchase order process and the understanding of the necessity for properly approved PO's prior to the purchase of materials and services. This is being done through training and the planned implementation of additional software controls.

ACTIVITY FUNDS

Frankfort Independent High School

Comment: During our review of the AFR we noted two accounts that did not have activity during the preceding twelve months. We recommend the bookkeeper and Principal review the "Inactive Account Balances" section of the "Redbook", which states an activity account will be considered inactive if there has been no activity during the preceding twelve months. When an account has become inactive, its funds need to be transferred to an account designated in writing by the student organization or the funds shall be transferred to the school activity general account.

Response: Finance Officer went over the "Inactive Account Balance" section of the Redbook with the Principal and bookkeeper. Training will be provided on an ongoing basis with regard to "Inactive Account Balances". This has been noted, currently inactive accounts will be closed to the general account. In the future all accounts will be monitored for activity and closed when appropriate.

Comment: During our review of the AFR we noted three accounts that ended the year with a negative balance. We recommend the bookkeeper review the "Account Balances" section of the "Redbook", which states individual school activity accounts shall not end the fiscal year with a negative balance. If an activity account ends the year with a negative balance, then the general activity fund must cover the deficit by June 30.

Response: Finance Officer went over the "Account Balances" section of the Redbook with the Principal and bookkeeper. Training will be provided on an ongoing basis with regard to "Account Balances". This has been noted, in the future all accounts will be monitored for negative balances at year-end and deficits covered by the general activity fund.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

Comment: During our review of Accounts Receivable and Account Payable we found multiple unrecorded accounts receivable and accounts payable that were not listed on Form F-SA-15B. We recommend the bookkeeper review the "Monthly Reports" section of the "Redbook", which defines what a receivable and payable is, and states they should be listed on Form-SA-15B.

Response: Finance Officer went over the "Monthly Reports" section of the Redbook regarding accounts payable and accounts receivable with the bookkeeper. Training will be provided on an ongoing basis with regard to the proper recording of accounts payable and accounts receivable.

Comment: During our review of cash we noted the interest earned on the CD, the activity fund holds, had not been recorded for the year. We recommend the bookkeeper record all interest income during the period the interest was earned.

Response: This has been noted. Finance Officer went over the need to record interest on the CD on a regular, ongoing basis to ensure accurate, timely records. Training will be provided on an ongoing basis with regard to the necessity for accurate and timely record keeping.

Comment: During our review of cash receipts we found multiple instances of the students not signing their names on the multiple receipt form. We recommend the bookkeeper review the "Receipts" section of the "Redbook", which states students third grade and above must sign the multiple receipt form.

Response: Finance Officer went over the "Receipts" section of the Redbook with the bookkeeper and training will be provided on an ongoing basis with regard to the signature requirements for the multiple receipt form.

Comment: During our procedures we found the Principal's Combined Budget was not completed for the following school year. We recommend the Principal review the "Budgets" section of the "Redbook", which states the Principal shall prepare the Principal's Combining Budget (Form F-SA-3) and that it is due to the district finance officer by May 15.

Response: Finance Officer went over the "Budgets" section of the Redbook with the Principal and bookkeeper. Training will be provided on an ongoing basis with regard to the requirements related to Principal's Combined Budget.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

Comment: During our review of ticket sales we noted multiple Requisition and Report of Ticket Sales (Form F-SA-1) forms were not completed properly. We recommend the bookkeeper review the Requisition and Report of Ticket Sales (Form F-SA-1) form to ensure they are familiar with all the parts of the form that need to be completed.

Response: Finance Officer went over the Requisition and Report of Ticket Sales (Form F-SA-1) form from the Redbook with the bookkeeper to ensure they are familiar with all the parts of the form that need to be completed. Training will be provided on an ongoing basis with regard to the requirements related to Requisition and Report of Ticket Sales (Form F-SA-1) form.

Capital City Preparatory

Comment: During our review of the AFR, we noted the activity fund to be dormant. We recommend the school district review the "inactive Account Section" of the "Redbook" which states, "an activity account will be considered inactive if there has been no activity within the preceding 12 months." These funds should be transferred to Frankfort Independent High School, where the Capitol City Students now attend.

Response: Finance Officer went over the "Inactive Account Balance" section of the Redbook with the Principal and bookkeeper. Training will be provided on an ongoing basis with regard to "Inactive Account Balances". CCP/REP Activity Funds will be transferred to Frankfort High School Activity and recorded as a separate Activity Account

Second Street Elementary School

Comment: During our review of cash receipts, we found multiple instances of funds not being deposited by the bookkeeper in a timely manner. We recommend the bookkeeper review the "Receipts" section of the Redbook which states funds should be deposited daily when receipts are greater than or equal to \$100.

Response: Finance Officer went over the "Receipts" section of the Redbook with the bookkeeper and training will be provided on an ongoing basis with regard to the requirement to deposit daily when receipts are greater than or equal to \$100.

Comment: During our review of cash receipts we found multiple instances of students not signing their names on the multiple receipt form. We recommend the bookkeeper review the "Receipts" section of the "Redbook", which states students third grade and above must sign the multiple receipt form.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

Response: Finance Officer went over the "Receipts" section of the Redbook with the bookkeeper and training will be provided on an ongoing basis with regard to the signature requirements for the multiple receipt form.

Comment: During our review of cash disbursement we found multiple instances of invoices being postdated by the purchase order. We recommend the bookkeeper and Principal review the "Purchasing" section of the "Redbook", which states the purchase order shall be prepared and approved by the sponsor and principal before the purchase is obligated.

Response: Finance Officer went over the "Purchasing" section of the Redbook with the Principal and bookkeeper. Training will be provided on an ongoing basis with regard to the requirements related to proper issuance and use of purchase orders.

STATUS OF PRIOR YEAR COMMENTS

BOARD

- Previously, during our review of cash disbursements we noted six purchase orders missing, two were dated after the purchase was made, and one approved for less than the actual purchase amount. We recommend management ensures every expense has a purchase order approved, for an amount equal to or greater than the actual expense, prior to incurring each expense. A similar finding was noted in the current year.
- Previously, during our review of payroll disbursements we noted one employee was not getting paid per the board approved salary schedule. We recommend management ensures every employee is paid in accordance with the board approved salary schedule. No similar finding was noted in the current year.
- Previously it was noted that the District is reflecting transfers between the grant projects in Fund 2 as an expenditure, instead recording actual expenses for the project. The effect of this method is doubling up the total expenses for the grant projects in Fund 2. This method is problematic when the District determines the federal expenditures for the Schedule of Federal Awards. We recommend all expenses for each federal program be reflected in their own project budget reports so that accurate federal expenses can be reported to the State and Federal agencies. No similar finding was noted in the current year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

ACTIVITY FUNDS

Frankfort Independent High School

- Previously, during our review of the AFR we noted six accounts that did not have activity during the preceding 12 months. We recommend the bookkeeper and Principal review the “Inactive Account Balances” section of the “Redbook”, which states an activity account will be considered inactive if there has been no activity during the preceding 12 months. When an account has become inactive, its funds should be transferred to an account designated in writing by the student organization or the funds shall be transferred to the school activity general account. A similar finding was noted in the current year.
- Previously, during our review of the AFR we noted one account that ended the year with a negative balance. We recommend the bookkeeper review the “Account Balances” section of the “Redbook”, which states individual school activity accounts shall not end the fiscal year with a negative balance. If an activity account ends the year with a negative balance, then the general activity fund must cover the deficit by June 30. A similar finding was noted in the current year.
- Previously, during our review of Accounts Receivable and Account Payable we found multiple unrecorded accounts receivable and accounts payable that were not listed on Form F-SA-15B. We recommend the bookkeeper review the “Monthly Reports” section of the “Redbook”, which defines what a receivable and payable is, and states they should be listed on Form-SA-15B. A similar finding was noted in the current year.
- Previously, during our review of cash we noted the interest earned on the CD, the activity fund holds, had not been recorded for the year. We recommend the bookkeeper record all interest income during the period the interest was earned. A similar finding was noted in the current year.
- Previously, during our review of cash receipts we found multiple instances of the students not signing their names on the multiple receipt form. We recommend the bookkeeper review the “Receipts” section of the “Redbook”, which states students third grade and above must sign the multiple receipt form. A similar finding was noted in the current year.
- Previously, during our procedures we found the Principal’s Combined Budget was not completed for the following school year. We recommend the Principal review the “Budgets” section of the “Redbook”, which states the Principal shall prepare the Principal’s Combining Budget (Form F-SA-3) and that it is due to the district finance officer by May 15. A similar finding was noted in the current year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

Capital City Preparatory

- Previously, during our review of cash we found the June 30, 2019 bank reconciliation was not completed. We recommend the bookkeeper review the “Bank Statement Reconciliation” section of the “Redbook”, which states upon receipt of the monthly student activity fund account bank statement, the statement balance is to be reconciled to the monthly report. No similar finding was noted in the current year.
- Previously, during our review of cash receipts we found the bookkeeper was not using deposit slips to deposit funds into the bank account. We recommend the bookkeeper review the “Receipts” section of the “Redbook”, which states the school treasurer shall prepare deposit slips. No similar finding was noted in the current year.
- Previously, during our review of cash receipts we found pre-numbered receipts were not being used. We recommend the bookkeeper review the “Receipts” section of the “Redbook”, which states a pre-numbered receipt shall be issued to the payer immediately any time money is received. No similar finding was noted in the current year.
- Previously, during our review of cash disbursement we found multiple instances of a purchase order not being approved by the Principal, and one instance of a purchase order not being completed. We recommend the bookkeeper and Principal review the “Purchasing” section of the “Redbook”, which states the purchase order shall be prepared and approved by the sponsor and principal before the purchase is obligated. No similar finding was noted in the current year.
- Previously, during our review of cash disbursement we noted one instance of an approval signature and date not recorded on the invoice. We recommend the bookkeeper review the “Expenditures” section of the “Redbook”, which states the vendor invoice must have the confirmation signature of the person receiving the foods or services before the payment process can continue, and that the check number and date paid shall be noted on the invoice. No similar finding was noted in the current year.
- Previously, during our review of cash disbursements, we noted a reimbursement to a teacher was not done on the Expense Report (Form F-SA-9). We recommend the bookkeeper review the “Cash Advances and Travel Reimbursement” section of the “Redbook”, which states expense reimbursements shall be supported by the Expense Report (Form F-SA-9). No similar finding was noted in the current year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

Second Street Elementary School

- Previously, during our review of cash receipts, we found multiple instances of funds not being deposited by the bookkeeper in a timely manner. We recommend the bookkeeper review the “Receipts” section of the Redbook which states funds should be deposited daily when receipts are greater than or equal to \$100. A similar finding was noted in the current year.
- Previously, during our review of cash receipts we found multiple instances of students not signing their names on the multiple receipt form. We recommend the bookkeeper review the “Receipts” section of the “Redbook”, which states students third grade and above must sign the multiple receipt form. A similar finding was noted in the current year.
- Previously, during our review of ticket sales we noted multiple Requisition and Report of Ticket Sales (Form F-SA-1) forms were not completed properly. We recommend the bookkeeper review the Requisition and Report of Ticket Sales (Form F-SA-1) form to ensure they are familiar with all the parts of the form that need to be completed. A similar finding was noted in the current year.
- Previously, during our review of concession we noted the Inventory Control Worksheet (Form F-SA-5) was not completed. We recommend the bookkeeper review the “Fundraising” section of the “Redbook”, which states fundraiser activities such as concessions, bookstores, pencil machines, and other activities involving inventory for sale shall use the Inventory Control Worksheet (Form F-SA-5). No similar finding was noted in the current year.
- Previously, during our review of cash disbursements we noted multiple instances of the check number and date not recorded on the invoice. We recommend the bookkeeper review the “Expenditures” section of the “Redbook”, which states the check number and date paid shall be noted on the invoice. No similar finding was noted in the current year.
- Previously, during our review of cash disbursements we noted multiple instances of a payment being made without any invoice, receipt, or standard invoice to substantiate the disbursement. We recommend the bookkeeper review the “Expenditures” section of the “Redbook”, which states the school treasurer shall match up the purchase order, shipping document, and vendor or standard invoice. Any problems or discrepancies shall be resolved before a check is written. No similar finding was noted in the current year.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
JUNE 30, 2019**

- Previously, during our review of cash disbursements, we noted a reimbursement to a teacher was not done on the Expense Report (Form F-SA-9). We recommend the bookkeeper review the “Cash Advances and Travel Reimbursement” section of the “Redbook”, which states expense reimbursements shall be supported by the Expense Report (Form F-SA-9). No similar finding was noted in the current year.
- Previously, during our review of account transfers we noted multiple Transfer Forms (Form F-SA-10) were not signed by the sponsor, or completed properly. We recommend the bookkeeper review the “Transfers” section of the “Redbook”, which states the sponsor of the remitting activity account and the principal shall sign the transfer form. We also recommend the bookkeeper review the Transfer Form (F-SA-10) to ensure they are familiar with all the parts of the form that need to be completed. No similar finding was noted in the current year.
- Previously, during our review of cash we found each month’s bank reconciliation was not completed until June 2019, and the June 2019 bank reconciliation was not completed at all. We recommend the bookkeeper review the “Bank Statement Reconciliation” section of the “Redbook”, which states upon receipt of the monthly student activity fund account bank statement, the statement balance is to be reconciled to the monthly report. No similar finding was noted in the current year.
- Previously, during our review of the AFR we noted two accounts ended the year with a negative balance. We recommend the bookkeeper review the “Account Balances” section of the “Redbook”, which states individual school activity accounts shall not end the fiscal year with a negative balance. If an activity account ends the year with a negative balance, then the general activity fund must cover the deficit by June 30. A similar finding was noted in the current year.
- Previously, during our procedures we found the Principal’s Combined Budget was not completed for the following school year. We recommend the Principal review the “Budgets” section of the “Redbook”, which states the Principal shall prepare the Principal’s Combining Budget (Form F-SA-3) and that it is due to the district finance officer by May 15. A similar finding was noted in the current year.