

HANCOCK COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2019

HANCOCK COUNTY SCHOOL DISTRICT TABLE OF CONTENTS

Financial Section	
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Proprietary Fund Financial Statements:	
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position – Fiduciary Funds	21
Notes to the Basic Financial Statements	22
Required Supplementary Information	
Statement of Budgetary Comparison – General Fund	58
Statement of Budgetary Comparison – Special Revenue Fund	59
Schedule of the District’s Proportionate Share of the Collective Net Pension Liability – Kentucky Teachers’ Retirement System Pension Plan	60
Schedule of the District’s Pension Contributions – Kentucky Teachers’ Retirement System Pension Plan	61
Schedule of the District’s Proportionate Share of the Collective Net OPEB Liability – Kentucky Teachers’ Retirement System Medical Insurance Plan	62
Schedule of the District’s OPEB Contributions – Kentucky Teachers’ Retirement System Medical Insurance Plan	63
Schedule of the District’s Proportionate Share of the Collective Net OPEB Liability – Kentucky Teachers’ Retirement System Medical Insurance Plan	64
Schedule of the District’s OPEB Contributions – Kentucky Teachers’ Retirement System Life Insurance Plan	65
Schedule of the District’s Proportionate Share of the Collective Net Pension Liability – County Employees’ Retirement System Pension Plan	66
Schedule of the District’s Pension Contributions – County Employees’ Retirement System Pension Plan	67
Schedule of the District’s Proportionate Share of the Collective Net OPEB Liability – County Employees’ Retirement System OPEB Plan	68
Schedule of the District’s OPEB Contributions – County Employees Retirement System OPEB Plan	69
Notes to the Required Supplementary Information	70

**HANCOCK COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS**

Supplementary Information

Combining Balance Sheet - Non-Major Governmental Funds	72
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	73
Statement of Receipts, Disbursements, and Fund Balance – Elementary and Middle Schools – Activity Funds	74
Statement of Receipts, Disbursements, and Fund Balance – Hancock County High School – Activity Funds	75



Independent Auditor's Report

Members of the Board of Education
Hancock County School District
Hancock, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hancock County 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, maintenance, and implementation of internal control relevant to the fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditors' Contract*. 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 auditors' 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 Hancock County School District as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10, budgetary comparison information on pages 58 and 59, and schedules of the District's proportionate share of the collective net retirement plan liabilities and contributions to the retirement plans, and other post-employment benefits on pages 60 through 69 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparation of the supplemental 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 Hancock County School District's basic financial statements. The combining and activity fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and activity fund financial statements on pages 72 through 75 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 activity 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 Hancock County School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hancock County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Owensboro, Kentucky
November 14, 2019

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Hancock County Schools

83 State Route 3543, Hawesville, Kentucky 42348

(270) 927-6914 Fax: (270) 927-6916

<http://www.hancock.kyschools.us>

As management of the Hancock County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage our readers to consider information presented here in conjunction with additional information located within the body of the audit report.

Financial Highlights:

- The beginning Governmental Fund balance for the District was \$4,495,910. The ending fund balance was \$6,961,798 which was an increase of \$2,465,888. The increase was due to the unspent proceeds of the 2018 Bond Issue.
- The District is in good financial condition as it has been able to withstand the financial pressures of a very tight state education budget over the past several years without impairing the educational programs or facilities maintenance requirements for the District.
- The District's current assets increased by \$2,585,429 during the year, while current liabilities increased by \$165,292 resulting in a current ratio of 4.56, which is indicative of the District's solid financial position and operating efficiency.
- The District continues to make significant investments in the facilities of the District, as evidenced by additions to capital of \$3.2 million (at cost).

Overview of the Financial Statements

Management's 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 the readers with a broad overview of the District's finances, in a manner similar to a private sector business.

- The *Statement of Net Position* presents information on all of the District's assets and liabilities, and deferred outflows/inflows of resources, 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.
- 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 if the related cash transactions. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Both of these District wide statements are divided into two types of activities:

- *Government Activities* - 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. The fixed assets and related debt that are also supported by taxes and intergovernmental revenues are reported in this section.
- *Business-Type Activities* - These services are provided on a charge for goods and services basis to recover all of the expenses of the goods or services provided. The types of activities reported in this category are the food service operations, child care centers, and adult education courses. These activities are funded through fees charged and supported by federal grants and federal commodities used in the food service operations.

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 system. 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, and fiduciary funds.

- *Governmental Funds* - Most of the School District's activities are reported in the governmental funds that include: general fund, special revenue (grants), capital outlay, building fund (FSPK), construction fund, District 21 fund, and debt service fund. These funds are reported using an accounting method referred to as modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The government fund statements provide a detailed short-term view of the School District's general government operations and basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the financial statements provided.
- *Proprietary Funds* - The proprietary funds include the food service, child care centers, and adult education programs found in the business type activity funds. These funds utilize the same basis of accounting as business type activities, therefore, the statements for the proprietary fund will correspond to the statement of net assets.
- *Fiduciary Funds* - The fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The District's fiduciary funds, referred to as "activity funds" are maintained at the school level.
- *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 financial statements. These notes may better explain data found in the financial statements, or provide additional information not found in the financial statements provided

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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) less any related debt used to acquire those assets, which is outstanding at year end.

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 those capital assets.

Net Financial Position For the Fiscal Year Ended June 30, 2019

	June 30, 2019	June 30, 2018	Change
Current assets	\$ 7,780,620	\$ 5,195,191	\$ 2,585,429
Capital or non-current assets	20,553,502	18,291,348	2,262,154
Deferred outflows	2,853,741	4,553,671	(1,699,930)
Total Assets and Deferred Outflows	31,187,863	28,040,210	3,147,653
Current liabilities	\$ 1,703,913	\$ 1,538,621	\$ 165,292
Non-current liabilities	26,863,032	23,399,263	3,463,769
Deferred inflows	1,052,259	1,011,073	41,186
Total Liabilities and Deferred Inflows	29,619,204	25,948,957	3,670,247
Net Investment in capital assets	5,351,510	6,945,038	(1,593,528)
Restricted	2,693,301	24,702	2,668,599
Unassigned	(6,476,152)	(4,878,487)	(1,597,665)
Total Net Financial Position	\$ 1,568,659	\$ 2,091,253	\$ (522,594)

Total net assets and deferred outflows exceeded total liabilities and deferred inflows by \$1,568,659 a decrease of \$522,594, after a prior period adjustment of \$713,493.

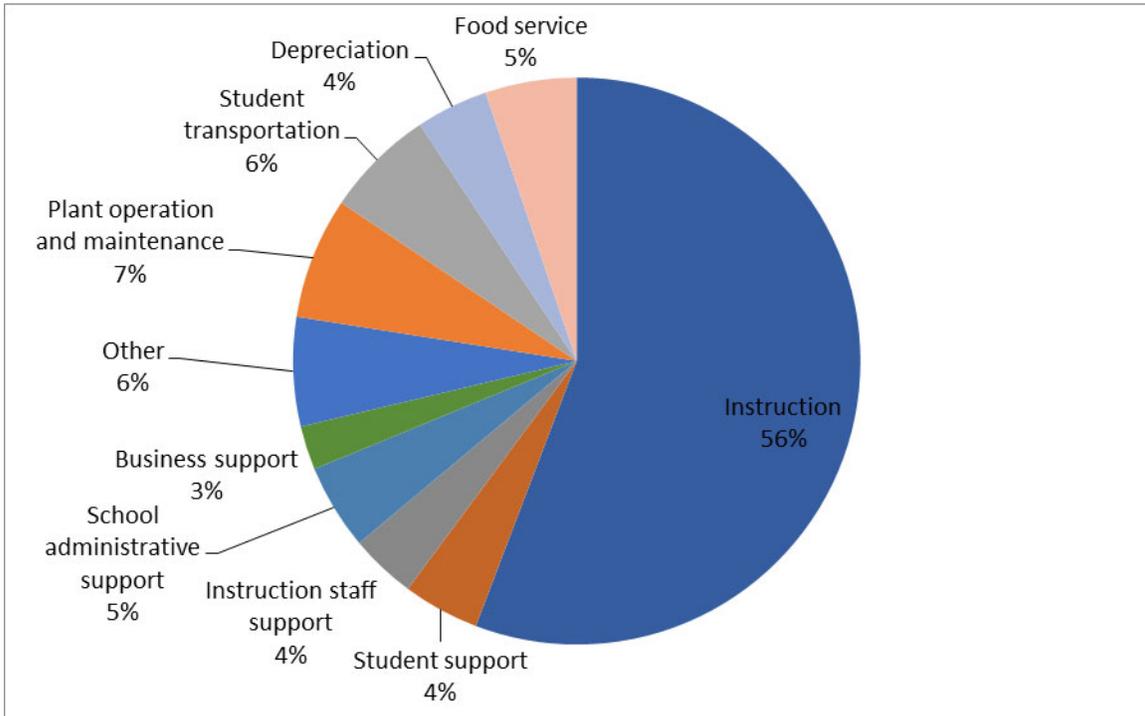
Current assets increased by \$2,585,429 during the fiscal year and capital assets increased by \$2,262,154. Total expenditures for capital assets during the year were \$3,168,920, while depreciation of assets totaled \$871,844. The net increase in the net pension liability and other post-employment benefits liabilities and issuance of a new bond resulted in a net increase in long-term liabilities of \$3,463,769. All of these factors resulted in a decrease in net position of \$522,594 for the year ended June 30, 2019.

The District's total governmental fund revenues were \$20,348,501 and the total expenditures were \$22,835,107, and other financing sources net was \$4,952,494 which resulted in an increase in fund balance of \$2,465,888.

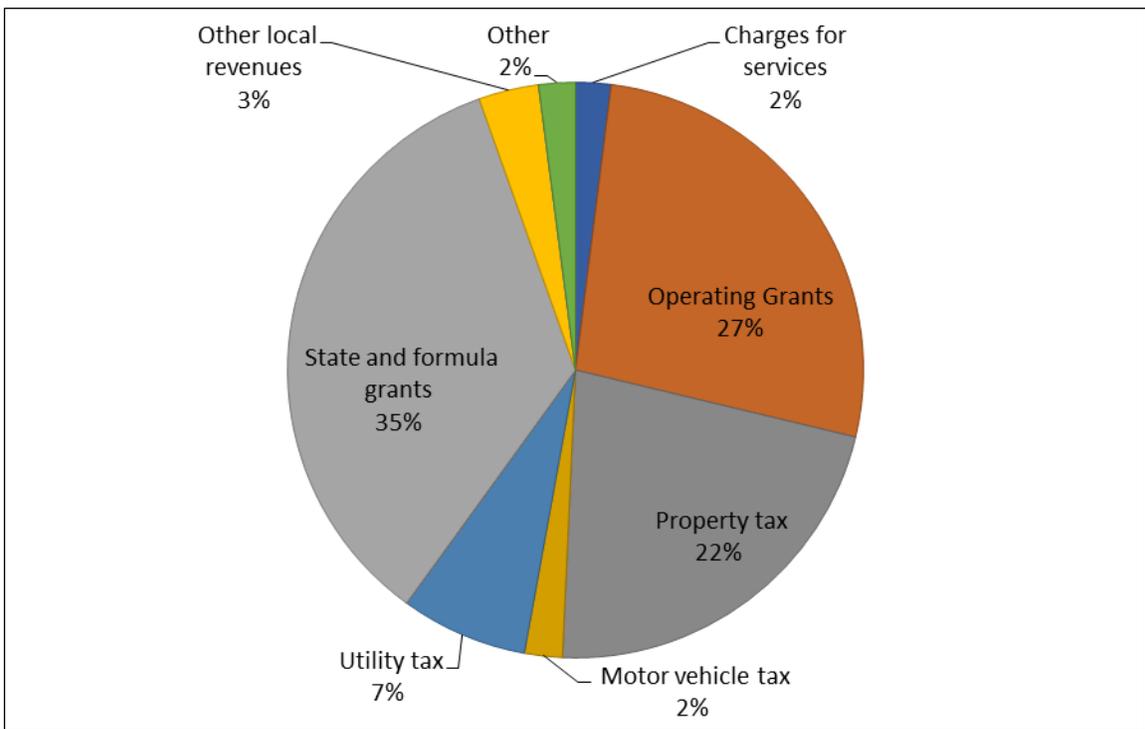
- State revenues and formula grants accounted for 35% of the total revenues while local taxes accounted for 22 %.
- Expenditures totaled \$22,665,884, with \$14,976,827 or 66% of the total being expended towards student instruction and support.

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Expenditures:



Revenues:



**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Governmental Fund Highlights

- Total General Fund revenues for the year were \$17.3 million, with \$9.8 million coming from state revenues, and the remaining \$7.5 million from local sources.
- Total General Fund Expenditures were \$16.7 million, with instruction costs being the largest area at \$10.2 million.
- The net excess of expenditures over revenues for all governmental funds was \$2.5 million and other financing sources, most notably from bond issue of \$4.9 million, resulting in an increase in the governmental fund balance of \$2.5 million for the 2019 fiscal year.
- Special Revenue fund expenditures for the year were \$1.4 million. Two major sources of revenues for this fund were state grants totaling \$.6 million and federal grants totaling \$.7 million.
- Construction Fund expenditures included \$3.1 million for facilities acquisition and construction and Other Governmental Funds included debt service payments of \$1.5 million.
- Total ending fund balances as of June 30, 2019 were \$4.3 million in the General Fund and \$2.7 million in the other governmental funds for a total of \$7.0 million.

Commentary on General Fund Budgetary Comparisons

- Actual revenues and expenditures both include \$5.0 million of on behalf payments. These represent payments for employee benefits paid at the state level on behalf of the Hancock County School District.
- Total revenues in relation to budgeted amounts were \$6.2 million favorable. The major revenue line items exceeding amounts budgeted were property taxes from all sources and other local revenues.
- Total expenditures were \$16.8 million, with expenditures in relation to budgeted amounts being \$2 million unfavorable. The budget included a contingency of \$.4 million with no expenditures, actual instruction expenditures were \$2.7 million more than budgeted.

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Capital Assets:

The following is a summary of capital asset activity for the year ended June 30, 2019:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<u>GOVERNMENTAL ACTIVITIES:</u>				
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,170,542	-	-	1,170,542
Building and improvements	26,156,259	392,244	-	26,548,503
Technology	2,448,071	-	-	2,448,071
Vehicles	2,320,840	124,533	-	2,445,373
General equipment	1,034,518	40,314	-	1,074,832
Other	1,204	-	-	1,204
Construction in progress	-	2,611,829	-	2,611,829
Totals at historical cost	33,417,241	3,168,920	-	36,586,161
Land improvements	(813,260)	(75,644)	-	(888,904)
Building and improvements	(9,458,593)	(554,723)	-	(10,013,316)
Technology	(2,307,309)	(80,326)	-	(2,387,635)
Vehicles	(1,822,413)	(106,631)	-	(1,929,044)
General equipment	(857,151)	(52,520)	-	(909,671)
Other	(772)	-	-	(772)
Less: accumulated depreciation	(15,259,498)	(869,844)	-	(16,129,342)
Governmental activities, net	\$ 18,157,743	\$ 2,299,076	\$ -	\$ 20,456,819
	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019
<u>BUSINESS TYPE ACTIVITIES:</u>				
Food service equipment	710,445	-	-	710,445
Community education equipment	8,596	-	-	8,596
Totals at historical cost	719,041	-	-	719,041
Food service equipment	(578,797)	(34,965)	-	(613,762)
Community education equipment	(6,639)	(1,957)	-	(8,596)
Less: accumulated depreciation	(585,436)	(36,922)	-	(622,358)
Business type activities, net	\$ 133,605	\$ (36,922)	\$ -	\$ 96,683

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Long-Term Debt Activity:

The following is a summary of long-term debt activity for the year ended June 30, 2019:

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
School Building					
Revenue Bonds	\$ 11,321,516	\$ 5,090,000	\$(1,181,516)	\$ 15,230,000	\$ 1,175,000
<u>Deferred amounts:</u>					
Discounts	(33,492)	(101,385)	8,510	(126,367)	-
Premiums	107,080	-	(8,721)	98,359	
	<u>73,588</u>	<u>(101,385)</u>	<u>(211)</u>	<u>(28,008)</u>	<u>-</u>
 Total governmental bonds payable	 <u>\$ 11,395,104</u>	 <u>\$ 4,988,615</u>	 <u>\$(1,181,727)</u>	 <u>\$ 15,201,992</u>	 <u>\$ 1,175,000</u>

Future Budgetary Considerations

In Kentucky, the public schools operate on a July 1st to June 30th fiscal year, other programs such as some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have at least a 2% contingency. The District adopted a budget for fiscal year 2019-20, with a \$372,751 or 2.4% contingency. However, current economic conditions are of concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction. The District intends to take a conservative approach to expenditures as it has in the previous years.

District Challenges for the Future

Hancock County School District's overall financial status remains in a safe financial position. The District is financially stable, but at risk due to continued, inadequate state funding. As with the current year, transportation costs for students is a significant financial concern now and in the future. State provided funds are being reduced while most components are increasing. The cost of diesel fuel has varied widely over the past four years and continues to be of concern in the future. The costs of bus purchases will continue to increase due to changes in EPA requirements and the need to continue to replace an aging fleet.

The Commonwealth of Kentucky's financial condition, due to a stagnant economy, will have a significant impact on the availability of funds allocated to public education. The school districts have already experienced reductions in funding and allocation of some expenses that were traditionally paid by the state. Since a large percentage of the District's funding is provided by the State sources, the financial outlook for public schools is dependent upon the State's financial condition and budgetary funds. The outlook for the future years is a major concern for the Board and management.

The financial instability in the state pension fund and the rising retirement/pension costs is a financial risk that is facing Hancock County Schools. No additional state funding has been appropriated to offset this rising cost. There is a need for the District to increase local funding to provide additional revenue to offset this mandated expense increase.

**HANCOCK COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Several new programs have been initiated in the past few years that will continue to impact test scores in a positive manner. However, many of the programs, such as full day kindergarten, expanded pre-school programs, and instructional coaches are not funded by the State budget. The District will again be challenged to fund these important educational programs.

Technology continues to be a major focus as we continue towards our 1:1 initiative and the need to keep pace with an ever-changing technological society. The District Technology Plan will help guide the District's technology decisions. We currently have devices for all instructional staff as well as our third through twelfth grades. The plan objectives, expectations, indicators, targets, and action plans are reviewed and modified in order to accommodate technology changes and/or future funding challenges. This articulates our common vision and identifies strategies for the use of technology in developing critical thinking skills that are essential for academic and workplace success.

Report Purpose and Contact Information

This financial report is designed to provide our citizens, taxpayers, and investors and creditors, with a general overview of the Hancock County School District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

Kara Eckles, Director of Finance
Hancock County Schools
83 State Route 3543
Hawesville, Kentucky 42348
Telephone: 270.927.6914 or Electronic Mail: keckels@Hancock.kyschools.us

Hancock County School District
Government-Wide Financial Statements – Statement of Net Position
As of June 30, 2019

	Governmental Activities	Business Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 4,972,037	\$ 372,041	\$ 5,344,078
Investments	1,252,389	-	1,252,389
Inventory	-	30,395	30,395
Accounts receivable:			
Taxes - current	1,153,758	-	1,153,758
Total Current Assets	7,378,184	402,436	7,780,620
Noncurrent Assets:			
Capital assets, net	20,456,819	96,683	20,553,502
Total Assets	27,835,003	499,119	28,334,122
Deferred Outflows of Resources:			
Deferred loss on defeasance of bonds	639,286		639,286
Deferred outflows related to retirement plans	2,214,455	-	2,214,455
Total Deferred Outflows of Resources	2,853,741	-	2,853,741
Total Assets and Deferred Outflows of Resources	\$ 30,688,744	\$ 499,119	\$ 31,187,863
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 203,278	\$ -	\$ 203,278
Unearned revenue	104,760	-	104,760
Current portion of bond obligations	1,175,000	-	1,175,000
Current portion of accrued sick leave	108,348	-	108,348
Interest payable	112,527	-	112,527
Total Current Liabilities	1,703,913	-	1,703,913
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	14,026,992	-	14,026,992
Net pension liability	6,390,983	-	6,390,983
Other postemployment benefits liability	6,231,065	-	6,231,065
Noncurrent portion of accrued sick leave	213,992	-	213,992
Total Noncurrent Liabilities	26,863,032	-	26,863,032
Total Liabilities	28,566,945	-	28,566,945
Deferred Inflows of Resources:			
Deferred inflows related to retirement plans	1,052,259	-	1,052,259
Total Deferred Inflows of Resources	1,052,259	-	1,052,259
Total Liabilities and Deferred Inflows of Resources	\$ 29,619,204	\$ -	\$ 29,619,204
NET POSITION			
Net Investment in capital assets	\$ 5,254,827	\$ 96,683	\$ 5,351,510
Restricted	2,693,301	-	2,693,301
Unrestricted	(6,878,588)	402,436	(6,476,152)
Total Net Position	\$ 1,069,540	\$ 499,119	\$ 1,568,659

The accompanying notes are an integral part of these financial statements.

Hancock County School District
Government-Wide Financial Statements – Statement of Activities
For the fiscal year ended June 30, 2019

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
<u>Governmental Activities:</u>							
Instruction	\$ 11,845,166	\$ 9,260	\$ 1,336,076	\$ -	\$ (10,499,830)	\$ -	\$ (10,499,830)
Support services:							
Student	927,617	-	1,181,126	-	253,509	-	253,509
Instruction staff	927,232	-	178,184	-	(749,048)	-	(749,048)
District administrative	524,689	-	67,724	-	(456,965)	-	(456,965)
School administrative	1,034,302	-	1,073,781	-	39,479	-	39,479
Business	557,716	-	314,491	-	(243,225)	-	(243,225)
Plant operation and maintenance	1,464,155	-	422,469	-	(1,041,686)	-	(1,041,686)
Student transportation	1,327,221	-	404,299	-	(922,922)	-	(922,922)
Facilities acquisition and construction	-	-	-	-	-	-	-
Community service activities	190,264	-	-	-	(190,264)	-	(190,264)
Interest on long-term debt	522,975	-	-	-	(522,975)	-	(522,975)
Depreciation (unallocated)	869,844	-	-	-	(869,844)	-	(869,844)
Total Governmental Services	<u>20,191,181</u>	<u>9,260</u>	<u>4,978,150</u>	<u>-</u>	<u>(15,203,771)</u>	<u>-</u>	<u>(15,203,771)</u>
<u>Business Type Activities:</u>							
Food service	1,126,973	368,780	813,521	-	-	55,328	55,328
Daycare operations	82,080	50,155	-	-	-	(31,925)	(31,925)
Adult education	2,007	274	-	-	-	(1,733)	(1,733)
Total Business Activities	<u>1,211,060</u>	<u>419,209</u>	<u>813,521</u>	<u>-</u>	<u>-</u>	<u>21,670</u>	<u>21,670</u>
Total Activities	<u>\$ 21,402,241</u>	<u>\$ 428,469</u>	<u>\$ 5,791,671</u>	<u>\$ -</u>			<u>\$ (15,182,101)</u>
<u>General Revenues:</u>							
Taxes:							
Property tax				\$ 4,743,147	\$ -	\$ 4,743,147	
Motor vehicle tax				458,339	-	458,339	
Utility tax				1,538,842	-	1,538,842	
Investment earnings				431,190	1,670	432,860	
State and formula grants				7,460,851	-	7,460,851	
Other local revenues				728,722	-	728,722	
Disposal of assets				10,239	-	10,239	
Total General Revenues				<u>15,371,330</u>	<u>1,670</u>	<u>15,373,000</u>	
Change in Net Position				167,559	23,340	190,899	
Prior period adjustment for net pension liability				(713,493)	-	(713,493)	
Net Position - Beginning				1,615,474	475,779	2,091,253	
Net Position - Ending				<u>\$ 1,069,540</u>	<u>\$ 499,119</u>	<u>\$ 1,568,659</u>	

The accompanying notes are an integral part of these financial statements.

**Hancock County School District
Balance Sheet – Governmental Funds
As of June 30, 2019**

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS AND RESOURCES:</u>					
Cash and cash equivalents	\$ 2,316,410	\$ (37,674)	\$ 2,657,427	\$ 35,874	\$ 4,972,037
Investments	1,252,389	-	-	-	1,252,389
Accounts receivable:					
Taxes - current	1,011,324	142,434	-	-	1,153,758
Total Assets and Resources	<u>\$ 4,580,123</u>	<u>\$ 104,760</u>	<u>\$ 2,657,427</u>	<u>\$ 35,874</u>	<u>\$ 7,378,184</u>
<u>LIABILITIES AND FUND BALANCES:</u>					
<u>LIABILITIES:</u>					
Accounts payable	\$ 203,278	\$ -	\$ -	\$ -	\$ 203,278
Current portion of accumulated sick leave	108,348	-	-	-	108,348
Unearned revenue	-	104,760	-	-	104,760
Total Liabilities	<u>311,626</u>	<u>104,760</u>	<u>-</u>	<u>-</u>	<u>416,386</u>
<u>FUND BALANCES:</u>					
Restricted	-	-	2,657,427	35,874	2,693,301
Committed	532,336	-	-	-	532,336
Assigned	65,334	-	-	-	65,334
Unassigned	3,670,827	-	-	-	3,670,827
Total Fund Balances	<u>4,268,497</u>	<u>-</u>	<u>2,657,427</u>	<u>35,874</u>	<u>6,961,798</u>
Total Liabilities and Fund Balances	<u>\$ 4,580,123</u>	<u>\$ 104,760</u>	<u>\$ 2,657,427</u>	<u>\$ 35,874</u>	<u>\$ 7,378,184</u>

The accompanying notes are an integral part of these financial statements.

Hancock County School District
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
As of June 30, 2019

Total fund balance per fund financial statements \$ 6,961,798

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

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.

Gross capital assets	36,586,161	
Accumulated depreciation	<u>(16,129,342)</u>	20,456,819

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position, as follows:

Deferred loss on refunding	639,286	
Net pension liability	(6,390,983)	
Other postemployment benefits liability	(6,231,065)	
Deferred outflows of resources	2,214,455	
Deferred inflows of resources	(1,052,259)	
Long-term debt	(15,201,992)	
Long-term portion sick leave accrual	(213,992)	
Accrued interest expense	<u>(112,527)</u>	<u>(26,349,077)</u>

Net position for governmental activities \$ 1,069,540

The accompanying notes are an integral part of these financial statements.

Hancock County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Funds
As of June 30, 2019

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>					
From local sources:					
Taxes:					
Property	\$ 4,743,147	\$ -	\$ -	\$ -	\$ 4,743,147
Motor vehicle and watercraft	458,339	-	-	-	458,339
Utilities	1,538,842	-	-	-	1,538,842
Tuition and fees	9,260	-	-	-	9,260
Earnings on investments	-	-	-	431,190	431,190
Other local revenues	649,858	36,968	-	41,896	728,722
Intergovernmental - intermediate	43,508	-	-	-	43,508
Intergovernmental - state	9,868,465	653,441	-	1,160,719	11,682,625
Intergovernmental - indirect federal	-	682,635	-	-	682,635
Intergovernmental - direct federal	30,233	-	-	-	30,233
	<u>17,341,652</u>	<u>1,373,044</u>	<u>-</u>	<u>1,633,805</u>	<u>20,348,501</u>
Total Revenues					
<u>EXPENDITURES:</u>					
<u>Current:</u>					
Instruction	10,235,494	814,896	-	6,022	11,056,412
Support services:					
Student	845,729	79,766	-	-	925,495
Instruction staff	788,910	245,330	-	-	1,034,240
District administrative	495,924	28,765	-	-	524,689
School administrative	1,034,302	-	-	-	1,034,302
Business	557,716	-	-	-	557,716
Plant operation and maintenance	1,515,999	-	-	-	1,515,999
Student transportation	1,268,058	59,163	-	-	1,327,221
Facilities acquisition and construction	-	-	3,119,530	-	3,119,530
Community service activities	13,600	176,664	-	-	190,264
Food service operation	13,196	-	-	-	13,196
Debt service	-	-	-	1,536,043	1,536,043
	<u>16,768,928</u>	<u>1,404,584</u>	<u>3,119,530</u>	<u>1,542,065</u>	<u>22,835,107</u>
Total Expenditures					
Excess (Deficit) of Revenues Over Expenditures	<u>572,724</u>	<u>(31,540)</u>	<u>(3,119,530)</u>	<u>91,740</u>	<u>(2,486,606)</u>
<u>OTHER FINANCING SOURCES (USES):</u>					
Transfers in	-	31,540	810,000	720,626	1,562,166
Transfers out	(785,674)	-	-	(776,492)	(1,562,166)
Bond principal proceeds	-	-	4,942,255	-	4,942,255
Disposal of assets	10,239	-	-	-	10,239
	<u>(775,435)</u>	<u>31,540</u>	<u>5,752,255</u>	<u>(55,866)</u>	<u>4,952,494</u>
Total Other Financing Sources (Uses)					
Change in fund balance	(202,711)	-	2,632,725	35,874	2,465,888
Fund Balance, Beginning of Year	<u>4,471,208</u>	<u>-</u>	<u>24,702</u>	<u>-</u>	<u>4,495,910</u>
Fund Balance, End of Year	<u>\$ 4,268,497</u>	<u>\$ -</u>	<u>\$ 2,657,427</u>	<u>\$ 35,874</u>	<u>\$ 6,961,798</u>

The accompanying notes are an integral part of these financial statements.

Hancock County School District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance
to the Statement of Activities
As of June 30, 2019

Net change in total fund balances per fund financial statements		\$ 2,465,888
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources but they are presented as assets in the statement of financial position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.		
Depreciation expense	\$ (869,844)	
Capital outlay	<u>3,168,920</u>	2,299,076
Bond issue proceeds, which are reported as other sources of funds in the fund financial statements, are reflected as a liability on the statement of net position.		
Bond issue proceeds	\$ (5,090,000)	
Bond discount and issue costs	<u>101,385</u>	(4,988,615)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.		
Bond principal payments	\$ 1,181,516	
Amortization of bond premiums and discounts	<u>211</u>	1,181,727
Change in noncurrent portion of accrued sick leave		30,846
Change in interest payable and other item		(89,855)
Difference between actuarially determined pension and OPEB expenses and actual contributions to the pension and OPEB plans.		
Actuarially determined pension expense	\$ (1,036,394)	
Actuarially determined OPEB expense	(484,040)	
Actual pension and OPEB contributions	<u>788,926</u>	<u>(731,508)</u>
Change in net position		<u>\$ 167,559</u>

The accompanying notes are an integral part of these financial statements.

**Hancock County School District
Statement of Net Position-Proprietary Funds
As of June 30, 2019**

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 301,008	\$ 69,610	\$ 1,423	\$ 372,041
Inventory	30,395	-	-	30,395
Total Current Assets	<u>331,403</u>	<u>69,610</u>	<u>1,423</u>	<u>402,436</u>
Noncurrent Assets:				
Capital assets	710,447	-	-	710,447
Less: accumulated depreciation	<u>(613,764)</u>	<u>-</u>	<u>-</u>	<u>(613,764)</u>
Total Noncurrent Assets	<u>96,683</u>	<u>-</u>	<u>-</u>	<u>96,683</u>
Total Assets	<u><u>\$ 428,086</u></u>	<u><u>\$ 69,610</u></u>	<u><u>\$ 1,423</u></u>	<u><u>\$ 499,119</u></u>
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET POSITION:</u>				
Net investment in capital assets	96,683	-	-	96,683
Unrestricted	<u>331,403</u>	<u>69,610</u>	<u>1,423</u>	<u>402,436</u>
Net Position	<u>428,086</u>	<u>69,610</u>	<u>1,423</u>	<u>499,119</u>
Total Liabilities and Net Position	<u><u>\$ 428,086</u></u>	<u><u>\$ 69,610</u></u>	<u><u>\$ 1,423</u></u>	<u><u>\$ 499,119</u></u>

The accompanying notes are an integral part of these financial statements.

Hancock County School District
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
For the fiscal year ended June 30, 2019

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>OPERATING REVENUES:</u>				
Lunchroom sales	\$ 368,780	\$ -	\$ -	\$ 368,780
Other operating revenues	-	50,155	274	50,429
Total Operating Revenues	<u>368,780</u>	<u>50,155</u>	<u>274</u>	<u>419,209</u>
<u>OPERATING EXPENSES:</u>				
Salaries and wages	389,760	56,931	-	446,691
Materials and supplies	702,248	-	-	702,248
Depreciation	34,965	-	1,802	36,767
Other operating expenses	-	25,149	205	25,354
Total Operating Expenses	<u>1,126,973</u>	<u>82,080</u>	<u>2,007</u>	<u>1,211,060</u>
Operating Profit (Loss)	<u>(758,193)</u>	<u>(31,925)</u>	<u>(1,733)</u>	<u>(791,851)</u>
<u>NON-OPERATING REVENUES:</u>				
Federal grants	721,996	-	-	721,996
Donated commodities	21,105	-	-	21,105
State grants	70,420	-	-	70,420
Interest income	1,670	-	-	1,670
Total Non-Operating Revenues	<u>815,191</u>	<u>-</u>	<u>-</u>	<u>815,191</u>
Change in net position	56,998	(31,925)	(1,733)	23,340
Net position, beginning of year	<u>371,088</u>	<u>101,535</u>	<u>3,156</u>	<u>475,779</u>
Net position, end of year	<u>\$ 428,086</u>	<u>\$ 69,610</u>	<u>\$ 1,423</u>	<u>\$ 499,119</u>

The accompanying notes are an integral part of these financial statements.

**Hancock County School District
Statement of Cash Flows – Proprietary Funds
For the fiscal year ended June 30, 2019**

	<u>Food Service Fund</u>	<u>Child Care Fund</u>	<u>Adult Education Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash receipts from:				
Lunchroom sales	\$ 368,780	\$ -	\$ -	\$ 368,780
Other activities	-	50,155	429	50,584
Cash payments for:				
Employees	(389,760)	(56,931)	-	(446,691)
Supplies	(702,248)	-	-	(702,248)
Other operating expenses	-	(25,149)	(205)	(25,354)
Net Cash Provided (Used) In Operating Activities	<u>(723,228)</u>	<u>(31,925)</u>	<u>224</u>	<u>(754,929)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>				
Cash received for operating grants	<u>813,521</u>	<u>-</u>	<u>-</u>	<u>813,521</u>
Net Cash Provided By Non-Capital Financing Activities	<u>813,521</u>	<u>-</u>	<u>-</u>	<u>813,521</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Interest income	<u>1,670</u>	<u>-</u>	<u>-</u>	<u>1,670</u>
Net Cash Used In Capital Financing Activities	<u>1,670</u>	<u>-</u>	<u>-</u>	<u>1,670</u>
Net Increase (Decrease) In Cash And Cash Equivalents	91,963	(31,925)	224	60,262
Cash and Cash Equivalents, Beginning of Year	<u>209,045</u>	<u>101,535</u>	<u>1,199</u>	<u>311,779</u>
Cash and Cash Equivalents, End of Year	<u>\$ 301,008</u>	<u>\$ 69,610</u>	<u>\$ 1,423</u>	<u>\$ 372,041</u>

The accompanying notes are an integral part of these financial statements.

**Hancock County School District
Statement of Cash Flows – Proprietary Funds, Continued
For the fiscal year ended June 30, 2019**

	<u>Food Service Fund</u>	<u>Child Care Fund</u>	<u>Adult Education Fund</u>	<u>Total</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>				
Operating income (loss)	\$ (758,193)	\$ (31,925)	\$ (1,733)	\$ (791,851)
<u>ADJUSTMENTS TO RECONCILE OPERATING INCOME/(LOSS) TO NET CASH PROVIDED IN OPERATING ACTIVITIES:</u>				
Other items	-	-	155	155
Depreciation	34,965	-	1,802	36,767
	<u>\$ (723,228)</u>	<u>\$ (31,925)</u>	<u>\$ 224</u>	<u>\$ (754,929)</u>
<u>SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</u>				
Donated commodities received from federal government	<u>\$ 21,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,105</u>

The accompanying notes are an integral part of these financial statements.

**Hancock County School District
Statement of Fiduciary Net Position – Fiduciary Funds
As of June 30, 2019**

	Agency Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 282,797
Accounts receivable	-
Total Assets	\$ 282,797
 <u>LIABILITIES</u>	
Accounts payable	\$ -
Due to student groups	282,797
Total Liabilities	282,797
 Net Position	 \$ -

The accompanying notes are an integral part of these financial statements.

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Hancock County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hancock County 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*. 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 members.

The District, for financial purposes, includes all the funds and account groups relevant to the operation of the Hancock County Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with the Board itself such as band boosters, parent-teacher associations, etc.

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

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

BASIS OF PRESENTATION

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide 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 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

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

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.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I) Government Fund Types

- A) The General Fund is the main operating fund of the Board. 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 (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards which is reported separately. This is a major fund of the District.
- C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2) The 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 funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

- 3) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.
- E) The District 21 Revenue Fund is used to hold monies transferred from school activity funds to be spent for the purpose of allowable student activities.

II) Proprietary Fund Types (Enterprise Funds)

- A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program which is conducted in cooperation with the U. S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA.
- B) The Day Care Center Fund is used to account for all day care centers.
- C) The Adult Education Fund is used for adult education.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III) Fiduciary Fund Types (Agency and Private Purpose Trust Funds)

- 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 *Accounting Procedures for Kentucky School Activity Funds*.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING (CONTINUED)

Non-exchange transaction, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental funds accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

PROPERTY TAXES

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. Liens are levied after January 1st.

The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$.635 per \$100 valuation for real property, \$.635 per \$100 valuation for business personal property and \$.40 per \$100 valuation for motor vehicles.

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

CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONTINUED)

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

<u>Depreciation</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25 - 50 Years
Land improvements	20 Years
Technology equipment	5 Years
Vehicles	5 -10 Years
Audio-visual equipment	15 Years
Food service equipment	10 - 12 Years
Furniture and fixtures	7 Years
Rolling stock	15 Years
Other	10 Years

INTER-FUND BALANCES

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

ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

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

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCUMULATED UNPAID SICK LEAVE BENEFITS (CONTINUED)

For governmental fund financial statements the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund.

BUDGETARY PROCESS

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis as per Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy all amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end dictated by law.

Each budget is prepared and controlled by the finance officer at the revenue and expenditure function/objective level. All budget appropriations lapse at year-end.

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

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

The Food Service Fund uses the specific identification method.

PREPAID ASSETS

Payments made that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

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.

GASB STATEMENT NO. 88-Certain Disclosures Related to Debt, including Direct Borrowings and Direct Payments

The District has implemented this statement in the current financial statements. It had no impact on the financial statements.

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (CONTINUED)

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, 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.

FUND BALANCES

In accordance with Governmental Accounting Standards No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the District classifies fund balances as follows:

Non-spendable - Includes fund balance amounts which are not in spendable form or because of legal or contractual requirements.

Restricted - Includes fund balance amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors, or due to constitutional provisions or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority.

Assigned - Includes fund balance amounts that are to be used for a specific purpose that are neither considered to be restricted or committed, but rather assigned by the Deputy Superintendent of Finance or the Superintendent.

Unassigned - Includes positive fund balances within the General Fund which have not been classified in any of the above mentioned categories.

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, and then unassigned funds.

STATEMENT OF NET POSITION

Net position represents the difference between assets and liabilities. The District classifies its net position into the following three categories:

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

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATEMENT OF NET POSITION (CONTINUED)

- Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

OPERATING REVENUES AND EXPENSES

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

INTER-FUND ACTIVITIES

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 inter-fund activities. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

USE OF 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 of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

PENSION BENEFITS

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 positions of the Teachers' Retirement System of the Commonwealth of Kentucky (KTRS) and the County Employees' Retirement System (CERS), and additions to/deductions from KTRS and CERS' fiduciary net positions have been determined on the same basis as they are reported by KTRS and CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees' Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 2 – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$5,626,875. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

Financial Institution:

Hancock Bank and Trust	\$ 5,344,078
Hancock Bank and Trust-Activity Funds	<u>282,797</u>
Totals	<u><u>\$ 5,626,875</u></u>

Allocation per Financial Statements:

Governmental Funds	\$ 4,972,037
Business Type Funds	372,041
Agency Funds	<u>282,797</u>
Totals	<u><u>\$ 5,626,875</u></u>

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 3 – CAPITAL ASSETS

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

	Balance			Balance
	June 30, 2018	Additions	Deductions	June 30, 2019
<u>GOVERNMENTAL ACTIVITIES:</u>				
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,170,542	-	-	1,170,542
Building and improvements	26,156,259	392,244	-	26,548,503
Technology	2,448,071	-	-	2,448,071
Vehicles	2,320,840	124,533	-	2,445,373
General equipment	1,034,518	40,314	-	1,074,832
Other	1,204	-	-	1,204
Construction in progress	-	2,611,829	-	2,611,829
	<u>33,417,241</u>	<u>3,168,920</u>	<u>-</u>	<u>36,586,161</u>
Totals at historical cost				
Land improvements	(813,260)	(75,644)	-	(888,904)
Building and improvements	(9,458,593)	(554,723)	-	(10,013,316)
Technology	(2,307,309)	(80,326)	-	(2,387,635)
Vehicles	(1,822,413)	(106,631)	-	(1,929,044)
General equipment	(857,151)	(52,520)	-	(909,671)
Other	(772)	-	-	(772)
	<u>(15,259,498)</u>	<u>(869,844)</u>	<u>-</u>	<u>(16,129,342)</u>
Less: accumulated depreciation				
Governmental activities, net	<u>\$ 18,157,743</u>	<u>\$ 2,299,076</u>	<u>\$ -</u>	<u>\$ 20,456,819</u>
	Balance			Balance
	June 30, 2018	Additions	Deductions	June 30, 2019
<u>BUSINESS TYPE ACTIVITIES:</u>				
Food service equipment	710,445	-	-	710,445
Community education equipment	8,596	-	-	8,596
	<u>719,041</u>	<u>-</u>	<u>-</u>	<u>719,041</u>
Totals at historical cost				
Food service equipment	(578,797)	(34,965)	-	(613,762)
Community education equipment	(6,639)	(1,957)	-	(8,596)
	<u>(585,436)</u>	<u>(36,922)</u>	<u>-</u>	<u>(622,358)</u>
Less: accumulated depreciation				
Business type activities, net	<u>\$ 133,605</u>	<u>\$ (36,922)</u>	<u>\$ -</u>	<u>\$ 96,683</u>

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

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

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

Issue Date	Issue Name	Original Amount	Interest Rate	Maturity Date
2009	Hancock CSD KISTA Bonds: Series 2009R	\$ 653,459	1.00% - 3.25%	2018
2011	Hancock CSD Revenue Bonds 2011	\$ 675,000	3.76%	2031
2012	Hancock CSD Refunding Revenue Bonds 2012R	\$ 8,010,000	0.75% - 2.00%	2024
2013	Hancock CSD Refunding Revenue Bonds 2013R	\$ 975,000	0.70%	2019
2014	Hancock CSD Refunding Revenue Bonds 2014	\$ 480,000	0.55% - 4.00%	2034
2015	Hancock CSD Revenue Bonds 2015	\$ 1,235,000	2.10% - 3.35%	2035
2016	Hancock CSD Refunding Revenue Bonds 2016	\$ 4,415,000	0.55% - 3.00%	2029
2018	Hancock CSD School Building Revenue Bonds 2018	\$ 5,090,000	1.75% - 3.70%	2038

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

In connection with the school revenue bonds the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the follow page 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.

The District’s outstanding bond from direct borrowings related to governmental activities contain a provision that in an event of default, outstanding amounts become due immediately in the event the District is unable to make payments.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming they 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:

Fiscal Year	Hancock County School District		Kentucky School Facility Construction Commission		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2019-20	483,878	256,459	691,122	169,805	1,175,000	426,264
2020-21	488,795	246,405	706,205	154,723	1,195,000	401,128
2021-22	503,445	236,032	721,555	139,372	1,225,000	375,404
2022-23	512,057	225,078	737,943	123,983	1,250,000	349,061
2023-24	524,595	213,359	755,405	105,523	1,280,000	318,882
2024-25	550,254	196,821	284,746	87,193	835,000	284,014
2025-26	562,411	183,016	292,589	79,350	855,000	262,366
2026-27	572,886	165,786	302,114	69,825	875,000	235,611
2027-28	594,908	148,269	290,092	60,412	885,000	208,681
2028-29	453,097	132,549	216,903	52,262	670,000	184,811
2029-30	475,817	118,429	224,183	44,981	700,000	163,410
2030-31	302,245	106,382	202,755	37,662	505,000	144,044
2031-32	312,570	96,580	162,430	30,629	475,000	127,209
2032-33	323,985	86,236	166,015	25,029	490,000	111,265
2033-34	342,374	74,980	172,626	19,354	515,000	94,334
2034-35	350,230	62,859	144,770	13,172	495,000	76,031
2035-36	368,440	50,052	61,560	8,283	430,000	58,335
2036-37	379,993	36,487	65,007	5,989	445,000	42,476
2037-38	389,739	22,389	70,261	3,511	460,000	25,900
2038-39	410,246	7,590	59,754	1,105.00	470,000	8,695
Totals	\$ 8,901,965	\$ 2,665,758	\$ 6,328,035	\$ 1,232,163	\$ 15,230,000	\$ 3,897,921

A summary of changes in long-term debt during the fiscal year ended June 30, 2019 is as follows:

	Balance June 30, 2018	Additions	Deductions	Balance June 30, 2019	Due Within One Year
School Building					
Revenue Bonds	\$ 11,321,516	\$ 5,090,000	\$(1,181,516)	\$ 15,230,000	\$ 1,175,000
Deferred amounts:					
Discounts	(33,492)	(101,385)	8,510	(126,367)	-
Premiums	107,080	-	(8,721)	98,359	-
	<u>73,588</u>	<u>(101,385)</u>	<u>(211)</u>	<u>(28,008)</u>	<u>-</u>
Total governmental bonds payable	<u>\$ 11,395,104</u>	<u>\$ 4,988,615</u>	<u>\$(1,181,727)</u>	<u>\$ 15,201,992</u>	<u>\$ 1,175,000</u>

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 5 – ACCRUED SICK LEAVE

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net position since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments. Compensated absences are generally liquidated by the General Fund.

A summary of the changes in accumulated sick leave benefits during the fiscal year ended June 30, 2019 is as follows:

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Accrued Sick Leave	\$ 429,348	\$ -	(107,008)	\$ 322,340	\$ 108,348

NOTE 6 – FUND BALANCES

The following is a summary of fund balances as of June 30, 2019:

	<u>General Fund</u>	<u>Construction Fund</u>	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>District 21 Activity Fund</u>	<u>Totals</u>
<u>RESTRICTED:</u>						
Construction	\$ -	\$ 2,657,427	\$ -	\$ -	\$ -	\$ 2,657,427
Student activities	-	-	-	-	35,874	35,874
Total Restricted	-	2,657,427	-	-	35,874	2,693,301
<u>COMMITTED:</u>						
Sick leave	532,336	-	-	-	-	532,336
<u>ASSIGNED:</u>						
State revenue shortfall	-	-	-	-	-	-
Future technology	-	-	-	-	-	-
Future bus purchases	-	-	-	-	-	-
Purchase obligations	65,334	-	-	-	-	65,334
Total Assigned	65,334	-	-	-	-	65,334
<u>UNASSIGNED:</u>	3,670,827	-	-	-	-	3,670,827
Total Fund Balances	\$ 4,268,497	\$ 2,657,427	\$ -	\$ -	\$ 35,874	\$ 6,961,798

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS

Teachers' Retirement System of the Commonwealth of Kentucky

General Information about the Pension Plan

Plan description: Teaching-certified employees of the District are provided pensions through the Teachers' Retirement System of the Commonwealth of Kentucky (TRS), a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://ktrs.ky.gov>.

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to 2 percent (service prior to July 1, 1983) and 2.5 percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members, (including second retirement accounts) after July 1, 2002 receive monthly benefits equal to 2 percent of the final average salary for each year of service if, upon retirement, their total service is less than ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5 percent to 3.0 percent to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three highest annual salaries to compute their final average salary. TRS also provides disability for vested members at the rate of 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 1.5 percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Pension Plan (continued)

Contributions: Contribution rates are established by Kentucky Revised Statutes (KRS). Members are required to contribute 12.855 percent of their salaries to TRS. The Commonwealth of Kentucky, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008 and 14.105 percent for those who joined thereafter. For employees whose salaries are federally funded, the employer contributes 16.105 percent of salary. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

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

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

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

District's proportionate share of the net pension liability	\$	-
State's proportionate share of the net pension liability associated with the District		<u>31,835,016</u>
Total	\$	<u><u>31,835,016</u></u>

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 using standard roll forward techniques. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.2431 percent, which was a decrease of .0025 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$3,846,126 and revenue of \$3,846,126 for support provided by the State.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Pension Plan (continued)

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases, including inflation	3.50 – 7.30 percent
Long-Term Investment Rate of Return, net of pension plan investment expense, including inflation	7.50 percent
Municipal Bond Index Rate:	
Prior Measurement Date	3.56 percent
Measurement Date	3.89 percent
Year FNP is projected to be depleted	n/a
Single Equivalent Interest Rate, net of pension plan investment expense, including inflation:	
Prior Measurement Date	4.49 percent
Measurement Date	7.50 percent
Post-Retirement Benefit Increases	1.50 percent annually

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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

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 rate of return by the target asset allocation percentage and by adding expected inflation.

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

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Pension Plan (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	22.0%	5.2%
Fixed Income	15.0%	1.2%
Additional Categories*	8.0%	3.3%
Real Estate	6.0%	3.8%
Private Equity	7.0%	6.3%
Cash	2.0%	0.9%
Total	100%	

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

Discount rate: The discount rate used to measure the total pension liability as of the measurement date was 7.50%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The change in the discount to 7.50% from the 4.49% used in the prior year measurement is considered a change in actuarial assumptions or other inputs under GASB 68.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

General Information about the OPEB Plans

Plan description: Teaching-certified employees of the District are provided other postemployment benefits (OPEB) through the Teachers' Retirement System of the Commonwealth of Kentucky (TRS), a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at <https://ktrs.ky.gov>.

NOTE 7 – RETIREMENT PLANS (CONTINUED)

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

General Information about the OPEB Plans (continued)

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans. The following information is about the TRS OPEB plans:

Medical Insurance Plan

Plan description: In addition to the pension benefits describe above, Kentucky Revised Statute 161.175 requires TRS to provide postemployment healthcare benefits to eligible members and dependents. The TRS Medical Insurance Plan is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

Benefits provided: To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. TRS retired members are given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the TRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions: In order to fund the post-retirement healthcare benefit, 7.50 percent of the gross annual payroll of members is contributed. Three and three quarters percent is paid by member contributions and 0.75 percent from State appropriation and 3.00 percent 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, premiums collected from retirees as described in the plan description and investment interest help to meet the medical expenses of the plan. The District's contributions to TRS for the year ended June 30, 2019 were \$222,294.

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

At June 30, 2019, the District reported a liability of \$4,368,000 for its proportionate share of the collective net OPEB liability. 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 0.234402 percent, which was a decrease of 0.001983 percent from its proportion measured as of June 30, 2017.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

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

District's proportionate share of the net OPEB liability		\$ 4,368,000
State's proportionate share of the net OPEB liability associated with the District		<u>3,765,000</u>
Total		<u><u>\$ 8,133,000</u></u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$527,923 and revenue of \$228,000 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	\$ -	\$ 417,000
Changes of assumptions	112,000	-
Net difference between projected and actual investment earnings on pension plan investments	-	33,000
Changes in proportion and differences between District contributions and proportional share of contributions	-	61,000
District contributions subsequent to the measurement date	<u>222,294</u>	<u>-</u>
Total	<u><u>\$ 334,294</u></u>	<u><u>\$ 511,000</u></u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$222,294 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:

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

<u>Year ended June 30:</u>	<u>Amount</u>
2020	\$ (79,000)
2021	(79,000)
2022	(79,000)
2023	(64,000)
2024	(67,000)
Thereafter	(31,000)

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

Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including wage inflation
Long-term Investment Rate of Return	8.00%, net of investment expense, including inflation
Healthcare Trend Rates	
Pre-65	7.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2024
Post-65	5.75% for FYE 2018 decreasing to an ultimate rate of 5.00% by FYE 2021
Medicare Part B Premiums	0.00% for FYE 2018 with an ultimate rate of 5.00% by 2030

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most actuarial experience studies for the System, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation. The health care cost trend rate assumption was updated for the June 30, 2017 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) were developed for each major investment 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.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Other Additional Categories	20.0%	3.3%
Cash (LIBOR)	1.0%	0.9%
Total	100%	

Discount rate: The discount rate used to measure the total OPEB liability as of the measurement date was 8.00 percent. 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.

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate: The following presents the District's proportionate share of the collective net OPEB liability calculated using the discount rate of 8.00 percent, 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 one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00)
District's proportionate share of the collective net OPEB liability as of June 30, 2018	<u>\$ 5,123,000</u>	<u>\$ 4,368,000</u>	<u>\$ 3,740,000</u>

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

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 are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
District's proportionate share of the collective net OPEB liability as of June 30, 2018	\$ 3,622,000	\$ 4,368,000	\$ 5,289,000

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

Life Insurance Plan

Plan description: TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance plan is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes 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 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 (0.03%) of the gross annual payroll of members is contributed by the State.

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

At June 30, 2019, the District did not report a liability for the District's proportionate share of the collective net OPEB liability because the Commonwealth of Kentucky provides the OPEB support directly to TRS on behalf of the District.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Life Insurance Plan (continued)

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

District's proportionate share of the net OPEB liability	\$	-
State's proportionate share of the net OPEB liability associated with the District		65,000
Total	\$	65,000

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017 using standard roll forward techniques. The District's proportion of the net OPEB liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.229091 percent, which was a decrease of 0.001914 percent from its proportion measured as of June 30, 2017.

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

Inflation	3.00%	
Real wage growth	0.50%	
Wage inflation	4.00%	
Salary increases	4.00% - 8.10%, including wage inflation	
Long-term Investment Rate of Return	7.50%, net of 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 demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2017 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2015.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Life Insurance Plan (continued)

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) were developed for each major investment 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 asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Other Additional Categories	6.0%	3.3%
Cash (LIBOR)	2.0%	0.9%
Total	100%	

Discount rate: The discount rate used to measure the total OPEB liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the actuarially determined contribution 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.

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System

General Information about the Pension Plan

Plan description: Substantially all other employees (classified personnel) participate in the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems. CERS consists of two plans – Non-Hazardous and Hazardous. District employees participate in the Non-Hazardous plan only. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at <https://kyret.ky.gov>.

Benefits provided: CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Kentucky Revised Statute 61.645 assigns the authority to establish and amend benefit provisions to the Kentucky Retirement Systems Board of Trustees.

Contributions: Tier 1 plan members, who began participating prior to September 1, 2008, are required to contribute 5 percent of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5 percent. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6 percent of their annual creditable compensation, while 1 percent of these contributions are deposited to an account created for the payment of health insurance benefits under 25 USC Section 401(h) in the Pension Fund. These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5 percent. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1 percent contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5 percent of their annual creditable compensation, and an additional 1 percent to the health insurance fund (401(h) account) which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Kentucky Retirement System Board of Trustees based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

Interest is paid into the Tier 3 member's account. The account currently earns 4 percent interest credit on the member's account balance as of June 30 of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4 percent. If the member was actively employed and participating in the fiscal year, and if the system's GANIR for the previous five years exceeds 4 percent, then the member's account will be credited with 75 percent of the amount of the returns over 4 percent on the account balance as of June 30 of the previous year (Upside Sharing Interest). The Upside Sharing Interest is credited to both the member contribution balance and Employer Pay Credit Balance.

The District is required to contribute at an actuarially determined rate. As of June 30, 2019, the District's required contribution rate was 16.22 percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to CERS from the District were \$427,876 for the year ended June 30, 2019.

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

At June 30, 2019, the District reported a liability of \$6,390,983 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled-forward using generally accepted actuarial principles. The District's proportion of the collective net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was 0.104937 percent, which was an increase of 0.000381 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$1,036,394. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 208,456	\$ 93,551
Changes of assumptions	624,585	-
Net difference between projected and actual investment earnings on pension plan investments	-	76,632
Changes in proportion and differences between District contributions and proportional share of contributions	78,351	15,510
District contributions subsequent to the measurement date	<u>427,876</u>	<u>-</u>
Total	<u>\$ 1,339,268</u>	<u>\$ 185,693</u>

Of the total amount reported as deferred outflows of resources related to pensions, \$427,876 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 pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the District's pension expense as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2020	\$ 548,009
2021	283,611
2022	(71,618)
2023	(34,303)
2024	-
Thereafter	-

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:

Inflation	2.30%
Payroll Growth	3.05%
Investment Rate of Return	6.25%, including inflation

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

**NOTE 7 – RETIREMENT PLANS (CONTINUED)
County Employees' Retirement System (continued)
Pension Plan (continued)**

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.50%	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
Non-U.S. Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	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	100.00%	6.09%

Discount rate: The projection of cash flows used to determine the discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

	1.00% Decrease (5.25%)	Current Discount Rate (6.25%)	1.00% Increase (7.25)
District's proportionate share of the collective net pension liability as of June 30, 2018	\$ 8,045,586	\$ 6,390,983	\$ 5,004,716

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

The District also offers employees the option to participate in a defined contribution plan under Section 403(b) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amounts allowable by law. The District does not contribute to these plans.

General Information about the OPEB Plan

Plan description: In addition to the pension benefits described above, Kentucky Retirement Systems provides postemployment healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees' Retirement System (KERS), the County Employees' Retirement System (CERS), and the State Police Retirement System (SPRS). Eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Kentucky Retirement Systems submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to eligible Medicare retirees through a Medicare Advantage Plan.

Benefits Provided: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2018 (the date of the latest available information), insurance premiums withheld from benefit payments for members of CERS were \$23.8 million and \$2.8 million for non-hazardous and hazardous employees, respectively. For the fiscal year ended June 30, 2017, insurance premiums withheld from benefit payments for members of CERS were \$22.9 million and \$2.7 million for non-hazardous and hazardous employees, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are shown below:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

OPEB Plan (continued)

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions: The District is required to contribute at an actuarially determined rate. As of June 30, 2019, the District's required contribution rate was 5.26 percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the District were \$138,756 for the year ended June 30, 2019, which does not include implicit subsidies reported in the amount of \$30,055. As described above, Tier 2 and Tier 3 employees contribute 1 percent of their annual creditable compensation to the Insurance Fund; Tier 1 employees are not required to contribute.

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

At June 30, 2019, the District reported a liability of \$1,863,065 for its proportionate share of the collective net OPEB liability. 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 determined by an actuarial valuation as of June 30, 2017 and rolled-forward using generally accepted actuarial principles. The District's proportion of 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 0.118916 percent, which was an increase of 0.000377 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$184,117. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)
County Employees' Retirement System (continued)
OPEB Plan (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 217,115
Changes of assumptions	372,082	4,304
Net difference between projected and actual investment earnings on pension plan investments	-	128,329
Changes in proportion and differences between District contributions and proportional share of contributions	-	5,818
District contributions subsequent to the measurement date	<u>168,811</u>	<u>-</u>
Total	<u>\$ 540,893</u>	<u>\$ 355,566</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$168,811 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>	<u>Amount</u>
2020	\$ 5,355
2021	5,355
2022	5,355
2023	30,279
2024	(17,461)
Thereafter	(12,367)

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:

Inflation	2.30%
Payroll Growth	2.00%
Salary Increases	3.05, average
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

OPEB Plan (continued)

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.50%	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
Non U.S. Equity	17.50%	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	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	100%	6.09%

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

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 7 – RETIREMENT PLANS (CONTINUED)
County Employees' Retirement System (continued)
OPEB Plan (continued)

Discount rate: The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25-year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return 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. 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 was not included in the calculation of the system's actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the system's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate: The following presents the District's proportionate share of the collective net OPEB liability 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 one percentage point lower (4.85%) or one percentage point higher (6.85%) than the current rate:

	1.00% Decrease (4.85%)	Current Discount Rate (5.85%)	1.00% Increase (6.85)
District's proportionate share of the collective net OPEB liability as of June 30, 2018	\$ 2,419,822	\$ 1,863,065	\$ 1,388,809

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 are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease	Current Healthcare Cost Trend Rate	1.00% Increase
District's proportionate share of the collective net OPEB liability as of June 30, 2018	\$ 1,387,070	\$ 1,863,065	\$ 2,424,125

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 8 – CONTINGENCIES

The District receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and reimbursed disbursement, 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 9 – RISK MANAGEMENT

The District is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which includes Workers' Compensation Insurance, which are retrospectively rated.

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district 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. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

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

NOTE 10 – COBRA

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

Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019

NOTE 11 – TRANSFER OF FUNDS

The following transfers were made during the fiscal year ended June 30, 2018:

<u>From:</u>	<u>To:</u>	<u>Amount</u>
General Fund	Special Revenue	\$ 31,540
General Fund	Construction	33,508
General Fund	Debt Service	720,626
Capital Outlay	Construction	150,192
Building	Construction	626,300
		<u>\$ 1,562,166</u>

NOTE 12 – ON-BEHALF PAYMENTS

The District receives on-behalf payments for fringe benefits, technology, and bond debt from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances - governmental funds, and the statement of revenues, expenses, and changes in net position - proprietary funds:

Retirement Contributions to the Teachers' Retirement System of Kentucky	\$ 2,517,556
Health Insurance	1,443,054
Life Insurance	3,075
Health Reimbursement Account - HRA/Dental/Vision	202,038
Administrative Fee	25,386
Less: Federal Reimbursements of Health Benefits	<u>(70,175)</u>
Total On-Behalf Payments for Fringe Benefits	4,120,934
Technology On-Behalf Payments	84,314
School Facilities Construction Commission (SFCC) Debt Service	<u>800,067</u>
Total On-Behalf Payments	<u>\$ 5,005,315</u>

NOTE 13 – LITIGATION

The District is subject to various legal actions in various states 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 financial statements as a result of cases currently in progress.

NOTE 14 – SUBSEQUENT EVENTS

In accordance with ASC 855, subsequent events were evaluated through November 14, 2019, the date these financial statements were available to be issued. The following were noted:

In July of 2019, the Board approved initiating the process to buy an additional 5 cents for the purpose of constructing a new middle school facility.

**Hancock County School District
Notes to the Basic Financial Statements
June 30, 2019**

NOTE 15 – RESTATEMENT OF BEGINNING NET POSITION

The beginning governmental net position was restated to correct amounts reported as deferred outflows of resources related to pension expense and deferred inflows of resources related to pension expense:

	<u>As of July 1, 2018</u>
Beginning net position, as previously reported	<u>\$ 1,615,474</u>
Change in deferred outflows of resources related to pension expense	(936,827)
Change in deferred inflows of resources related to pension expense	<u>223,334</u>
Net Prior Period Adjustment	<u>(713,493)</u>
Beginning net position, as restated	<u><u>\$ 901,981</u></u>

**Hancock County Board of Education
Statement of Budgetary Comparison – General Fund
For the fiscal year ended June 30, 2019**

	<u>BUDGETED AMOUNTS</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES:</u>				
From local sources				
Taxes:				
Property	\$ 3,765,000	\$ 3,765,000	\$ 4,743,147	\$ 978,147
Motor vehicle and watercraft	240,000	240,000	458,339	218,339
Utilities	1,000,000	1,000,000	1,538,842	538,842
Tuition and fees	8,000	8,000	9,260	1,260
Earnings on investments	-	-	-	-
Other local revenues	356,800	356,800	649,858	293,058
Intergovernmental - intermediate	31,360	31,360	43,508	12,148
Intergovernmental - state	5,686,646	5,686,646	9,868,465	4,181,819
Intergovernmental - direct federal	55,000	55,000	30,233	(24,767)
Total Revenues	<u>11,142,806</u>	<u>11,142,806</u>	<u>17,341,652</u>	<u>6,198,846</u>
<u>EXPENDITURES:</u>				
Instruction	7,507,515	7,507,515	10,235,494	(2,727,979)
Support services:				
Student	753,795	753,795	845,729	(91,934)
Instruction staff	615,850	615,850	788,910	(173,060)
District administrative	772,670	772,670	495,924	276,746
School administrative	933,912	933,912	1,034,302	(100,390)
Business	458,190	458,190	557,716	(99,526)
Plant operation & maintenance	1,766,829	1,766,829	1,515,999	250,830
Student transportation	1,293,849	1,293,849	1,268,058	25,791
Community services	25,670	25,670	13,600	12,070
Food service	12,910	12,910	13,196	(286)
Debt Service	-	-	-	-
Contingency	453,380	453,380	-	453,380
Total Expenditures	<u>14,594,570</u>	<u>14,594,570</u>	<u>16,768,928</u>	<u>(2,174,358)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(3,451,764)</u>	<u>(3,451,764)</u>	<u>572,724</u>	<u>4,024,488</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	220,549	220,549	-	(220,549)
Transfers out	(118,785)	(118,785)	(785,674)	(666,889)
Capital Asset Disposal	-	-	10,239	10,239
Total Other Financing Sources (Uses)	<u>101,764</u>	<u>101,764</u>	<u>(775,435)</u>	<u>(877,199)</u>
Change in fund balance	(3,350,000)	(3,350,000)	(202,711)	3,147,289
Fund Balance, Beginning of Year	<u>3,350,000</u>	<u>3,350,000</u>	<u>4,471,208</u>	<u>1,121,208</u>
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,268,497</u>	<u>\$ 4,268,497</u>

See Independent Auditor's Report.

Hancock County Board of Education
Statement of Budgetary Comparison – Special Revenue Fund
For the fiscal year ended June 30, 2019

	<u>BUDGETED AMOUNTS</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES:</u>				
Other local revenues	\$ 23,000	\$ 23,000	\$ 36,968	\$ 13,968
Intergovernmental - state	616,917	616,917	653,441	36,524
Intergovernmental - federal	689,626	689,626	682,635	(6,991)
Total Revenues	<u>1,329,543</u>	<u>1,329,543</u>	<u>1,373,044</u>	<u>43,501</u>
<u>EXPENDITURES:</u>				
Instruction	743,628	743,628	814,896	(71,268)
Support services:				
Student	93,000	93,000	79,766	13,234
Instruction staff	212,432	212,432	245,330	(32,898)
School administrative	52,309	52,309	28,765	23,544
Student transportation	43,914	43,914	59,163	(15,249)
Community services	176,663	176,663	176,664	(1)
Total Expenditures	<u>1,321,946</u>	<u>1,321,946</u>	<u>1,404,584</u>	<u>(82,638)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>7,597</u>	<u>7,597</u>	<u>(31,540)</u>	<u>(39,137)</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Transfers in	21,000	21,000	31,540	10,540
Transfers out	(28,597)	(28,597)	-	28,597
Total Other Financing Sources	<u>(7,597)</u>	<u>(7,597)</u>	<u>31,540</u>	<u>39,137</u>
Change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Independent Auditor's Report.

Hancock County Board of Education
Schedule of the District's Proportionate Share of the Collective Net Pension Liability
Kentucky Teachers' Retirement System Pension Plan
As of the measurement date for the last five years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportion of the collective net pension liability associated with the District	0.2431%	0.2456%	0.2443%	0.2425%	0.2309%
State's proportionate share of the collective net pension liability associated with the District	<u>31,835,016</u>	<u>66,273,667</u>	<u>72,079,974</u>	<u>56,460,482</u>	<u>47,456,512</u>
Total	<u>\$ 31,835,016</u>	<u>\$ 66,273,667</u>	<u>\$ 72,079,974</u>	<u>\$ 56,460,482</u>	<u>\$ 47,456,512</u>
District's covered-employee payroll	\$ 7,363,018	\$ 6,959,652	\$ 6,350,600	\$ 5,900,599	\$ 5,481,340
District's proportionate share of the collective 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%	39.80%	35.20%	42.50%	45.59%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Hancock County Board of Education
Schedule of the District's Pension Contributions
Kentucky Teachers' Retirement System Pension Plan
For the last five fiscal years***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contribution	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>					
District's covered-employee payroll	\$ 7,409,813	\$ 7,363,018	\$ 6,959,652	\$ 6,350,600	\$ 5,900,599	\$ 5,481,340
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

Hancock County Board of Education
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
Kentucky Teachers' Retirement System Medical Insurance Plan
As of the measurement date for the last two years*

	<u>2018</u>	<u>2017</u>
District's proportion of the collective net OPEB liability	0.125901%	0.130107%
District's proportionate share of the collective net OPEB liability	\$ 4,368,000	\$ 4,639,000
State's proportion of the collective net OPEB liability associated with the District	0.108501%	0.106278%
State's proportionate share of the collective net OPEB liability associated with the District	<u>3,765,000</u>	<u>3,790,000</u>
Total	<u>\$ 8,133,000</u>	<u>\$ 8,429,000</u>
District's covered-employee payroll	\$ 7,363,018	\$ 6,959,652
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	59.32%	66.66%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.20%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Hancock County Board of Education
Schedule of the District's OPEB Contributions
Kentucky Teachers' Retirement System Medical Insurance Plan
For the last two fiscal years***

	2019	2018
Statutorily required contribution	\$ 222,294	\$ 220,890
Contributions in relation to the statutorily required contribution	(222,294)	(220,890)
Contribution deficiency (excess)	\$ -	\$ -
District's covered-employee payroll	\$ 7,409,813	\$ 7,363,018
Contributions as a percentage of covered-employee payroll	3.00%	3.00%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

Hancock County Board of Education
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
Kentucky Teachers' Retirement System Life Insurance Plan
As of the measurement date for the last two years*

	<u>2018</u>	<u>2017</u>
District's proportion of the collective net OPEB liability	0.00%	0.00%
District's proportionate share of the collective net OPEB liability	\$ -	\$ -
State's proportion of the collective net OPEB liability associated with the District	0.229091%	0.231005%
State's proportionate share of the collective net OPEB liability associated with the District	<u>65,000</u>	<u>51,000</u>
Total	<u>\$ 65,000</u>	<u>\$ 51,000</u>
District's covered-employee payroll	\$ 7,363,018	\$ 6,959,652
District's proportionate share of the collective 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%	80.00%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Hancock County Board of Education
Schedule of the District's OPEB Contributions
Kentucky Teachers' Retirement System Life Insurance Plan
For the last two fiscal years***

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutorily required contribution	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contribution	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 7,409,813	\$ 7,363,018	\$ 6,959,652
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

Hancock County Board of Education
Schedule of the District's Proportionate Share of the Collective Net Pension Liability
County Employees' Retirement System Pension Plan
As of the measurement date for the last five years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.104937%	0.104556%	0.101102%	0.104504%	0.103942%
District's proportionate share of the collective net pension liability	\$ 6,390,983	\$ 6,119,984	\$ 4,977,871	\$ 4,493,176	\$ 3,372,000
District's covered-employee payroll	\$ 2,600,855	\$ 2,544,593	\$ 2,526,377	\$ 2,548,325	\$ 2,384,589
District's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	245.73%	240.51%	197.04%	176.32%	141.41%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%	59.97%	66.80%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Hancock County Board of Education
Schedule of the District's Pension Contributions
County Employees' Retirement System Pension Plan
For the last five fiscal years***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 427,826	\$ 376,604	\$ 354,971	\$ 313,776	\$ 324,911
Contributions in relation to the statutorily required contribution	<u>(427,826)</u>	<u>(376,604)</u>	<u>(354,971)</u>	<u>(313,776)</u>	<u>(324,911)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 2,637,954	\$ 2,600,855	\$ 2,544,593	\$ 2,526,377	\$ 2,548,325
Contributions as a percentage of covered-employee payroll	16.22%	14.48%	13.95%	12.42%	12.75%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

Hancock County Board of Education
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
County Employees' Retirement System OPEB Plan
As of the measurement date for the last two years*

	<u>2018</u>	<u>2017</u>
District's proportion of the collective net OPEB liability	0.104933%	0.104556%
District's proportionate share of the collective net OPEB liability	\$ 1,863,065	\$ 2,101,933
District's covered-employee payroll	\$ 2,600,855	\$ 2,544,593
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	71.63%	82.60%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	52.93%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Hancock County Board of Education
Schedule of the District's OPEB Contributions
County Employees' Retirement System OPEB Plan
For the last two fiscal years***

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ 138,756	\$ 122,240
Contributions in relation to the statutorily required contribution	<u>(138,756)</u>	<u>(122,240)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 2,637,954	\$ 2,600,855
Contributions as a percentage of covered-employee payroll	5.26%	4.70%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Hancock County Board of Education
Notes to the Required Supplementary Information
June 30, 2019**

Kentucky Teachers' Retirement System

Pension Plan

Changes of benefit terms: None.

Changes of assumptions:

- In 2014, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 5.16% to 5.23%.
- In 2015, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 5.23% to 4.88%.
- In the 2016 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience and the assumed salary scale, price inflation, and wage inflation were adjusted to reflect a decrease. In addition, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.88% to 4.20%.
- In 2017, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.20% to 4.49%.
- In 2018, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.49% to 7.50%.

Medical Insurance Plan

Changes of benefit terms: The following changes were by the General Assembly and reflected in the valuation performed as of June 30, 2016:

House Bill 471 restored the eligibility of non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010, 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.

Changes of assumptions: None.

Life Insurance Plan

Changes of benefit terms: None.

Changes of assumptions: None.

**Hancock County Board of Education
Notes to the Required Supplementary Information
June 30, 2019**

County Employees' Retirement System

Pension Plan

Changes of benefit terms: The following changes were by the General Assembly and reflected in the valuation performed as of June 30, 2014:

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

Changes of assumptions: There have been no changes in actuarial assumptions since June 30, 2017. In the June 30, 2017 and 2015 actuarial valuations, the following changes in actuarial assumptions were made:

	<u>June 30, 2017</u>	<u>June 30, 2015</u>	<u>Prior Periods</u>
Inflation	2.30%	3.25%	3.50%
Salary Increases	3.05%	4.00%	4.50%
Investment Rate of Return	6.25%	7.50%	7.75%

In the June 30, 2015 actuarial valuation, 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.

For periods prior to the June 30, 2015 actuarial valuation, the rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years was used for the period after disability retirement.

Other Postemployment Benefits Plan

Changes of benefit terms: None.

Changes of assumptions: In the June 30, 2018 and 2017 actuarial valuations, the following changes in actuarial assumptions were made:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Prior Periods</u>
Inflation	2.30%	2.30%	3.25%
Payroll Growth	2.00%	2.00%	4.00%
Investment Rate of Return	6.25%	6.25%	7.70%
Single Discount Rate	5.85%	5.84%	6.89%

Hancock County Board of Education
Combining Balance Sheet – Non-Major Governmental Funds
As of June 30, 2019

	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>District 21 Activity Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS AND RESOURCES:</u>					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 35,874	\$ 35,874
Total Assets and Resources	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 35,874</u>	<u>\$ 35,874</u>
<u>LIABILITIES:</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES:</u>					
Restricted	-	-	-	35,874	35,874
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,874</u>	<u>35,874</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,874</u>	<u>\$ 35,874</u>

See Independent Auditor's Report.

Hancock County Board of Education
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Non-Major Governmental Funds
For the fiscal year ended June 30, 2019

	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>District 21 Activity Fund</u>	<u>Total Non-major Governmental Funds</u>
<u>REVENUES:</u>					
From local sources:					
Other	\$ -	\$ -	\$ -	\$ 41,896	\$ 41,896
Earnings on investments	431,190	-	-	-	431,190
Intergovernmental - State	195,110	150,192	815,417	-	1,160,719
 Total Revenues	<u>626,300</u>	<u>150,192</u>	<u>815,417</u>	<u>41,896</u>	<u>1,633,805</u>
<u>EXPENDITURES:</u>					
Instruction	-	-	-	6,022	6,022
Instruction staff	-	-	-	-	-
Plant operation and maintenance	-	-	-	-	-
Debt service	-	-	1,536,043	-	1,536,043
Total Expenditures	<u>-</u>	<u>-</u>	<u>1,536,043</u>	<u>6,022</u>	<u>1,542,065</u>
 Excess (Deficiency) of Revenues Over Expenditures	<u>626,300</u>	<u>150,192</u>	<u>(720,626)</u>	<u>35,874</u>	<u>91,740</u>
<u>OTHER FINANCING SOURCES (USES):</u>					
Transfers in	-	-	720,626	-	720,626
Transfers out	<u>(626,300)</u>	<u>(150,192)</u>	<u>-</u>	<u>-</u>	<u>(776,492)</u>
Total Other Financing Sources (Uses)	<u>(626,300)</u>	<u>(150,192)</u>	<u>720,626</u>	<u>-</u>	<u>(55,866)</u>
 Change in fund balance	-	-	-	35,874	35,874
 Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,874</u>	<u>\$ 35,874</u>

See Independent Auditor's Report.

**Hancock County Board of Education
Statement of Receipts, Expenditures, and Fund Balance
Elementary and Middle Schools – Activity Funds
For the fiscal year ended June 30, 2019**

	<u>Cash Balance July 1, 2018</u>	<u>Receipts For Year</u>	<u>Disbursements For Year</u>	<u>Cash Balance June 30, 2019</u>	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Fund Balance June 30, 2019</u>
<u>SCHOOL ACTIVITY FUNDS:</u>							
Hancock Middle School	\$ 105,244	\$ 135,333	\$ 171,426	\$ 69,151	\$ -	\$ -	\$ 69,151
North Hancock Elementary	35,551	88,091	80,563	43,079	-	-	43,079
South Hancock Elementary	22,663	35,085	42,595	15,153	-	-	15,153
Totals	\$ 163,458	\$ 258,509	\$ 294,584	\$ 127,383	\$ -	\$ -	\$ 127,383

See Independent Auditor's Report.

**Hancock County Board of Education
Statement of Receipts, Expenditures, and Fund Balance
Hancock County High School – Activity Funds
For the fiscal year ended June 30, 2019**

<u>Accounts</u>	Cash Balance July 1, 2018	Receipts For Year	Disbursements For Year	Cash Balance	Transfer In/(Out)	Fund Balance June 30, 2019
Hancock County High School:						
General	\$ 17,872	\$ 41,074	\$ 44,005	\$ 14,941	\$ (446)	\$ 14,496
Athletic	69,342	242,386	210,487	101,242	153	101,395
Clubs	36,142	61,955	69,646	28,451	242	28,693
Scholarship Funds	3,246	2,760	2,564	3,442	-	3,442
Student Council	37	-	-	37	-	37
Supplies	2,500	4,290	5,436	1,354	-	1,354
Industrial Technology	10,264	25,622	29,938	5,947	50	5,997
	<u>\$ 139,403</u>	<u>\$ 378,087</u>	<u>\$ 362,076</u>	<u>\$ 155,414</u>	<u>\$ -</u>	<u>\$ 155,414</u>

See Independent Auditor's Report.

Hancock County School District

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*

Independent Auditor's Report on Compliance
for Each Major Program and on Internal Control
Over Compliance Required by the Uniform Guidance

Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended June 30, 2019

Table of Contents

	<u>Page(s)</u>
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 <i>Government Auditing Standards</i>	1-2
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	3-5
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9



**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of Education
Hancock County School District
Hawesville, Kentucky

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 audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements-Auditor Responsibilities*, and the *State Compliance Requirements to Appendix I to Kentucky Public School Districts' Audit Contract and Requirements- Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the 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 Hancock County 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 Hancock County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hancock County School District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hancock County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Kentucky Public School Districts' Audit Contract and Requirements-State Compliance Requirements*.

In addition, we noted other matters involving the internal control and its operations that were reported to management of the District in a separate letter dated November 14, 2019.

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Owensboro, Kentucky
November 14, 2019



Independent Auditor's Report on Compliance for Each Major Program; Report on Internal Control over Compliance Required; and Report on Schedules of Expenditures of Federal Awards by the Uniform Guidance

To the Hancock County Board of Education
Hancock County School District
Hawesville, Kentucky

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hancock County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Hancock County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock County School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Hancock County School District's basic financial statements. We issued our report thereon dated November 14, 2019, which contained unmodified opinions on these financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Purpose of this Report

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.

Alexander Thompson Arnold PLLC

Owensboro, Kentucky
November 14, 2019

**Hancock County School District's
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2019**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
United States Departement of Agriculture:			
<i>Passed through the Commonwealth of Kentucky</i>			
<i>Department of Education</i>			
Child Nutrion Cluster:			
School Breakfast Program	10.553	7760005-18	\$ 225,581
National School Lunch Program	10.555	7750002-18	437,150
Summer Food Service Program	10.559	7690024-18	8,484
Non-cash financial assistance:			
Commodities	10.555		21,105
Total Child Nutrition Cluster			<u>692,320</u>
Child and Adult Care Food Program	10.558	7790021-18	47,601
Child and Adult Care Food Program	10.558	7800016-18	3,180
Total Child and Adult Care Food Program			<u>50,781</u>
Total United States Department of Agriculture			<u>743,101</u>
United States Department of Education:			
<i>Passed through the Commonwealth of Kentucky</i>			
<i>Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	3100002-18	230,976
Title VI Part B Special Education Grants to States	84.027	3810002-18	191,273
Title VI Part B Special Education Preschool Grants	84.173	3800002-18	15,136
Career and Technical Education Basic Grants	84.048	3710002-18	7,066
Supporting Effective Instruction State Grants	84.367	3230002-18	36,393
Total United States Department of Education			<u>480,844</u>
Total Federal Awards Expended			<u>\$ 1,223,945</u>

**Hancock County School District's
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2019**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
Child Nutrition Cluster			
Cash Assistance			
School Breakfast Program	10.553	7790021-18	\$ 225,581
National School Lunch Program	10.555	7750002-18	437,150
Summer Food Service Program for Children	10.559	7690024-18	8,484
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555		21,105
Total Child Nutrition Cluster			<u>\$ 692,320</u>
Special Education Cluster			
Title VI Part B Special Education Grants to States	84.027	3810002-18	\$ 191,273
Title VI Part B Special Education Preschool Grants	84.173	3800002-18	15,136
Total Special Education Cluster			<u>\$ 206,409</u>

**Hancock County School District's
Notes to the Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2019**

Note A - Basis of Presentation

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

Note B - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown in the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note C - Indirect Cost Rate

The Hancock County School District's has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**Hancock County School District's
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2019**

I. Schedule of Findings and Questioned Cost

	Results
<i>Financial Statements</i>	
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
* Material weakness(es) identified?	No
* Significant deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	No
<i>Federal Awards</i>	
Internal control over major programs:	
* Material weakness(es) identified?	No
* Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major federal programs?	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major federal programs:	
10.553, 10.555, 10.559 Childhood Nutrition Cluster	\$ 692,320
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	Yes

**Hancock County School District's
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2019**

II. Findings - Financial Statement Audit:

None: There are no findings resulting from the financial statement audit of the Hancock County School District's for the fiscal year ended June 30, 2019.

III. Findings and Questioned Costs - Major Federal Program Audit:

None: There are no findings or questioned costs related to major federal programs of the Hancock County School District's for the fiscal year ended June 30, 2019.

IV. Status of Prior Audit Findings:

2018-1 Failure to Prepare Timely Bank Reconciliations

Condition:

Timely bank reconciliations were not performed on the school food service account.

Criteria:

The School Food Service Fund did not reconcile cash to the bank statements during the year end close.

Cause:

The School Food Service Department was not in compliance with the District and Kentucky Department of Education policy.

Effect:

An audit adjustment to increase cash and increase federal revenue for \$70,713 was made to correct the financial statements as of June 30, 2018.

Recommendation:

We recommend the District perform bank reconciliations as part of the monthly closing procedures on School Food Service. We additionally recommend an individual with the District is appointed to review the bank reconciliation on a monthly basis to ensure it is performed.

**Hancock County School District's
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2019**

2018-1, Continued:

Board Response:

The Superintendent and the Director of Finance met with the Food Service Coordinator and discussed the importance of timely monthly bank reconciliations and how to balance to the monthly balance sheet. The Food Service Coordinator will continue to do the monthly bank reconciliations and will turn them in to the Director of Finance by the 15th of each month. The Director of Finance will receive the monthly bank reconciliations, a copy of the bank statement, and the reconciliation of deposits for the month to ensure and verify that the reconciliation is correct each month. The Director of Finance has noted in the monthly financial checklist to true up Food Service deposits in the month of June.

Status:

The condition no longer exists as of June 30, 2019.

**Hancock County School District's
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2019**

2018-2 Failure to Properly Record Revenue Received

Condition:

The District did not record federal revenue that it received for the May reimbursement for the Child Nutrition Fund.

Criteria:

The School Food Service Department did not have proper cash management controls.

Cause:

The School Food Service Department was not in compliance with District and Kentucky Department of Education policy.

Effect:

An audit adjustment to record federal revenue for \$70,713 was made to correct the balance as of June 30, 2018.

Recommendation:

We recommend the District perform bank reconciliations as part of the monthly closing procedures on School Food Service. We additionally recommend that an individual with the District is appointed to review the reconciliation on a monthly basis to ensure it is performed.

Board Response:

The Superintendent and the Director of Finance met with the Food Service Coordinator and discussed the importance of timely monthly bank reconciliations and how to balance to the monthly balance sheet. The Food Service Coordinator will continue to do the monthly bank reconciliations and will turn them in to the Director of Finance by the 15th of each month. The Director of Finance will receive the monthly bank reconciliations, a copy of the bank statement, and the reconciliation of deposits for the month to ensure and verify that the reconciliation is correct each month. The Director of Finance has noted in the monthly financial checklist to true up Food Service deposits in the month of June.

Status:

The condition no longer exists as of June 30, 2019.



To the Board of Education
Hancock County School District
Hawesville, Kentucky

Ladies and Gentlemen:

The following recommendations resulted from our audit of the Hancock County School District for the fiscal year ended June 30, 2019. We have developed these recommendations to assist the District in improving financial operations as well as the related internal controls over various operational areas.

Improving Procedures Over School Activity Funds:

During our test of the receipts and disbursement cycles of the student activity funds for the District, we noted several instances where staff failed to follow procedures promulgated by the Kentucky Department of Education's *Accounting Procedures for Kentucky School Activity Funds* (The Redbook). The following conditions were noted from our sample.

- Eight instances where the deposit ticket is not signed or initialed by two people;
- Two instances where checks were missing dual signatures;
- One instance where the PO's only had one signature;
- Ten instances where an invoice approval was missing the check number and date paid;
- One instance where the bank reconciliation was not signed by two people;
- One instance where the gate receipts did not match the ticket sales;
- One instance where the gate reconciliation form was not totaled correctly.

Recommendation:

We recommend that management continue to provide training to ensure compliance with the procedures mandated by the Kentucky Department of Education as they relate to activity fund financial practices. Management of the District may also consider having someone within the District review activity in each fund on a monthly basis.

Management Response:

Management concurs with this recommendation and at the time of the audit has already communicated to responsible staff the procedures as they relate to the Redbook. From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" trainings and will conduct an annual internal review of each school's activity funds.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will be addressed with each school principal and bookkeeper and we will offer more additional training necessary to make improvements.

2018-19 Findings by School:

North Elementary:

- The following were noted over the cash disbursement process:
 - 1) One check was noted as lacking dual signatures.
 - 2) One transaction had purchase orders with only one signature.
 - 3) Ten invoices were signed for approval, but was lacking the date of the approval.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. The process for authorizing, approving, documenting and reviewing disbursements was discussed with staff, also, as was the need to review the bank statement for the activity fund in conjunction with the review of the reconciliation.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" training.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.

South Elementary School:

- The following were noted related to the cash receipt process:
 - 1) Three instances were noted where the deposit slips and receipts were not signed or initialed.
- The following were noted related to the cash disbursement process:
 - 1) One instance of a check that lacked two signatures.
- The following were noted related to the bank reconciliation process:
 - 1) One bank statement was noted as being signed and approved after the date of the reconciliations.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. The process for authorizing, approving, documenting and reviewing disbursements was discussed with staff, also, as was the need to review the bank statement for the activity fund in conjunction with the review of the reconciliation.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" training.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.

Hancock County Middle School:

- The following were noted related to the cash receipt process:
 - 1) One instance of a gate receipts that did not match ticket sales (\$3 short)
 - 2) One instance of the game gate form was not totaled correctly.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. The process for authorizing, approving, documenting and reviewing disbursements was discussed with staff, also, as was the need to review the bank statement for the activity fund in conjunction with the review of the reconciliation.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" training.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.

Hancock County High School:

- The following were noted related to the cash receipt process:
 - 1) Five instances of deposit receipts were not signed or initialed.

Management concurs with this recommendation and at the time of the audit has again communicated to responsible staff the procedures as they relate to the Redbook. The process for authorizing, approving, documenting and reviewing disbursements was discussed with staff, also, as was the need to review the bank statement for the activity fund in conjunction with the review of the reconciliation.

From the heightened awareness of risk and responsibility, we will continue to provide yearly "Redbook" training.

We feel the above findings will improve as we improve our internal review of these accounts and will expend more effort into getting into the schools to address these issues. Compliance to the "Redbook" will again be addressed with each school principal and bookkeeper and we will offer any additional training necessary to make improvements.

Prior Year Findings:

Improving Procedures Over School Activity Funds:

We noted one instance where procedures mandated by the Kentucky Department of Education over school activity funds was not followed. A summary by school of the findings related to the activity funds is below:

- Funds were not timely deposited after collection from the students;

Recommendation:

We recommend depositing all funds collected from students in accordance with Redbook guidelines.

Status:

This appears to have been corrected but, other conditions continue to exist in fiscal year 2018-2019. Management is committed to continually improve the handling of activity funds.

Alexander Thompson Arnold PLLC

Alexander Thompson Arnold PLLC
Henderson, Kentucky
November 14, 2019