

**MAGOFFIN COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2019

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Magoffin County School District
Salyersville, KY
and the State Committee for School District Audits

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Magoffin 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 Magoffin County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of the District's Proportionate Share of the Net Pension and OPEB Liability and Schedule of Contributions for CERS and KTRS and Medical and Life and Health Insurance Plans comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Magoffin County School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2019, on our consideration of the Magoffin County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Magoffin 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 Magoffin County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 14, 2019

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

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

FINANCIAL HIGHLIGHTS

- The beginning balance for the General Fund was \$2.35 million, the ending fund balance was \$2.77 million.
- The district constructs and renovates facilities with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- The District continues to have strong financial position.
- The General Fund had \$18.64 million in revenue, including on behalf payments made by the state, which primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. There were \$18.39 million in General Fund expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found in the table of contents of this report.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The two proprietary funds food service operations and the wellness center. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found in the table of contents of this report.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of Magoffin County Schools, assets exceeded liabilities by \$15.53 million for Governmental Activities, and \$429,617 for Business Type Activities as of June 30, 2019. 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 that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

The 2019 government-wide net position compared to 2018 is as follows:

	Net Position					
	\$ (in Millions)					
	Governmental Activities		Business-type Activities		Totals	
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>
Current assets	6.14	6.73	0.75	0.90	6.90	7.62
Non-current assets						
	71.01	56.43			71.01	56.43
Total assets	77.15	63.16	0.75	0.90	77.91	64.05
Deferred outflows	3.61	3.72	0.54	0.17	4.15	3.88
Current liabilities	2.80	3.42	0.01		2.81	3.42
Non-current liabilities	48.23	46.08	1.51	0.57	49.74	46.65
Total liabilities	51.03	49.50	1.52	0.57	52.55	50.07
Deferred inflows	0.96	1.84	0.15	0.06	1.12	1.90
Net position:						
Invested in capital assets, net of debt	35.94	23.60			35.94	23.60
Restricted	3.73	3.85		0.43	3.73	4.28
Unrestricted (deficit)	(10.91)	(11.93)	(0.39)		(11.30)	(11.93)
Total net position	28.75	15.52	(0.39)	0.43	28.37	15.95

GOVERNMENTAL ACTIVITIES

Ending net position was \$15.96 million for the District. This was an increase of \$435,536 from last year.

See schedule next page

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

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

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2018-2019
	2018	2019	2018	2019	2018	2019	
	Revenues:						
Charges for services		\$ 0.02	\$ 0.06	\$ 0.12	\$ 0.06	\$ 0.14	144%
Operating grants and contributions	9.18	4.01	1.89	1.83	11.07	5.84	-47%
Capital grants and contributions	1.97	2.89			1.97	2.89	47%
General revenues	14.71	19.08			14.71	19.08	30%
Total revenue	25.85	26.00	1.95	1.95	27.80	27.94	1%
Expenses:							
Instruction	\$ 15.22	\$ 14.39			\$ 15.22	\$ 14.39	-5%
Student	1.25	1.35			1.25	1.35	8%
Instructional staff	0.94	0.92			0.94	0.92	-2%
District administration	0.91	0.98			0.91	0.98	8%
School administration	1.39	1.50			1.39	1.50	8%
Business	0.44	0.44			0.44	0.44	2%
Plant operation & maintenance	1.77	1.96			1.77	1.96	11%
Student transportation	1.93	1.68			1.93	1.68	-13%
Community services operations	0.46	0.44			0.46	0.44	-4%
Facilities Acquisition & Construction		0.01			-	0.01	100%
Food Service Operations			1.94	1.13	1.94	1.13	-42%
Depreciation/Amortization		1.73			-	1.73	100%
Interest on long-term debt	1.07	0.98			1.07	0.98	-9%
Total Expenses	\$ 25.36	\$ 26.37	\$ 1.94	\$ 1.13	\$ 27.30	\$ 27.50	1%
Change in net position	\$ 0.49	\$ (0.38)	\$ 0.01	\$ 0.82	\$ 0.50	\$ 0.44	12%

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS

At the end of fiscal year 2019, the District had \$56.43 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a net decrease (including additions, deductions construction in progress) of \$1.39 million.

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

	Governmental Activities		Business-type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Land	6.27	6.27			6.27	6.27
Land Improvements	0.00	0.00			0.00	0.00
Buildings	50.00	48.58			50.00	48.58
Technology Equipment	0.91	0.89			0.91	0.89
Vehicles	0.30	0.41			0.30	0.41
General Equipment	0.34	0.29			0.34	0.29
Totals	57.82	56.43	-	-	57.82	56.43

DEBT

The following describes our outstanding obligation for the fiscal year 2019.

SEE SCHEDULE ON NEXT PAGE

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

**Table 4
Outstanding Debt at Year-End
(in Millions)**

	Government Activities	
	2018	2019
General Obligation Bonds	\$34.97	\$32.28
Capital Lease Obligations	0.43	0.55
KSBIT Obligations	0.64	0.59
Total Obligations	\$36.03	\$33.42

THE DISTRICT'S FUNDS

As the District completed the year, its General Fund reflected a fund balance of \$2.77 million, which is an increase of \$419,301. The unassigned portion of the fund balance in fiscal year 2019 was \$2.73 million, compared to the \$2.31 million from the preceding year. The amount of local taxes collected in 2019 was \$2.44 million and the amount collected for 2018 was \$2.38 million which resulted in an increase in local tax collections in the amount of \$0.06 million. The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2019 for selected funds.

SEE SCHEDULE ON NEXT PAGE

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	2,801,931	67,901		355,064	13,240		119,412
State Revenue Sources	15,562,036	930,701	175,835	1,111,400		1,598,666	151,870
Federal Revenue Sources	277,593	3,082,820					1,675,781
Other	200,541					50,454	
Transfers		36,927				1,516,771	
TOTALS	18,842,101	4,118,349	175,835	1,466,464	13,240	3,165,891	1,947,063
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	9,560,171	3,267,965					
Student Support Services	1,354,579	342					
Instructional Staff Support Services	596,553	319,572					
District Admin Support	977,261						
School Admin Support	1,447,804	51,115					
Business Support Services	374,769	67,524					
Plant Operation & Management	1,960,166						
Student Transportation	1,932,487	13,198					
Food Service Operations							1,130,074
Community Services	44,171	398,633					
Debt Service	137,912					3,165,891	
Building Acquisitions & Construction					10,356		
Transfers	36,927		50,307	1,466,464			
TOTALS	18,422,800	4,118,349	50,307	1,466,464	10,356	3,165,891	1,130,074
Excess / (Deficit)	419,301	-	125,528	-	2,884	-	816,989

**MAGOFFIN COUNTY SCHOOL DISTRICT – SALYERSVILLE, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2019**

COMMENTS ON BUDGET COMPARISONS

- Actual General Fund revenue was more than the budget by \$1,854,720. This does include the on-behalf payments made by the state for insurances, teachers' retirement, etc. for the benefit of the district and its employees. General Fund budget compared to actual revenue varied slightly in most line items. The line item that varied most significantly was property tax and state revenue.
- Actual General Fund expenditures were less than the budget by \$69,586.

FUTURE BUDGETARY IMPLICATIONS

In Kentucky, the public schools' fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2018-2019 with a 3.85% contingency as calculated by the Kentucky Department of Education. Significant Board action that impacts the finances continued funding of Board initiatives such as Study Island and MAP testing.

Issues which will impact future budgets include:

- Increased staffing and expenses to meet federal and state academic mandates
- Declining federal funds and federal funding not maintaining the pace of mandated pay increases
- Insufficient funding of the state transportation formula

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to the Finance Officer, Kevin Owens at 606-349-6117 or by mail at Magoffin County Board of Education, P.O. Box 109, Salyersville, KY 41465.

Magoffin County School District
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 5,880,541	\$ 850,119	\$ 6,730,660
Receivables			
Taxes-current	78,132		78,132
Taxes-delinquent	22,749		22,749
Accounts	66,068	25,873	91,941
Intergovernmental-state	14,282		14,282
Intergovernmental-federal	665,121		665,121
Inventories		21,603	21,603
Capital assets:			
Land and construction in progress	6,265,450		6,265,450
Other capital assets, net of depreciation	50,159,836		50,159,836
Total capital assets	<u>56,425,286</u>	<u>-</u>	<u>56,425,286</u>
Total assets	<u>63,152,179</u>	<u>897,595</u>	<u>64,049,774</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	2,477,089	132,404	2,609,493
Deferred outflows related to OPEB	981,844	33,401	1,015,245
Deferred savings from refunding bonds	257,885		257,885
Total deferred outflows of resources	<u>3,716,818</u>	<u>165,805</u>	<u>3,882,623</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>66,868,997</u>	<u>1,063,400</u>	<u>67,932,397</u>
LIABILITIES			
Accounts payable and accrued expenses	57,421		57,421
Accrued salaries and benefit payables	26,243		26,243
Accrued interest payable	348,219		348,219
Unearned revenue	59,305		59,305
Long-term liabilities:			
Due within 1 year:			
Bond obligations	2,510,000		2,510,000
Capital lease obligations	77,021		77,021
KSBIT payable	45,811		45,811
Total due within 1 year	<u>2,632,832</u>	<u>-</u>	<u>2,632,832</u>
Due in more than 1 year:			
Bond obligations	29,769,434		29,769,434
Capital lease obligations	469,585		469,585
KSBIT payable	548,910		548,910
Sick leave	227,574		227,574
Net pension liability	8,309,674	444,165	8,753,839
Net OPEB liability	7,054,713	129,712	7,184,425
Total due in more than 1 year	<u>46,379,890</u>	<u>573,877</u>	<u>46,953,767</u>
Total liabilities	<u>49,503,910</u>	<u>573,877</u>	<u>50,077,787</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	660,242	35,291	695,533
Deferred inflows related to OPEB	1,176,513	24,615	1,201,128
Total deferred inflows of resources	<u>1,836,755</u>	<u>59,906</u>	<u>1,896,661</u>
NET POSITION			
Net Investment in capital assets	23,599,246	-	23,599,246
Restricted for:			
Capital projects	3,815,598		3,815,598
District activities	38,640		38,640
Adult ed services		2,703	2,703
Food services		426,914	426,914
Unrestricted (deficit)	<u>(11,925,152)</u>		<u>(11,925,152)</u>
Total net position	<u>15,528,332</u>	<u>429,617</u>	<u>15,957,949</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 66,868,997</u>	<u>\$ 1,063,400</u>	<u>\$ 67,932,397</u>

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 14,387,883	\$	\$ 2,602,253	\$ -	\$ (11,785,630)		\$ (11,785,630)
Support Services							
Student	1,354,921		206,222		(1,148,699)		(1,148,699)
Instructional Staff	916,125		139,436		(776,689)		(776,689)
District Administration	977,261		148,741		(828,520)		(828,520)
School Administration	1,498,919		228,138		(1,270,781)		(1,270,781)
Business	442,293		67,318		(374,975)		(374,975)
Plant Operation & Maintenance	1,960,166	21,430	298,341	1,287,235	(353,160)		(353,160)
Student Transportation	1,679,852		255,677		(1,424,175)		(1,424,175)
Community Services Operations	442,804		67,396		(375,408)		(375,408)
Facilities Acquisition and Construction	10,356				(10,356)		(10,356)
Amortization	70,347				(70,347)		(70,347)
Depreciation*	1,661,463				(1,661,463)		(1,661,463)
Interest on long-term debt	977,680			1,598,666	620,986		620,986
Total governmental activities	<u>26,380,070</u>	<u>21,430</u>	<u>4,013,521</u>	<u>2,885,901</u>	<u>(19,459,218)</u>		<u>(19,459,218)</u>
Business-type activities:							
Food service operations	1,130,012	118,401	1,827,651			\$ 816,040	816,040
Depreciation	62					(62)	(62)
Total business-type activities	<u>1,130,074</u>	<u>118,401</u>	<u>1,827,651</u>	<u>-</u>	<u>-</u>	<u>815,978</u>	<u>815,978</u>
Total primary government	\$ <u>27,510,144</u>	\$ <u>139,831</u>	\$ <u>5,841,172</u>	\$ <u>2,885,901</u>	\$ <u>(19,459,218)</u>	<u>815,978</u>	\$ <u>(18,643,240)</u>
General revenues:							
Taxes:							
Property taxes					1,415,296		1,415,296
Delinquent property taxes					103,096		103,096
Motor vehicle taxes					455,141		455,141
Unmined minerals					59,811		59,811
Franchise					119,247		119,247
Utility taxes					645,341		645,341
State and formula grants					15,839,629		15,839,629
Other local revenue					287,392		287,392
Unrestricted investment earnings					152,812	1,011	153,823
Total general revenues					<u>19,077,765</u>	<u>1,011</u>	<u>19,078,776</u>
Change in net position					(381,453)	816,989	435,536
Net position - beginning					28,752,918	(387,372)	28,365,546
Prior period adjustment					(12,843,133)		(12,843,133)
Restated net position - beginning					<u>15,909,785</u>	<u>(387,372)</u>	<u>15,522,413</u>
Net position - ending					\$ <u>15,528,332</u>	\$ <u>429,617</u>	\$ <u>15,957,949</u>

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

See the accompanying notes to the financial statements.

Magoffin County School District
Balance Sheet
Governmental Funds
June 30, 2019

Governmental Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 2,063,943	\$ -	\$ 2,958,894	\$ -	\$ 857,704	\$ 5,880,541
Interfund receivables	621,442					621,442
Receivables						
Taxes-current	78,132					78,132
Taxes-delinquent	22,749					22,749
Accounts	61,248	4,820				66,068
Intergovernmental-state		14,282				14,282
Intergovernmental-federal		665,121				665,121
Total assets	<u>2,847,514</u>	<u>684,223</u>	<u>2,958,894</u>	<u>-</u>	<u>857,704</u>	<u>7,348,335</u>
LIABILITIES						
Accounts payable	52,945	3,476	1,000			57,421
Accrued salaries & benefits payable	26,243					26,243
Interfund payables		621,442				621,442
Unearned revenue		59,305				59,305
Total liabilities	<u>79,188</u>	<u>684,223</u>	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>764,411</u>
FUND BALANCE						
Restricted	38,640		2,957,894		857,704	3,854,238
Unassigned	2,729,686					2,729,686
Total fund balance	<u>2,768,326</u>	<u>-</u>	<u>2,957,894</u>	<u>-</u>	<u>857,704</u>	<u>6,583,924</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,847,514</u>	<u>\$ 684,223</u>	<u>\$ 2,958,894</u>	<u>\$ -</u>	<u>\$ 857,704</u>	<u>\$ 7,348,335</u>

See the accompanying notes to the financial statements.

Magoffin County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2019

Fund balances-total governmental funds	\$	6,583,924
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		56,425,286
<p>Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus</p>		257,885
<p>Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Accrued interest payable		(348,219)
Bonds payable		(32,279,434)
Capital lease payable		(546,606)
KSBIT payable		(594,721)
Sick leave liability		(227,574)
Net OPEB liability		(7,054,713)
Net pension liability		(8,309,674)
<p>Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds</p>		
Deferred outflows related to net pensions		2,477,089
Deferred outflows related to OPEB		981,844
Deferred inflows related to net pensions		(660,242)
Deferred inflows related to OPEB		(1,176,513)
		(1,176,513)
Net position of governmental activities	\$	<u><u>15,528,332</u></u>

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From Local Sources						
Taxes						
Property	\$ 1,060,232	\$ -	\$ -	\$ -	\$ 355,064	\$ 1,415,296
Delinquent property tax	103,096					103,096
Motor vehicle	455,141					455,141
Unmined minerals	59,811					59,811
Franchise	119,247					119,247
Utilities	645,341					645,341
Earnings on investments	139,572		13,240			152,812
Other local revenue	219,491	67,901				287,392
Intergovernmental - state	15,562,036	930,701		1,598,666	1,287,235	19,378,638
Intergovernmental - federal	277,593	3,082,820				3,360,413
Total revenues	<u>18,641,560</u>	<u>4,081,422</u>	<u>13,240</u>	<u>1,598,666</u>	<u>1,642,299</u>	<u>25,977,187</u>
EXPENDITURES						
Instruction	9,560,171	3,267,965				12,828,136
Support Services						
Student	1,354,579	342				1,354,921
Instructional Staff	596,553	319,572				916,125
District Administration	977,261					977,261
School Administration	1,447,804	51,115				1,498,919
Business	374,769	67,524				442,293
Plant Operation & Maintenance	1,960,166					1,960,166
Student Transportation	1,932,487	13,198				1,945,685
Building Acquisitions & Construction			10,356			10,356
Community Services Operations	44,171	398,633				442,804
Debt Service	137,912			3,165,891		3,303,803
Total expenditures	<u>18,385,873</u>	<u>4,118,349</u>	<u>10,356</u>	<u>3,165,891</u>	<u>-</u>	<u>25,680,469</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	255,687	(36,927)	2,884	(1,567,225)	1,642,299	296,718
OTHER FINANCING SOURCES (USES)						
Sale of assets	21,430					21,430
Proceeds of refunded bonds				5,005,000		5,005,000
Underwriters discount				(16,929)		(16,929)
Payment to trustee for refunded bonds				(4,937,617)		(4,937,617)
Capital lease proceeds	179,111					179,111
Operating transfers in		36,927		1,516,771		1,553,698
Operating transfers (out)	(36,927)				(1,516,771)	(1,553,698)
Total other financing sources and (uses)	<u>163,614</u>	<u>36,927</u>	<u>-</u>	<u>1,567,225</u>	<u>(1,516,771)</u>	<u>250,995</u>
NET CHANGE IN FUND BALANCES	419,301	-	2,884	-	125,528	547,713
FUND BALANCE-BEGINNING	<u>2,349,025</u>	<u>-</u>	<u>2,955,010</u>	<u>-</u>	<u>732,176</u>	<u>6,036,211</u>
FUND BALANCE-ENDING	<u>\$ 2,768,326</u>	<u>\$ -</u>	<u>\$ 2,957,894</u>	<u>\$ -</u>	<u>\$ 857,704</u>	<u>\$ 6,583,924</u>

See the accompanying notes to the financial statements.

Magoffin County School District
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
 Funds to the Statement of Activities**
 Year ended June 30, 2019

Net change in fund balances-total governmental funds	\$	547,713
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
District pension contributions less costs of benefits earned net employee contributions		(1,373,294)
<p>Governmental funds report district OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as pension expense.</p>		
District OPEB contributions less costs of benefits earned net employee contributions		(338,453)
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		
		(1,395,630)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.</p>		
		(57,730)
<p>The discount on the sale of bonds is reported as an expenditure by current financial resources but it is deferred and amortized over the life of the bond on the statement of net position.</p>		
		37,926
<p>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.</p>		
		2,192,239
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		(146,224)
KSBIT payable		44,837
Noncurrent sick leave payable		107,163
		107,163
Change in net position of governmental activities	\$	(381,453)

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 606,000	\$ 606,000	\$ 1,060,232	\$ 454,232
Delinquent property tax	200,000	200,000	103,096	(96,904)
Motor vehicle	400,000	400,000	455,141	55,141
Unmined minerals	60,000	60,000	59,811	(189)
Franchise tax	175,000	175,000	119,247	(55,753)
Utilities	615,000	615,000	645,341	30,341
Earnings on investments	137,746	137,746	139,572	1,826
Other local revenue	81,500	81,500	219,491	137,991
Intergovernmental - state	14,311,594	14,311,594	15,562,036	1,250,442
Intergovernmental - federal	200,000	200,000	277,593	77,593
Total revenues	<u>16,786,840</u>	<u>16,786,840</u>	<u>18,641,560</u>	<u>1,854,720</u>
EXPENDITURES				
Instruction	8,938,147	8,933,784	9,560,171	(626,387)
Support Services				
Student	1,233,582	1,233,582	1,354,579	(120,997)
Instructional Staff	828,771	827,957	596,553	231,404
District Administration	1,437,135	1,437,135	977,261	459,874
School Administration	1,340,420	1,352,992	1,447,804	(94,812)
Business	341,009	341,009	374,769	(33,760)
Plant Operation & Maintenance	2,312,461	2,312,461	1,960,166	352,295
Student Transportation	1,868,196	1,860,801	1,932,487	(71,686)
Community Services	2,826	2,826	-	2,826
Land Improvements	15,000	15,000	44,171	(29,171)
Debt Service	137,912	137,912	137,912	-
Total expenditures	<u>18,455,459</u>	<u>18,455,459</u>	<u>18,385,873</u>	<u>69,586</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,668,619)	(1,668,619)	255,687	1,924,306
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(37,229)	(37,229)	(36,927)	302
Capital lease proceeds			179,111	179,111
Sale of assets	37,754	37,754	21,430	(16,324)
Total other financing sources and (uses)	<u>525</u>	<u>525</u>	<u>163,614</u>	<u>163,089</u>
NET CHANGE IN FUND BALANCE	(1,668,094)	(1,668,094)	419,301	2,087,395
FUND BALANCE-BEGINNING	<u>2,314,472</u>	<u>2,314,472</u>	<u>2,349,025</u>	<u>34,553</u>
FUND BALANCE-ENDING	<u>\$ 646,378</u>	<u>\$ 646,378</u>	<u>\$ 2,768,326</u>	<u>\$ 2,121,948</u>

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Other local revenue	\$ 628,109	\$ 673,276	\$ 67,901	\$ (605,375)
Intergovernmental - state	986,860	994,485	930,701	(63,784)
Intergovernmental - federal	2,255,825	2,573,254	3,082,820	509,566
Total revenues	<u>3,870,794</u>	<u>4,241,015</u>	<u>4,081,422</u>	<u>(159,593)</u>
EXPENDITURES				
Instruction	3,055,733	3,466,715	3,267,965	198,750
Support Services				
Student			342	(342)
Instructional Staff	364,688	276,832	319,572	(42,740)
School Administration	51,982	48,673	51,115	(2,442)
Business	60,966	60,966	67,524	(6,558)
Student Transportation	25,717	25,717	13,198	12,519
Community Services Operations	348,937	399,039	398,633	406
Total expenditures	<u>3,908,023</u>	<u>4,277,942</u>	<u>4,118,349</u>	<u>159,593</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,229)	(36,927)	(36,927)	-
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	37,229	36,927	36,927	-
Total other financing sources and (uses)	<u>37,229</u>	<u>36,927</u>	<u>36,927</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Net Position
Proprietary Funds
June 30, 2019

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
ASSETS			
Cash and cash equivalents	\$ 847,416	\$ 2,703	\$ 850,119
Accounts receivable, net	25,873		25,873
Inventories	21,603		21,603
Capital assets:			
Other capital assets, net of depreciation	-		-
Total assets	894,892	2,703	897,595
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	132,404		132,404
Deferred outflows related to OPEB	33,401		33,401
Total deferred outflows of resources	165,805	-	165,805
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	1,060,697	2,703	1,063,400
LIABILITIES			
Net pension liability	444,165		444,165
Net OPEB liability	129,712		129,712
Total liabilities	573,877	-	573,877
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	35,291		35,291
Deferred inflows related to OPEB	24,615		24,615
Total deferred inflows of resources	59,906	-	59,906
NET POSITION			
Net Investment in capital assets	-	-	-
Restricted	426,914	2,703	429,617
Total net position	426,914	2,703	429,617
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,060,697	\$ 2,703	\$ 1,063,400

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2019

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
OPERATING REVENUES			
Lunchroom sales	\$ 118,401	\$ -	\$ 118,401
Total operating revenues	118,401	-	118,401
OPERATING EXPENSES			
Depreciation	62		62
Student transportation			
Employee services	2,143		2,143
Food service operations			
Employee services	71,202		71,202
Operational expenses	1,056,667		1,056,667
Total operating expenses	1,130,074	-	1,130,074
OPERATING INCOME (LOSS)	(1,011,673)	-	(1,011,673)
NONOPERATING REVENUES (EXPENSES)			
Federal grants	1,675,781		1,675,781
State grants	151,870		151,870
Transfers			-
Earnings from investments	1,011		1,011
Total nonoperating revenues (expenses)	1,828,662	-	1,828,662
CHANGE IN NET POSITION	816,989	-	816,989
NET POSITION-BEGINNING	(390,075)	2,703	(387,372)
NET POSITION-ENDING	\$ 426,914	\$ 2,703	\$ 429,617

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2019

	Enterprise Funds		
	School Food Services	Other Proprietary Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 118,401	\$ -	\$ 118,401
Payments to suppliers	(1,739,381)		(1,739,381)
Payments to employees	(73,345)	-	(73,345)
Net cash provided (used) by operating activities	(1,694,325)	-	(1,694,325)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental revenue	1,827,651	-	1,827,651
Net cash provided (used) by noncapital financing activities	1,827,651	-	1,827,651
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest	1,011	-	1,011
Net cash provided (used) by investing activities	1,011	-	1,011
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	134,337	-	134,337
CASH BALANCE-BEGINNING	713,079	2,703	715,782
CASH BALANCE-ENDING	\$ 847,416	\$ 2,703	\$ 850,119
Reconciliation of operating income (loss) to net cash provided (used)			
by operating activities:			
Operating income (loss)	\$ (1,011,673)	\$ -	\$ (1,011,673)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	62		62
Changes in assets and liabilities:			
Receivables	(975)		(975)
Payables	(7,893)		(7,893)
Deferrals	370,601		370,601
Deferrals	(91,357)		(91,357)
Pension liability	(686,571)		(686,571)
OPEB liability	(258,644)		(258,644)
Inventories	(7,875)		(7,875)
Net cash provided (used) by operating activities	\$ (1,694,325)	\$ -	\$ (1,694,325)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$102,787 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for -on-behalf payments relating to fringe benefits in the amount of \$139,622 provided by state government.

See the accompanying notes to the financial statements.

Magoffin County School District
**Statement of Fiduciary Net Position -
Fiduciary Fund**
June 30, 2019

	School Activity Funds
ASSETS	
Cash and cash equivalents	\$ 130,061
Accounts receivable	<u>2,400</u>
Total Assets	<u><u>132,461</u></u>
LIABILITIES	
Accounts payable	1,257
Due to student groups	<u>131,204</u>
Total Liabilities	<u><u>\$ 132,461</u></u>

See the accompanying notes to the financial statements.

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Magoffin 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 Magoffin County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Magoffin County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Blended Component Unit

Magoffin County Board of Education Finance Corporation

The Board authorized establishment of the Magoffin County Board of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Magoffin County Board of Education.

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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

(B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

(C) Capital Project Funds

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

SEEK Capital Outlay Fund

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

Building (FSPK) Fund

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

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the District.

(D) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

III. Fiduciary Fund Types

Agency Funds

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,” except for those accounted through the central office.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Prepaid Assets

Payments made that will benefit periods beyond 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 expenditure/expense is reported in the year in which services are consumed.

Capital Assets

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

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

Land and construction in progress are not depreciated. The other property, plant and equipment of the district are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Accrued Liabilities and Long-Term Obligations

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

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

Accumulated Unpaid Sick Leave Benefits

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

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

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted:	Legally restricted under legislation, bond authority, or grantor contract.
Committed:	Commitments of future funds for specific purposes passed by the Board.
Assigned:	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned:	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted, committed, and assigned resources first, then unassigned resources as they are needed.

Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position is reported in three categories: 1) net investment

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District’s policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$.608 per \$100 valuation of real property, \$.608 per \$100 valuation for business personal property and \$.576 per \$100 valuation for motor vehicles.

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

Operating and Non-Operating Revenues and Expenses

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

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

In-Kind

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

Contributions of Capital

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

Inter-fund Receivables/Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Interfund Transfers

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than OPEBs (OPEB)

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS), and the County Retirement System of Kentucky (CERS), and additions to/deductions from TRS's/CERS's fiduciary net position have been determined on the same basis as they are reported by TRS/CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Bond and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used prepare the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

New Pronouncements

GASB issued Statement No. 83, *Certain Asset retirement Obligations*, effective for the District's fiscal year ending June 30, 2019.

GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, effective for the District's fiscal year ending June 30, 2019.

The adoption of GASB Statement Numbers 83 and 88 did not have an impact on the District's financial position or results of operations.

The District will adopt the following new accounting pronouncements in future years:

GASB issued Statement No. 84, *Fiduciary Activities*, effective for the District's fiscal year ending June 30, 2020.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

GASB issued Statement No. 87, *Leases*, effective for the District's fiscal year ending June 30, 2021.

GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*, effective for the District's fiscal year ending June 30, 2021.

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for the District's fiscal year ending June 30, 2020.

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

NOTE B – CASH AND CASH EQUIVALENTS

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

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

At year end the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$6,860,721. The bank balance for the same time was \$7,879,171.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, special Revenue (Grant Fund), Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

NOTE C – CAPITAL ASSETS

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

SEE TABLE ON NEXT PAGE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Land	\$ 6,265,450	\$ -	\$ -	\$ 6,265,450
Land improvements	127,265	-	-	127,265
Buildings	61,430,776	-	-	61,430,776
Technology equipment	5,077,020	-	-	5,077,020
Vehicles	3,366,242	265,833	-	3,632,075
General equipment	1,555,326	-	-	1,555,326
Construction in progress	-	-	-	-
Total at historical cost	\$ <u>77,822,079</u>	\$ <u>265,833</u>	\$ <u>-</u>	\$ <u>78,087,912</u>
Less: Accumulated depreciation				
Land improvements	\$ 125,231	\$ 953	\$ -	\$ 126,184
Buildings	11,430,504	1,428,628	-	12,859,133
Technology equipment	4,163,849	27,291	-	4,191,140
Vehicles	3,070,289	149,611	-	3,219,900
General equipment	1,211,291	54,979	-	1,266,270
Total accumulated depreciation	\$ <u>20,001,163</u>	\$ <u>1,661,463</u>	\$ <u>-</u>	\$ <u>21,662,626</u>
<u>Governmental Activities</u>				
Capital Assets-net	\$ <u>57,820,916</u>	\$ <u>(1,395,630)</u>	\$ <u>-</u>	\$ <u>56,425,286</u>
<u>Business-Type Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	41,000	-	-	41,000
Vehicles	-	-	0	-
General equipment	390,017	-	-	390,017
Total at historical cost	\$ <u>431,017</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>431,017</u>
Less: Accumulated depreciation				
Buildings	\$ -	\$ -	\$ -	\$ -
Technology equipment	41,000	-	-	41,000
Vehicles	-	-	-	-
General equipment	389,955	63	-	390,017
Total accumulated depreciation	\$ <u>430,955</u>	\$ <u>63</u>	\$ <u>-</u>	\$ <u>431,017</u>
<u>Business-Type Activities</u>				
Capital Assets-net	\$ <u>63</u>	\$ <u>(63)</u>	\$ <u>-</u>	\$ <u>-</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – DEBT OBLIGATIONS

Bonds

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

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

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2019 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>2018</u>			<u>2019</u>
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2006	18,800,000	2022	3.75%-4.25%	\$ 4,300,000	\$ -	\$ 775,000	\$ 3,525,000
2007	5,565,000	2020	3.75%-3.875%	1,250,000	-	610,000	640,000
2009	7,540,000	2029	2.00%-4.25%	5,215,000	-	5,215,000	-
2014	16,000,000	2035	2.00%-2.50%	14,695,000	-	585,000	14,110,000
2015R	8,185,000	2027	2.00%-3.625%	7,970,000	-	75,000	7,895,000
2015	1,650,000	2035	2.00%-3.50%	1,535,000	-	55,000	1,480,000
2019R	5,005,000	2029	2.00%-3.00%	-	5,005,000	-	5,005,000
				<u>\$ 34,965,000</u>	<u>\$5,005,000</u>	<u>\$ 7,315,000</u>	<u>\$ 32,655,000</u>
Less:		Discount		<u>(337,640)</u>	<u>-</u>	<u>(37,926)</u>	<u>(375,566)</u>
Totals				<u>\$ 34,627,360</u>	<u>\$5,005,000</u>	<u>\$ 7,352,926</u>	<u>\$ 32,279,434</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

SEE TABLE ON NEXT PAGE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended <u>June 30th</u>	Principal		Interest		Principal <u>Total</u>	Interest <u>Total</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>		
2020	962,223	1,547,777	506,940	418,744	2,510,000	925,684
2021	992,206	1,397,794	469,874	373,192	2,390,000	843,066
2022	1,032,209	1,437,791	436,854	328,759	2,470,000	765,613
2023	1,053,074	1,476,926	407,088	290,005	2,530,000	697,094
2024	1,079,173	1,510,827	380,884	256,116	2,590,000	637,000
2025-2029	5,861,417	5,943,583	1,469,195	755,099	11,805,000	2,224,294
2030-2034	4,912,371	1,927,629	645,023	249,799	6,840,000	894,822
2035	1,092,266	427,734	22,666	7,753	1,520,000	30,419
	<u>\$ 16,984,939</u>	<u>\$ 15,670,061</u>	<u>\$ 4,338,523</u>	<u>\$ 2,679,467</u>	<u>\$ 32,655,000</u>	<u>\$ 7,017,991</u>

KSBIT

The District elected to finance the worker’s compensation insurance deficit (KSBIT) with the now defunct Kentucky School Board Insurance Trust through the Kentucky Inter-local School Transportation Association (KISTA). The activity during fiscal year 2019 for the worker’s compensation and property and liability deficit are as follows:

Insurance Fund	2018			2019	
	Outstanding Balance	Additions	Retirements	Outstanding Balance	
Worker's Compensation	\$ 639,558	\$ -	\$ 44,837	\$ 594,721	
Totals	<u>\$ 639,558</u>	<u>\$ -</u>	<u>\$ 44,837</u>	<u>\$ 594,721</u>	

The minimum payments are as follows:

Fiscal Year Year Ended	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020		45,811	20,146	65,957
2021		47,009	18,949	65,958
2022		48,441	17,517	65,958
2023		49,916	16,042	65,958
2024		51,469	14,489	65,958
2025-2029		287,411	42,378	329,789
2030		64,664	1,293	65,957
		<u>594,721</u>	<u>130,813</u>	<u>725,534</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Accumulated Sick Leave Liability

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during fiscal year 2019 for accumulated sick leave is as follows:

	2018			2019	
	<u>Outstanding</u>			<u>Outstanding</u>	
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
Sick Leave	\$ 334,737	\$ -	\$ 107,163	\$ 227,574	
Totals	\$ 334,737	\$ -	\$ 107,163	\$ 227,574	

Net Pension & OPEB Liability

The net pension liability is \$8,309,674 governmental activities and \$444,165 for business-type activities for a total of \$8,753,839 as of June 30, 2019. (See Note F for additional information) The net OPEB liability is \$7,054,713 for governmental activities and \$129,712 for business-type activities for a total of \$7,184,425 as of June 30, 2019. (See Note H for additional information)

<u>Description</u>	<u>2018</u>			<u>2019</u>	<u>Amount</u>
	<u>Outstanding</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding</u>	<u>Due in 1 Year</u>
	<u>Balance</u>			<u>Balance</u>	
Bonds, Net Premium and Discount	\$ 34,627,360	\$5,005,000	\$7,352,926	\$ 32,279,434	\$ 2,510,000
Capital Lease (See Note F)	428,845	179,111	61,350	546,606	77,021
KSBIT	639,558	-	44,837	594,721	45,811
Sick Leave	334,737	-	112,163	227,574	-
Net Pension Liability	8,076,686	677,153	-	8,753,839	-
Net OPEB Liability	7,802,970	-	618,545	7,184,425	-
Totals	\$ 51,910,156	\$5,861,264	\$8,184,841	\$ 49,586,599	\$ 2,632,832

NOTE E – LEASES

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

<u>KISTA Issue</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest</u>	2018			2019	
				<u>Outstanding</u>			<u>Outstanding</u>	
	<u>Amount</u>	<u>Date</u>	<u>Rates</u>	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	
2014	165,898	3/1/2024	2.0%-3.0%	\$ 199,102	\$ -	\$ 33,204	\$ 165,898	
2017	201,597	3/1/2027	2.550%	229,743	-	28,146	201,597	
2019	179,111	3/1/2029	3.0%	-	179,111	-	179,111	
Totals				\$ 428,845	\$ 179,111	\$ 61,350	\$ 546,606	

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended <u>June 30,</u>	Principal <u>Local</u>	Interest <u>Local</u>	Total <u>Payments</u>
2020	\$ 77,021	\$ 14,521	\$ 91,542
2021	78,672	12,733	91,405
2022	77,826	10,786	88,612
2023	74,065	8,742	82,807
2024	76,205	6,713	82,918
2025-2029	162,817	11,307	174,124
	<u>\$ 546,606</u>	<u>\$ 64,802</u>	<u>\$ 611,408</u>

Total minimum lease payments	\$ 611,408
Less: Amount representing interest	<u>(64,802)</u>

Present Value of Net Minimum Lease Payments	\$ <u>546,606</u>
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New Market Tax Credit Financing

During 2015, the Magoffin County School District passed resolutions to participate in the New Market Tax Credits (NMTC) Program administered by the United States Treasury Department and the New Markets Development Program administered by the Kentucky Department of Revenue (the NMTC Programs). The NMTC Programs permit taxpayers to receive a credit against income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The purpose of the NMTC transaction was to help finance the District's new high school project (The Project). The new high school is being financed by NMTC, bonding proceeds and local funds. The NMTC transaction was initiated in September of 2014. The legal structure and financing mechanisms are described below.

The District formed a Qualified Active Low-Income Community Business (QALICB), MCPS Real Properties, Inc. in order to facilitate the NMTC transaction. The District is to be the leverage lender/subtenant for the transaction. The Magoffin County School District Finance Corporation is the Master Tenant for the financing arrangement. The QALICB will receive the funding from three CDEs and to construct the facility. The QALICB will lease the facility to the District upon completion of construction. Date of completion is estimated to be June 30, 2029. The District shall have the option to purchase the property for a purchase price equal to the Fair Market Value of the Property.

The District formed Magoffin County Public Schools (MCPS) Real Properties, Inc, a non-profit corporation. to account for the transactions of the New Market Tax Credit. MCPS issues a separate audit report that may be obtained from the MCPS.

The following is a schedule by years of the future minimum operating lease payments:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Year Ended June 30.	Base Rent Amount
2020	146,792
2021	146,792
2022	1,018,823
2023	1,018,823
2024	1,018,823
2025-2029	5,094,115
2030-2034	5,094,115
2035-2039	5,094,115
2040-2044	5,020,858
Total	<u>23,653,256</u>

Expenditures for equipment under office equipment leases for the year ended June 30, 2019 totaled \$23,154.

NOTE F – RETIREMENT PLANS

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

Teachers Retirement System Kentucky (TRS)

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

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, employees who retire July 1,

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the system has been amended to change the benefit structure for members hired on or after that date.

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

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

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

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2019 the District did not report a liability for the District’s proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The 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 KTRS net pension liability	\$	-
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>33,579,157</u>
	\$	<u><u>33,579,157</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 that date. The District’s proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June, 30, 2019, the District’s proportion was 0.2564%.

Actuarial Methods and 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:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	7.50%
Municipal Bond Index Rate	3.89%
Projected Salary Increase	3.50 – 7.30%, includes wage inflation of 3.50%
Investment Rate of Return	7.5%, includes price inflation of 3.00%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Municipal Bond Index Rate increased to 3.89%.
- Single Equivalent Interest Rate increased to 7.50%.

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 (with a setforward of

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1 year for females and 2 years for males). The most recent experience study based on the results from July 1, 2010 – June 30, 2015 adopted by the Board on September 19, 2016.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.0%	4.4%
Non U.S. Equity	22.0%	5.3%
Fixed Income	15.0%	1.5%
Additional Categories	8.0%	3.6%
Real Estate	6.0%	4.4%
Alternatives	7.0%	6.7%
Cash	2.0%	0.8%
Total	100.0%	

Discount Rate: The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at the Actuarially Determined Contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2037 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2037. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 7.50%, as well as what the Commonwealth’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS	6.50%	7.50%	8.50%
Commonwealth's proportionate share of net pension liability	\$ 43,042,457	\$ 33,579,157	\$ 25,617,055

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

County Employees Retirement System

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

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

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

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2019, employers were required to contribute 21.48% of the member's salary. During the year ending June 30, 2019, the District contributed \$637,486 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS-Medical Insurance Plan

In addition to the CERS pension benefits described above, recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2018. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2018. At June 30, 2019, the District's proportion was 0.143734%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of CERS net pension liability	\$	8,753,839
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>-</u>
	\$	<u><u>8,753,839</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$886,933. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 285,526	128,138
Changes of assumptions	855,505	-
Net difference between projected and actual earnings on pension plan investments	407,060	512,023
Changes in proportion and differences between District contributions and proportionate share of contributions	423,916	55,372
District contributions subsequent to the measurement date	<u>637,486</u>	<u>-</u>
	\$ <u><u>2,609,493</u></u>	\$ <u><u>695,533</u></u>

The \$637,486 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
2020	\$ 880,737
2021	507,167
2022	(64,447)
2023	<u>(46,983)</u>
	\$ <u><u>1,276,474</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013 is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Combined Equity	35.0%	5.85%
Combined Fixed Income	24.0%	6.69%
Global Bond	4.0%	3.00%
Real Return (Diversified Inflation Strategies)	10.0%	7.00%
Real Estate	5.0%	9.00%
Absolute Return (Diversified Hedge Funds)	10.0%	5.00%
Private Equity	10.0%	6.50%
Cash Equivalent	<u>2.0%</u>	1.50%
	<u>100.0%</u>	

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

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 11,020,176	\$ 8,753,839	\$ 6,855,045

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

Payables to the pension plan: At June 30, 2019, there are no payables to CERS.

NOTE G – ACCOUNTING STANDARDS STATEMENT NO. 75

Government Accounting Standards Board (GASB) Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployments Benefits Other Than OPEB's, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

Reporting under GASB 75 is effective for fiscal years commencing after June 15, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

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

TRS – General Information about the OPEB Plans

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

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.

Retiree Medical Plan funded by the Medical Insurance Fund

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

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, seven and one half percent (7.50%) of the gross annual payroll of members is contributed. Three point seventy-five percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

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

At June 30, 2019, the District reported a liability of \$4,628,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the 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, 2019, the District’s proportion was .133382 percent.

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 KTRS net OPEB liability	\$	4,628,000
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		3,988,000
	\$	8,616,000

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	\$ -	\$ 441,000
Changes of assumptions	118,000	-
Net difference between projected and actual earnings on pension plan investments	-	35,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	240,000
District contributions subsequent to the measurement date	238,959	-
	\$ 356,959	\$ 716,000

The \$238,959 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

and deferred inflows of resources related to OPEB will be recognized in the District’s OPEB expense as follows:

		Year Ended June 30,
		<hr/>
2020	\$	(116,000)
2021		(116,000)
2022		(116,000)
2023		(100,000)
2024		(103,000)
Thereafter		<hr/> (47,000) <hr/>
	\$	<hr/> <hr/> (598,000) <hr/>

Changes of Benefit Terms - None

Changes of Assumptions- The amortization period decreased to 23 years and the Municipal Bond Index Rate increased to 3.89%.

Actuarial Methods and Assumptions—The total OPEB liability was determined using an actuarial valuation of the June 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	23 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.0%, includes price inflation
Inflation	3.0%
Real Wage Growth	.50%
Wage Inflation	3.50%
Salary Increase	3.50 to 7.20%, including wage inflation
Discount Rate	8.0%

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 (with a setforward of 1 year for females and 2 years for males). The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by 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%
High Yield	20.0%	3.3%
Cash	1.0%	0.9%
	100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projections basis was an actuarial valuation performed as of June 30, 2017. In addition to actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 3.50%.
- For the retiree health care costs of those beneficiaries under age 65, the KEHP implicit rate subsidies were assumed to be paid in all years by the employer directly to plan members as the benefits come due.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Cash flows occur mid-year.

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

- Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.
- A 0% active member growth rate was assumed for the purposes of developing estimates for new entrants (membership dates beyond June 30, 2016).

Based on these assumptions, the MIF's fiduciary net position was not projected to be depleted.

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

	1% Decrease	Current Discount Rate	1% Increase
KTRS District's & State's proportionate share of net OPEB liability	7.00%	8.00%	9.00%
	\$ 10,104,000	\$ 8,616,000	\$ 7,377,000

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

	1% Decrease	Current Trend Rate	1% Increase
District's & State's proportionate share of net OPEB liability	\$ 7,145,000	\$ 8,616,000	\$ 10,432,000

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

Other Post Employment Benefits Liabilities related to the Life Insurance Plan funded by - Life Insurance Plan (LIF)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Benefits provided - Effective July 1, 2000, the Kentucky Teachers’ Retirement System shall:

- Provide a life insurance benefit in a minimum amount of five thousand dollars (\$5,000) for its members who are retired for service or disability. This life insurance benefit shall be payable upon the death of a member retired for service or disability to the member’s estate or to a party designated by the member on a form prescribed by the retirement system; and
- Provide a life insurance benefit in a minimum amount of two thousand dollars (\$2,000) for its active contributing members. This life insurance benefit shall be payable upon the death of an active contributing member to the member’s estate or to a party designated by the member on a form prescribed by the retirement system.

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

Note: Members employed on a substitute or part-time basis and working at least 69% of a full contract year in a single fiscal year will be eligible for a life insurance benefit for the balance of the fiscal year or the immediately succeeding fiscal year under certain conditions. For non-vested members employed on a substitute or part-time basis, the life insurance benefit is provided if death occurs as the result of a physical injury on the job. For vested members employed on a substitute or part-time basis, death does not have to be the result of a physical injury on the job for life insurance benefits to be provided.

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

At June 30, 2019, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. 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 KTRS net OPEB liability	\$	-
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		68,000
	\$	68,000

For the year ended June 30, 2019, the District recognized OPEB expense of \$4,987,041 and revenue of \$4,987,041 for support provided by the State.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Changes of Benefit Terms— Discount rate decreased to 7.5%. Amortization method changed from open to closed. Municipal bond interest rate increased to 3.89%. Inflation increased to 3.5%. Wage inflation increased to 4.0%.

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

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.5%
Real Wage Growth	.50%
Wage Inflation	4.00%
Salary Increase	4.00-8.10%, including wage inflation
Discount Rate	8.0%

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Amortization period switched to closed.
- Projected salary increases increased to 4%.
- Inflation rate increased to 3.5%.
- Wage inflation increased to 4%.
- Municipal Bond Index Rate increased to 3.89%.

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 (with a setforward of 1 year for females and 2 years for males). 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 long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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	2.0%	0.9%
	<hr/>	
	100.0%	

Discount Rate: The discount rate used to measure the total OPEB liability was 8.0%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74. The projections basis was an actuarial valuation performed as of June 30, 2018. In addition to actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the Valuation Date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 4.00%.
- The employer will contribute the Actuarially Determined Contribution (ADC) in accordance with the funds funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Active employees do not explicitly contribute to the plan.
- Cash flows occur mid-year.

Based on these assumptions, the LIF’s fiduciary net position was not projected to be depleted.

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

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 104,000	\$ 68,000	\$ 39,000

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

CERS – General Information about the OPEB Plans

Other Pension Benefit Programs-Employees’ Health Plan

Plan description – Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Benefits provided – Post Retirement Death Benefits – members with a least 4 years creditable service the System will pay a \$5,000 death benefit. Insurance benefits as described above.

Contributions - Requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above. Current employees pay 1% toward the insurance fund.

The unfunded medical benefit obligation of the CERS, based upon the entry age normal cost method, as of June 30, 2019 was as follows:

Total medical benefit obligation	\$ 3,092,623
Net position available for benefits at actuarial value	<u>(2,371,430)</u>
Unfunded medical benefit obligation	<u><u>\$ 721,193</u></u>

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

At June 30, 2019, the District reported a liability of \$2,556,425 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 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, 2019, the District’s proportion was .14398500 percent.

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 net OPEB liability	\$ 2,556,425
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>-</u>
	<u><u>\$ 2,556,425</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2019, the District recognized OPEB revenue of \$4,828,199. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	297,917
Changes of assumptions	510,555	5,906
Net difference between projected and actual earnings on pension plan investments	-	176,088
Changes in proportion and differences between District contributions and proportionate share of contributions	-	5,217
District contributions subsequent to the measurement date	<u>73,101</u>	<u>-</u>
	\$ <u>658,286</u>	\$ <u>485,128</u>

The \$73,101 (includes \$41,240 Implicit Subsidy) reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	<u>Year Ended June 30,</u>
2020	\$ 21,961
2021	21,961
2022	21,961
2023	56,160
2024	(9,381)
Thereafter	<u>(12,605)</u>
	\$ <u>100,057</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Changes of Benefit Terms-None

Changes of Assumptions-There have been no changes in actuarial assumption since June 30, 2017.

Actuarial Methods and Assumptions—The total OPEB liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2018. The financial reporting actuarial valuation used the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Discount rate: The discount rate used to measure the total OPEB liability was 5.85%. The rate is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2018. Future contributions from plan members and employers will be made with the Board’s current funding policy, which includes the requirement that each participating employer in the System contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and actuarial assumptions adopted by the Board.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 3,320,386	\$ 2,556,425	\$ 1,905,670

Sensitivity of the District’s proportionate share of net OPEB liability to changes in the discount rate: The following presents the District’s proportionate share of the net pension liability calculated using the discount

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	1% Decrease		Current Trend Rate		1% Increase
District's proportionate share of net OPEB liability	\$ 1,903,284	\$	2,556,425	\$	3,326,291

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

NOTE I - CONTINGENCIES

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

NOTE J - LITIGATION

The District has no pending or threatened litigation involving amounts exceeding \$10,000 individually or in the aggregate as of June 30, 2019.

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – RISK MANAGEMENT

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M - COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Debt Service	Capital Outlay	Debt Service	Debt Payments	\$ 50,307
Debt Service	Building Fund	Debt Service	Debt Payments	1,466,464
Operating	General Fund	Special Revenue	KETS	\$ 36,927

NOTE O – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>	<u>Change in Net Position/ Net Change in Fund Balance</u>
Governmental Activities	\$ (381,453)
School Activity Funds	\$ (2,283)

NOTE P – ON-BEHALF PAYMENTS

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

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 & 75)	\$ 2,640,204
Health Insurance	2,042,771
Life Insurance	4,137
Administrative Fee	33,998
HRA/Dental/Vision	217,916
Federal Reimbursement	(283,680)
Technology	84,545
SFCC Debt Service Payments	<u>1,598,666</u>
Total	<u>\$ 6,338,558</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – RESTRICTED FUND BALANCES

The following funds had restricted fund balances.

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	\$ 38,640	Sick Leave
Construction	2,957,894	Future Construction
Capital Outlay	652,178	SFCC Requirements
FSPK Fund	205,526	SFCC Requirements
Food Service	426,914	Food Service Operations
Other Proprietary Funds	\$ 2,703	Proprietary Operations

NOTE R- PRIOR PERIOD ADJUSTMENT

Governmental activities net position/fund balance as of July 1, 2018 have been restated as follows:

<u>Description</u>	<u>Governmental Activities</u>
Net position as previously reported	\$ 28,752,918
Construction in Progress	(13,180,773)
Discount on Debt Obligations	337,640
Net position, as restated	\$ <u>15,909,785</u>

These restatements were a result of Construction in Progress being recorded for the district when it technically belongs to the Magoffin County Public Schools Real Properties, Inc. and the discount being amortized on debt obligations.

NOTE S – SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 14, 2019, the date the financial statements were available to be issued.

MAGOFFIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS and KTRS
For the Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Districts' proportion of the net pension liability	0.14373%	0.14000%	0.130000%	0.14000%
District's proportionate share of the net pension liability	\$ 8,753,839	\$ 8,076,686	\$ 6,184,832	\$ 5,923,085
State's proportionate share of the net pension liability associated with the District	-	-	-	-
Total	<u>\$ 8,753,839</u>	<u>\$ 8,076,686</u>	<u>\$ 6,184,832</u>	<u>\$ 5,923,085</u>
District's covered-employee payroll	\$ 3,599,466	\$ 3,599,466	\$ 3,429,952	\$ 3,018,256
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	243.20%	224.39%	180.32%	196.24%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	55.50%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Districts' proportion of the net pension liability	0.256%	0.000%	0.000%	0.000%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	33,579,157	71,430,339	82,181,106	65,742,093
Total	<u>\$ 33,579,157</u>	<u>\$ 71,430,339</u>	<u>\$ 82,181,106</u>	<u>\$ 65,742,093</u>
District's covered-employee payroll	\$ 3,599,466	\$ 3,599,466	\$ 342,952	\$ 5,923,085
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	39.80%	35.22%	42.29%

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

See the accompanying notes to the required supplementary information.

MAGOFFIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
CERS and KTRS

For the Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Contractually required contribution	\$ 637,486	\$ 521,203	\$ 640,714	\$ 514,615
Contributions in relation to the contractually required contributions	<u>637,486</u>	<u>521,203</u>	<u>640,714</u>	<u>514,615</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 3,116,138	\$ 3,599,466	\$ 3,429,952	\$ 3,018,256
District's contributions as a percentage of it's covered-employee payroll	20.46%	14.48%	18.68%	17.05%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 3,128,197	\$ 3,599,466	\$ 3,429,952	\$ 3,018,256
District's contributions as a percentage of it's covered-employee payroll	0.00%	0.00%	0.00%	0.00%

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

See the accompanying notes to the required supplementary information.

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSIONS
For the year ended June 30, 2019

(1) CHANGES OF ASSUMPTIONS

KTRS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- Municipal Bond Index Rate increased to 3.89%.
- Single Equivalent Interest Rate increased to 7.50%.

CERS

The following represents assumptions and changes of assumptions from the prior valuation to the valuation performed as of June 30, 2018:

- The assumed investment rate of return increased to 7.50%.
- The assumed rate of inflation increased to 3.25%.
- The Salary Increase increased to 4.00%.
- The Asset Valuation Method changed to 20% of the difference between the market value of assets and the expected actuarial value of assets.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

KTRS

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

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	27.4 years
Asset Valuation Method	5-year smoothed market
Single Equivalent Interest Rate	7.50%
Municipal Bond Index Rate	3.89%
Projected Salary Increase	3.50 – 7.30%, includes wage inflation of 3.50%
Investment Rate of Return	7.5%, includes price inflation of 3.00%

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-PENSIONS
For the year ended June 30, 2019

CERS

The Board of Trustees uses this actuarial valuation to certify the employer contribution rates for CERS for the fiscal year beginning July 1, 2018 and ending June 30, 2019. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	3.25%
Salary Increase	4% average
Investment Rate of Return	7.5%

(3) CHANGES OF BENEFITS

There were no changes of benefit terms for KTRS or CERS.

MAGOFFIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MEDICAL AND LIFE INSURANCE PLANS - TEACHERS' RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
MEDICAL INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.13338%	0.14000%
District's proportionate share of the collective net OPEB liability (asset)	\$ 4,628,000	\$ 5,029,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>3,988,000</u>	<u>4,108,000</u>
Total	<u>\$ 8,616,000</u>	<u>\$ 9,137,000</u>
District's covered-employee payroll	\$ 3,599,466	\$ 9,468,438
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	128.57%	53.11%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.18%
LIFE INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.00000%	0.00000%
District's proportionate share of the collective net OPEB liability (asset)	\$ -	\$ -
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>68,000</u>	<u>55,000</u>
Total	<u>\$ 68,000</u>	<u>\$ 55,000</u>
District's covered-employee payroll	\$ 3,599,466	\$ 9,468,438
District's proportionate share of the collective net OPEB liability (asset) 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%

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

See the accompanying notes to the required supplementary information.

MAGOFFIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
MEDICAL AND LIFE INSURANCE PLANS
TEACHERS' RETIREMENT SYSTEM
Year Ended June 30, 2019

	2019	2018
MEDICAL INSURANCE PLAN		
Contractually required contribution	\$ 238,959	\$ 284,053
Contributions in relation to the contractually required contribution	238,959	284,053
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,128,197	\$ 4,699,100
District's contributions as a percentage of it's covered-employee payroll	7.64%	6.04%
 LIFE INSURANCE PLAN		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,128,197	\$ 4,699,100
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%

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

See the accompanying notes to the required supplementary information.

MAGOFFIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY -HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
HEALTH INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.14399%	0.14000%
District's proportionate share of the collective net OPEB liability (asset)	\$ 2,556,425	\$ 2,773,970
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>-</u>	<u>-</u>
Total	<u>\$ 2,556,425</u>	<u>\$ 2,773,970</u>
District's covered-employee payroll	\$ 3,599,466	\$ 3,599,466
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	71.02%	77.07%
Plan fiduciary net position as a percentage of the total OPEB liability	57.62%	13.00%

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

See the accompanying notes to the required supplementary information.

MAGOFFIN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN		
Contractually required contribution	\$ 73,101	\$ 169,175
Contributions in relation to the contractually		
	<u>73,101</u>	<u>169,175</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 3,116,138	\$ 3,599,466
District's contributions as a percentage of it's covered-employee payroll	2.35%	4.70%

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

See the accompanying notes to the required supplementary information.

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 For the year ended June 30, 2019

TRS

(1) CHANGES OF BENEFIT TERMS

There were no changes of benefit terms for the medical insurance fund or the life insurance fund.

(2) CHANGES OF ASSUMPTIONS

Medical Insurance Fund

- The amortization period decreased to 23 years and the Municipal Bond Index Rate increased to 3.89%.

Life Insurance Fund

- Amortization period switched to closed.
- Projected salary increases increased to 4%.
- Inflation rate increased to 3.5%.
- Wage inflation increased to 4%.
- Municipal Bond Index Rate increased to 3.89%.

(3) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Medical Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	23 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.0%, includes price inflation
Inflation	3.0%
Real Wage Growth	.50%
Wage Inflation	3.50%
Salary Increase	3.50 to 7.20%, including wage inflation
Discount Rate	8.0%

Life Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
For the year ended June 30, 2019

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Amortization Method	30 years, closed
Asset Valuation Method	5-year smoothed value
Single Equivalent Interest Rate	7.5%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	7.5%, includes price inflation
Inflation	3.5%
Real Wage Growth	.50%
Wage Inflation	4.00%
Salary Increase	4.00-8.10%, including wage inflation
Discount Rate	8.0%

CERS

Other Pension Benefit Programs-Employees' Health Plan

(1) CHANGES OF BENEFIT TERMS

None.

(2) METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Recipients of CERS retirement benefits may elect to participate in a voluntary hospital/medical group insurance plan for themselves and their dependents. The cost of participation for their dependents is borne by the retiree. The retirement system will pay a portion of the cost of participation for the retiree based on years of service as follows: Less than 4 years – 0%, 4-9 years – 25%, 10-14 years – 50%, 15-19 years – 75% and 20 or more years – 100%.

Contributions requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Amortization Period	27 years, Closed
Asset Valuation Method	20% of difference in market and expected market value
Price Inflation	3.25%
Salary Increase	4.00%, average
Investment Return	7.50%
Payroll Growth	4.0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 With Scale BB (set back 1 year females)
Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 5 years.
Healthcare Trend Rates (Post 65)	Initial trend starting at 5.50% and gradually decreasing To an ultimate trend rate of 5.00% over period of 2 years.

Magoffin County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2019

	Other Governmental Funds		
	Capital Outlay	FSPK Fund	Total
Assets			
Cash and Cash Equivalents	\$ <u>652,178</u>	\$ <u>205,526</u>	\$ <u>857,704</u>
Total Assets	<u><u>652,178</u></u>	<u><u>205,526</u></u>	<u><u>857,704</u></u>
Liabilities			
Accounts Payable	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance			
Restricted	<u>652,178</u>	<u>205,526</u>	<u>857,704</u>
Fund Balances	<u>652,178</u>	<u>205,526</u>	<u>857,704</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 652,178</u></u>	<u><u>\$ 205,526</u></u>	<u><u>\$ 857,704</u></u>

See the accompanying notes to the financial statements.

Magoffin County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
 Year ended June 30, 2019

	Other Governmental Funds		
	Capital Outlay	FSPK Fund	Total
Revenues			
From Local Sources			
Property Taxes	\$ -	\$ 355,064	\$ 355,064
Intergovernmental - State	175,835	1,111,400	1,287,235
Total Revenues	175,835	1,466,464	1,642,299
Expenditures			
Instruction			-
Total Expenditures	-	-	-
Excess (Deficit) of Revenues Over Expenditures	175,835	1,466,464	1,642,299
Other Financing Sources (Uses)			
Transfers In/(Out)	(50,307)	(1,466,464)	(1,516,771)
Total Other Financing Sources (Uses)	(50,307)	(1,466,464)	(1,516,771)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	125,528	-	125,528
Fund Balance Beginning	526,650	205,526	732,176
Fund Balance Ending	\$ 652,178	\$ 205,526	\$ 857,704

See the accompanying notes to the financial statements.

MAGOFFIN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET OF FIDUCIARY FUND
SCHOOL ACTIVITY FUNDS
 JUNE 30, 2019

	<u>MAGOFFIN CO HIGH SCHOOL</u>	<u>MAGOFFIN CO CAREER & TECH</u>	<u>HERALD WHITAKER MIDDLE</u>	<u>NORTH MAGOFFIN ELEMENTARY</u>	<u>SOUTH MAGOFFIN ELEMENTARY</u>	<u>SALYERSVILLE GRADE SCHOOL</u>	<u>SCHOOL ACTIVITY FUND TOTALS</u>
ASSETS							
Cash and cash equivalents	\$ 37,779	\$ 9,562	\$ 29,479	\$ 17,254	\$ 10,427	\$ 25,560	\$ 130,061
Accounts receivable	2,400	-	-	-	-	-	2,400
Total Assets	<u>40,179</u>	<u>9,562</u>	<u>29,479</u>	<u>17,254</u>	<u>10,427</u>	<u>25,560</u>	<u>132,461</u>
LIABILITIES							
Accounts Payable	1,249	-	-	-	-	8	1,257
FUND BALANCE							
School activities	<u>38,930</u>	<u>9,562</u>	<u>29,479</u>	<u>17,254</u>	<u>10,427</u>	<u>25,552</u>	<u>131,204</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,179</u>	<u>\$ 9,562</u>	<u>\$ 29,479</u>	<u>\$ 17,254</u>	<u>\$ 10,427</u>	<u>\$ 25,560</u>	<u>\$ 132,461</u>

See the accompanying notes to the financial statements.

MAGOFFIN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE - SCHOOL ACTIVITY FUNDS
 YEAR ENDED JUNE 30, 2019

	<u>MAGOFFIN CO HIGH SCHOOL</u>	<u>MAGOFFIN CO CAREER & TECH</u>	<u>HERALD WHITAKER MIDDLE</u>	<u>NORTH MAGOFFIN ELEMENTARY</u>	<u>SOUTH MAGOFFIN ELEMENTARY</u>	<u>SALYERSVILLE GRADE SCHOOL</u>	<u>AGENCY FUNDS TOTALS</u>
Revenues							
Student revenues	\$ 313,028	\$ 18,187	\$ 109,557	\$ 36,388	\$ 29,172	\$ 72,678	\$ 579,010
Expenses							
Student activities	321,204	17,581	109,604	36,074	26,645	70,185	581,293
Excess (Deficit) of Revenues Over Expenses	(8,176)	606	(47)	314	2,527	2,493	(2,283)
Fund Balance-Beginning	<u>47,106</u>	<u>8,956</u>	<u>29,526</u>	<u>16,940</u>	<u>7,900</u>	<u>23,059</u>	<u>133,487</u>
Fund Balance-Ending	<u>\$ 38,930</u>	<u>\$ 9,562</u>	<u>\$ 29,479</u>	<u>\$ 17,254</u>	<u>\$ 10,427</u>	<u>\$ 25,552</u>	<u>\$ 131,204</u>

See the accompanying notes to the financial statements.

Magoffin County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Magoffin County High School
Year ended June 30, 2019

	<u>FUND BALANCE</u> <u>BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE</u> <u>ENDING</u>
GENERAL FUND	\$ 7,020	\$ 14,719	\$ 20,678	\$ (1)	1,060
STUDENT VENDING	855	6,525	5,128	(122)	2,130
FACULTY BEVERAGE	467	3,210	3,161	-	516
ART CLUB	-	1,390	-	-	1,390
KEY CLUB	570	-	-	-	570
BAND	230	6,251	6,603	122	-
BETA CLUB	1,114	1,790	2,727	-	177
FFA	-	20,560	23,788	3,228	-
FCCLA	547	3,660	3,820	-	387
CHOIR	292	-	-	-	292
PEER TUTORING	39	-	-	-	39
ATHLETIC FUND	6,642	38,919	40,118	(1,907)	3,536
BOYS BASKETBALL	6,988	9,097	12,941	1,839	4,983
GIRLS BASKETBALL	3,219	4,207	8,990	1,839	275
CHEERLEADING	1,117	6,205	6,873	1,951	2,400
DANCE	3,141	21,934	25,250	666	491
TENNIS	-	-	-	99	99
VOLLEYBALL	551	5,056	4,867	201	941
TRACK/CROSS COUNTRY	1,563	2,911	3,790	1,839	2,523
SOFTBALL	414	4,900	4,175	-	1,139
FOOTBALL	54	1,743	1,743	(54)	-
SENIOR FUND	11,028	111,013	104,049	(8,228)	9,764
PROJECT GRADUATION	359	11,486	15,973	5,282	1,154
JUNIOR FUND	176	20,341	18,291	-	2,226
YEARBOOK	639	2,855	656	-	2,838
ALUMNI/MAROON	-	3,806	128	(3,678)	-
TRACK/FIELD REGION	81	4,384	2,627	(1,838)	-
2A TOURNAMENT	-	6,066	4,828	(1,238)	-
	\$ 47,106	\$ 313,028	\$ 321,204	\$ -	\$ 38,930

See the accompanying notes to the financial statements.

Magoffin County School District
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
U.S. Department of Agriculture					
Passed Through State Department of Education					
School Breakfast Program	10.553				
Fiscal Year 18		7760005 18	\$ -	N/A	\$ 82,026
Fiscal Year 19		7760005 19	-	N/A	275,039
National School Lunch Program	10.555				
Fiscal Year 18		7750002 18	-	N/A	212,788
Fiscal Year 19		7750002 19	-	N/A	714,358
Summer Food Service	10.559				
Fiscal Year 18		7740023 18	-	N/A	40,978
Fiscal Year 19		7690024 18	-	N/A	4,304
Child Nutrition Cluster Subtotal					<u>1,329,493</u>
Child and Adult Care Food Program	10.558				
Fiscal Year 18		7790021 18	-	N/A	55,770
Fiscal Year 19		7790021 19	-	N/A	216,702
Fiscal Year 18		7800016 18	-	N/A	3,960
Fiscal Year 19		7800016 19	-	N/A	15,385
					<u>291,817</u>
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 19		510.4950	-	N/A	102,787
Total U.S. Department of Agriculture					<u>1,724,097</u>
US Department of Education					
Passed Through State Department of Education					
* Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 18		3100002 18	-	1,282,340	188,070
Fiscal Year 19		3100002 19	-	1,294,160	1,124,580
					<u>1,312,650</u>
Special Education Grants to States	84.027A				
Fiscal Year 18		3810002 18	-	480,690	41,479
Fiscal Year 19		3810002 19	-	486,009	396,990
Special Education - Preschool Grants	84.173A				
Fiscal Year 18		3800002 18	-	21,365	8,405
Fiscal Year 19		3800002 19	-	22,111	13,967
Special Education Cluster Subtotal					<u>460,841</u>
Vocation Education - Basic Grants to States	84.048				
Fiscal Year 18		3710002 18	-	1,485	1,485
Fiscal Year 19		3710002 19	-	38,859	38,859
					<u>40,344</u>
Rural Education	84.358B				
Fiscal Year 17		3140002 17	-	42,845	13,674
Fiscal Year 18		3140002 18	-	34,601	28,647
Fiscal Year 19		3140002 19	-	36,974	36,974
					<u>79,295</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 18		3230002 18	-	145,441	58,812
Fiscal Year 19		3230002 19	-	149,530	90,544
					<u>149,356</u>
Title IV Part A	84.424				
Fiscal Year 18		3420002 18	-	32,566	14,864
Fiscal Year 19		3420002 19	-	92,535	28,125
					<u>42,989</u>
Passed through Kentucky Valley Educational Cooperative					
Race to the Top-District Grants	84.416A				
Fiscal Year 19		436E	-	114,098	80,933
Passed through Kentucky Office of Vocational Rehabilitation					
Adult Education-Basic Grants to States	84.002				
Fiscal Year 19		371E	-	28,333	28,333
Passed through Berea College					
Gear Up	84.334A				
Fiscal Year 18		379D	-	126,417	95,526
Fiscal Year 19		379E	-	129,075	71,673
					<u>167,199</u>
Total U.S. Department of Education					<u>2,361,940</u>
U.S. Department of Health and Human Services					
Comprehensive School Health Program	93.938				
Fiscal Year 18		4182	-	2,000	342
Passed through Big Sandy Area Community Action Program					
* Head Start	93.600				
Fiscal Year 18		04CH010269	-	609,787	195,683
Fiscal Year 19		04CH010269	-	609,787	446,537
					<u>642,220</u>
Total U.S. Department of Health and Human Services					<u>642,562</u>
Total Expenditure of Federal Awards					<u>\$ 4,728,599</u>

* Major program

MAGOFFIN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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 Magoffin County School District under the programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Magoffin County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represents adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. For the year ended June 30, 2019, the District received food commodities totaling \$102,787.

NOTE D – INDIRECT COST RATE

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

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

To the Board of Education of the Magoffin County School District
Salyersville, KY

and the State Committee for School District Audits

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit contract and Requirements issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Magoffin 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 Magoffin County School District's basic financial statements, and have issued our report thereon dated November 14, 2019.

Internal Control over Financial Reporting

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

We noted certain matters that we reported to management of the Magoffin County School 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.

White & Associates, PSC

Richmond, KY

November 14, 2019

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

To the Board of Education of the Magoffin County School District
Salyersville, KY
and the State Committee of School District Audits

Report on Compliance for Each Major Federal Program

We have audited the Magoffin 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 Magoffin County School District's major federal programs for the year ended June 30, 2019. Magoffin 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 Magoffin County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit contract and Requirements. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Magoffin 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 Magoffin County School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the Magoffin 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 Magoffin 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 Magoffin County School District's internal control over compliance.

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

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

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

White & Associates, PSC

Richmond, KY

November 14, 2019

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

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed for major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in the Uniform Guidance?	No
Major Programs	Title I [CFDA 84.010A] Head Start [CFDA 93.600]
Dollar threshold of Type A and B programs	\$750,000
Low risk auditee?	No

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement audit level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

No findings at the major federal award programs level.

MAGOFFIN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year ended June 30, 2019

There were no prior year findings.

MANAGEMENT LETTER POINTS

Magoffin County School District
Salyersville, Kentucky

In planning and performing our audit of the financial statements of the Magoffin County School District for the year ended June 30, 2019, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated November 14, 2019. This letter does not affect our report dated November 14, 2019, on the financial statements of the Magoffin County School District. The conditions observed are as follows:

SOUTH MAGOFFIN ELEMENTARY

1-19

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct all staff collecting money from students to complete a Multiple Receipt Form and submit the funds to the school bookkeeper daily. The school bookkeeper attended in August 2019 Redbook training held by KASBO (Kentucky Association of School Business Officials). The district finance director and district purchasing supervisor will conduct training with South Magoffin Elementary staff on November 26, 2019.

2-19

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct teachers, club sponsors, and fundraising personnel to complete a Multiple Receipt Form and get student signatures. All monies collected will be in to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct training with South Magoffin Elementary staff on November 26, 2019.

3-19

Statement of Condition: Instances of blank checks being endorsed.

Recommendation for Correction: A Purchase Order (Form F-SA-7) should always be used to initiate a purchase. Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice.

Recommendation for Correction: The district finance director reviewed the audit findings with the school bookkeeper and school principal. They were reminded that Board policy 04.312 states in part “Activity funds may only be expended as authorized in the Accounting Procedures for Kentucky School Activity Funds. Activity fund purchases must be supported by a properly executed purchase request and authorization for payment by the Principal.” Additional Redbook training will be conducted on November 26, 2019 with South Magoffin Elementary staff.

HERALD WHITAKER MIDDLE SCHOOL

4-19

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct teachers, club sponsors, and fundraising personnel to complete a Multiple Receipt Form and get student signatures. All monies collected will be in to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct training with Herald Whitaker Middle School staff on November 20, 2019.

5-19

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct all staff collecting money from students to complete a Multiple Receipt Form and submit the funds to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct training with Herald Whitaker Middle School staff on November 20, 2019.

6-19

Statement of Condition: Instances of receipt numbers not being listed on deposit slip and no indication that a second person is verifying the deposit.

Recommendation for Correction: The school treasurer shall prepare deposit slips containing the issuers name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit. An employee, or someone other than the person that prepares the deposit slip needs to initial the deposit slip verifying that the amount of the deposit equals the total amount of receipts recorded in the ledger sheets and that the bank validation stamp matches the amount of the deposit slip.

Management Response to the Recommendation: The district finance director reviewed the audit finding with the school bookkeeper and school principal. Another staff member will review all deposits for accuracy and sign. Additional Redbook training will be conducted by the district finance director and district purchasing supervisor on November 20, 2019 with all Herald Whitaker Middle School staff.

7-19

Statement of Condition: Receipts were being written but the original signed receipt is not consistently being given back to the individual turning the monies in.

Recommendation for Correction: Each individual/entity turning in monies shall be written a receipt on the computer (if automated) or manually (if not automated). The original receipt shall be signed by the school treasurer and given to the individual/entity that turned the monies in that day.

Management's Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school bookkeeper will issue receipts to the individual turning in the money for deposit. The district finance officer and the district purchasing supervisor will conduct additional Redbook training to Herald Whitaker Middle School staff on November 20, 2019

8-19

Statement of Condition: Instances of blank checks being endorsed.

Recommendation for Correction: A Purchase Order (Form F-SA-7) should always be used to initiate a purchase. Before being processed, each disbursement shall be documented by a completed purchase order and original vendor invoice.

Recommendation for Correction: The district finance director reviewed the audit findings with the school bookkeeper and school principal. They were reminded that Board policy 04.312 states in part "Activity funds may only be expended as authorized in the Accounting Procedures for Kentucky School Activity Funds. Activity fund purchases must be supported by a properly executed purchase request and authorization for payment by the Principal."

9-19

Statement of Condition: Paid invoices are not marked "Paid" with the check number and date paid noted on the invoice/receipt or standard invoice.

Recommendation for Correction: After the school treasurer writes/prints the check, the invoice is to be clearly marked "Paid" along with the check number and date paid noted.

Management's Response to the Recommendation: The district finance director met with the school bookkeeper and school principal to discuss the audit findings. After invoices are approved for payment, the school bookkeeper will mark all invoices "Paid" and list the check number issued for payment and the date paid. . The district finance officer and the district purchasing supervisor will conduct additional Redbook training to Herald Whitaker Middle School staff on November 20, 2019.

10-19

Statement of Condition: The vendor invoice or Standard Invoice must have a confirmation signature of the person receiving the goods or services before the payment process can be continued.

Recommendation for Correction: After receiving the product or service, the person receiving the goods or service shall sign the original invoice or Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: The district finance director met with the school bookkeeper/treasurer and school principal to discuss the audit findings. The school bookkeeper/treasurer will ensure all invoices are signed for approval, verifying the

receipt of goods or services performed, before checks are issued for payment. The district finance officer and the district purchasing supervisor will conduct Redbook training with Herald Whitaker Middle School staff on November 20, 2019.

MAGOFFIN CO CAREER AND TECHNICAL CENTER

11-19

Statement of Condition: Requisition and Report of Ticket Sales (F-SA-1) is not consistently being utilized for events that charge admission.

Recommendation for Correction: Pre-numbered tickets shall be used for all events for which admission is charged. Ticket colors shall be changed for consecutive events. Requisition and Report of Ticket Sales (F-SA-1) is to be utilized for all events that charge admission. This report is reconciled at the end of the event and any shortages/overages are explained and appropriate signatures are recorded. The report along with the money and remaining ticket are to be turned in to the school treasurer.

Management Response to the Recommendation: The district finance director met with the school bookkeeper, the Career & Tech Center assistant principal and the school principal to discuss the audit findings. The school staff will utilize pre-numbered tickets for all events charging an admission fee and will complete the Requisition and Report of Ticket Sales (Form F-SA-1) for all events charging admission. Staff will reconcile at the end of each event, explain any overages or shortage, provide appropriate signatures, and turn in the report and all money collected to the school bookkeeper. The district finance director and the district purchasing supervisor will provide Redbook training to the Magoffin County High School and Magoffin County Career & Tech Center staff on November 21, 2019.

12-19

Statement of Condition: Fund Raiser Worksheet (F-SA-2B) not being utilized for all fundraising events that require one.

Recommendation for Correction: For each fundraising event, the sponsor responsible for the administration of the fundraiser will fill out the Fund Raiser Worksheet (F-SA-2B). After completion of the fundraiser, the sponsor will submit the completed Fund Raiser Worksheet to the Principal for review. After review, the principal will give the Fund Raiser Worksheet to the school treasurer to file with other financial documents.

Management Response to the Recommendation: The district finance director met with the school bookkeeper, the Career & Tech Center assistant principal and the school principal to discuss the audit findings. All sponsors will complete the Fund Raiser Worksheet (F-SA-2B) and submit to the school principal for review. The principal will give the Fundraiser Worksheet to the school bookkeeper to file with other activity fund documents.

13-19

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper, the Career & Tech Center assistant principal and the school principal. The school assistant principal will direct teachers, club sponsors, and fundraising personnel to complete a Multiple Receipt Form and get student signatures. All monies collected will be turned in to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School and Magoffin County Career & Tech Center staff on November 21, 2019.

14-19

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper, the Career & Tech Center assistant principal and the school principal. The school assistant principal will direct all staff collecting money from students to complete a Multiple Receipt Form and submit the funds to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School and Magoffin County Career & Tech Center staff on November 21, 2019.

15-19

Statement of Condition: Purchase Orders are being utilized; however there were several instances of the Purchase Orders being approved after the obligation of funds or purchase being made.

Recommendation for Correction: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be

issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper, the Career & Tech Center assistant principal and the school principal. The school assistant principal will direct the school bookkeeper to issue purchase orders, upon his approval and the approval of the club sponsor (if applicable), prior to funds being spent. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School and Magoffin County Career & Tech Center staff on November 21, 2019.

16-19

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper, the Career & Tech Center assistant principal and the school principal. The school bookkeeper will deposit all monies collected on a daily basis when the amount collected is over \$100. Deposits will be made weekly if the amount collected is less than \$100. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School and Magoffin County Career & Tech Center staff on November 21, 2019.

MAGOFFIN COUNTY HIGH SCHOOL

17-19

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on bookstores, pencil machines, concessions and vending machines (vending machines exempt if full service).

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: The district finance director met with the school bookkeeper and school principal to discuss all audit findings. Magoffin County High School staff will complete the Inventory Control Worksheets (F-SA-5) on a monthly basis for pencil machines, bookstores, concessions and all vending machines that are not full service. The principal will review the completed worksheets to address

any shortages or overages. After review, the principal will give the Inventory Control Worksheets to the school treasurer to file with other activity fund documents.

18-19

Statement of Condition: Teachers/sponsors not turning in money collected from students or other sources timely.

Recommendation for Correction: All money collected by a teacher/sponsor shall be turned in to the school treasurer the day the money is collected along with the appropriate supporting documentation.

Management Response to the Recommendation: The district finance director reviewed this audit finding with the school principal and school bookkeeper. The principal will remind all staff that money collected from students must be receipted and turned in to the school bookkeeper the day is collected. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School staff on November 21, 2019.

19-19

Statement of Condition: Instances of receipt numbers not being listed on deposit slip.

Recommendation for Correction: The school treasurer shall prepare deposit slips containing the issuers name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit.

Management Response to the Recommendation: The district finance director met with the school principal and school bookkeeper to discuss the audit findings. The school bookkeeper will list all checks with the issuer's name on deposit tickets. The bookkeeper will also keep on file photocopies of all checks with the corresponding deposit ticket. The bookkeeper will also note all receipt numbers on each deposit ticket. The district finance director and the district purchasing supervisor will conduct Redbook training with Magoffin County High School staff on November 21, 2019.

20-19

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and the school principal. The school bookkeeper will deposit all monies collected on a daily basis when the amount collected

is over \$100. Deposits will be made at least weekly if the amount collected is less than \$100. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School staff on November 21, 2019.

21-19

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being used when a teacher or sponsor is collecting money from students.

Recommendation for Correction: Each day that money is collected from students, the teacher/sponsor will insure that the Multiple Receipt Form (F-SA-6) is properly filled out and signed by the student when the transfer of cash occurs from the student to the teacher/sponsor. This document along with the money is to be turned in to the School treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct teachers, club sponsors, and fundraising personnel to complete a Multiple Receipt Form and get student signatures. All monies collected will be turned in to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School staff on November 21, 2019.

22-19

Statement of Condition: Sales from Concessions/Bookstore/School Store/Pencil Machine Form (F-SA-17) are not being completed for all required activities.

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

Management Response to the Recommendation: The district finance director met with the school principal and the school bookkeeper to review audit findings. The school principal will direct staff to complete Form F-SA-17 for all sales from concession stands, as required. The school treasurer will review and sign the completed worksheets and filed with receipts. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School staff on November 21, 2019.

23-19

Statement of Condition: Instances of deposit slips being prepared without the amount of each check listed or copies of all checks to be deposited attached.

Recommendation for Correction: The school treasurer shall prepare deposit slips containing the issuer's name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit.

Management Response to the Recommendation: The district finance director met with the school principal and the school bookkeeper to discuss the audit finding. The school bookkeeper will list all checks with the issuer's name on deposit tickets. The bookkeeper will also keep on file photocopies of all checks with the corresponding deposit ticket. The district finance director and the district purchasing supervisor will conduct Redbook training with Magoffin County High School staff on November 21, 2019.

24-19

Statement of Condition: Instances of sales tax being paid or reimbursed.

Recommendation for Correction: The School treasurer should review all invoices and reimbursements to insure sales tax is not paid or reimbursed.

Management Response to the Recommendation: The district finance director reviewed the audit finding with the school bookkeeper and the school principal. The school bookkeeper will review all invoices and reimbursements to ensure sales tax is not paid or reimbursed. The district finance director and district purchasing supervisor will conduct training with Magoffin County High School and Magoffin County Career & Tech Center staff on November 21, 2019.

25-19

Statement of Condition: Instances of blank checks being endorsed.

Recommendation for Correction: A Purchase Order (Form F-SA-7) should always be used to initiate a purchase. Before being processed, each disbursement shall be documented by a completed purchase order and original vendor invoice.

Recommendation for Correction: The district finance director reviewed the audit findings with the school bookkeeper and school principal. They were reminded that Board policy 04.312 states in part "Activity funds may only be expended as authorized in the Accounting Procedures for Kentucky School Activity Funds. Activity fund purchases must be supported by a properly executed purchase request and authorization for payment by the Principal." Additional Redbook training will be conducted on November 21, 2019 with Magoffin County High School staff.

26-19

Statement of Condition: Paid invoices are not marked "Paid" with the check number and date paid noted on the invoice/receipt or standard invoice.

Recommendation for Correction: After the school treasurer writes/prints the check, the invoice is to be clearly marked "Paid" along with the check number and date paid noted.

Management's Response to the Recommendation: The district finance director met with the school bookkeeper and school principal to discuss the audit findings. After invoices are approved for payment, the school bookkeeper will mark all invoices "Paid" and list the check number issued for payment and the date paid. . The district finance officer and

the district purchasing supervisor will conduct additional Redbook training with Magoffin County High School staff on November 21, 2019.

27-19

Statement of Condition: The vendor invoice or Standard Invoice must have a confirmation signature of the person receiving the goods or services before the payment process can be continued.

Recommendation for Correction: After receiving the product or service, the person receiving the goods or service shall sign the original invoice or Standard Invoice before the school treasurer processes the invoice for payment.

Management Response to the Recommendation: The district finance director met with the school bookkeeper/treasurer and school principal to discuss the audit findings. The school bookkeeper/treasurer will ensure all invoices are signed for approval, verifying the receipt of goods or services performed, before checks are issued for payment. The district finance officer and the district purchasing supervisor will conduct Redbook training with Magoffin County High School staff on November 21, 2019.

NORTH MAGOFFIN ELEMENTARY

28-19

Statement of Condition: Instances of blank checks being endorsed.

Recommendation for Correction: A Purchase Order (Form F-SA-7) should always be used to initiate a purchase. Before being processed, each disbursement shall be documented by a completed purchase order and an original vendor invoice.

Recommendation for Correction: The district finance director reviewed the audit findings with the school bookkeeper and school principal. They were reminded that Board policy 04.312 states in part "Activity funds may only be expended as authorized in the Accounting Procedures for Kentucky School Activity Funds. Activity fund purchases must be supported by a properly executed purchase request and authorization for payment by the Principal." Additional Redbook training will be conducted on December 02, 2019 with North Magoffin Elementary staff.

29-19

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct all staff collecting money from students to complete a Multiple Receipt Form and submit the funds to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct additional Redbook training with North Magoffin Elementary staff December 02, 2019.

SALYERSVILLE GRADE SCHOOL

30-19

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. All money should be collected by someone other than the school treasurer. All money shall be recorded on a Multiple Receipt Form (F-SA-6) by the staff member that collects it and then submitted to the school treasurer daily.

Management Response to the Recommendation: The district finance director reviewed the audit findings with the school bookkeeper and school principal. The school principal will direct all staff collecting money from students to complete a Multiple Receipt Form and submit the funds to the school bookkeeper daily. The district finance director and district purchasing supervisor will conduct additional Redbook training with Salyersville Grade School staff November 25, 2019.

31-19

Statement of Condition: Instances of blank checks being endorsed.

Recommendation for Correction: A Purchase Order (Form F-SA-7) should always be used to initiate a purchase. Before being processed, each disbursement shall be documented by a completed purchase order and original vendor invoice.

Recommendation for Correction: The district finance director reviewed the audit findings with the school bookkeeper and school principal. They were reminded that Board policy 04.312 states in part "Activity funds may only be expended as authorized in the Accounting Procedures for Kentucky School Activity Funds. Activity fund purchases must be supported by a properly executed purchase request and authorization for payment by the Principal." Additional Redbook training will be conducted on November 25, 2019 with Salyersville Grade School staff.

32-19

Statement of Condition: Instances of deposit slips being prepared without the amount of each check listed or copies of all checks to be deposited attached.

Recommendation for Correction: The school treasurer shall prepare deposit slips containing the issuer's name and the amount of each check or retain a copy of all checks to be deposited. The deposit slip shall note the receipt numbers in the deposit.

Management Response to the Recommendation: The district finance director met with the school principal and the school bookkeeper to discuss the audit finding. The school bookkeeper will list all checks with the issuer's name on deposit tickets. The bookkeeper will also keep on file photocopies of all checks with the corresponding deposit ticket. The district finance director and the district purchasing supervisor will conduct Redbook training with Salyersville Grade School staff on November 25, 2019.

The following are repeat conditions from the prior year: 10-19 and 13-19. All other prior year conditions have been implemented and corrected. Mr. Scott Helton, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer, Mr. Kevin Owens and his department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
November 14, 2019