

**OWSLEY COUNTY  
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2019

Prepared by:

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**TABLE OF CONTENTS**

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	<u>Page</u>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	1-2
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b> .....	3-9
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position.....	10
Statement of Activities.....	11
<b>Fund Financial Statements:</b>	
Balance Sheet - Governmental Funds.....	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund .....	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	17
Statement of Net Position – Proprietary Fund.....	18
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund.....	19
Statement of Cash Flows – Proprietary Fund.....	20
Statement of Fiduciary Net Position – Fiduciary Fund.....	21
Notes to the Financial Statements.....	22-58

**REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of the District’s Proportionate Share of the Net Pension Liability CERS and KTRS.....	59
Schedule of Contributions CERS and KTRS.....	60
Notes to Required Supplementary Information – PENSIONS.....	61-62
Schedule of the District’s Proportionate Share of the Net OPEB Liability - Medical and Life Insurance Plans – Teachers’ Retirement System.....	63
Schedule of Contributions - Medical and Life Insurance Plans – Teachers’ Retirement System .....	64

Schedule of the District’s Proportionate Share of the Net OPEB Liability - Health Insurance Plan – County Employee Retirement System.....	65
Schedule of Contributions - Health Insurance Plan – County Employee Retirement System .....	66
Notes to Required Supplementary Information - OPEB.....	67-68

**SUPPLEMENTARY INFORMATION**

**Combining Statements – Non-Major Funds and Other:**

Combining Balance Sheet – Nonmajor Governmental Funds .....	69
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	70
Combining Balance Sheet of Fiduciary Fund – School Activity Funds.....	71
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds.....	72
Statement of Revenues, Expenses, and Changes in Fund Balance - Owsley County High School.....	73

<b>Schedule of Expenditures of Federal Awards.....</b>	<b>74-75</b>
--	--------------

<b>Notes to the Schedule of Expenditures of Federal Awards.....</b>	<b>76</b>
---	-----------

<b>INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....</b>	<b>77-78</b>
---	--------------

<b>INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE.....</b>	<b>79-80</b>
--	--------------

<b>SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....</b>	<b>81</b>
---	-----------

<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....</b>	<b>82</b>
--	-----------

<b>MANAGEMENT LETTER POINTS.....</b>	<b>83-84</b>
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Owsley County School District  
Booneville, 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 Owsley 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 Owsley 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 Owsley 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 Owsley 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 Owsley 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 Owsley 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 Owsley County School District's internal control over financial reporting and compliance.

***White & Associates, PSC***

Richmond, Kentucky  
November 14, 2019

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

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

**FINANCIAL HIGHLIGHTS**

- The beginning fund balance for the district was \$1,123,958 of which \$762,560 was General Fund, \$361,398 was in the restricted funds of the following funds: Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$2,097,503 of which \$1,207,574 was General Fund, \$889,929 was in the following restricted funds: Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$1,574,548 for the District.
- The General Fund Revenue totaled \$6,345,965 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$6,102,369 exclusive of other financing sources. These totals include \$1,521,594 of on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers' Retirement contributions.
- The District will continue to attain funding through Promising Neighborhoods and Gear-up Programs. These Programs are Federal grants administered through Berea College. Students will be provided resources to help them overcome barriers, so they can achieve overall success in High School, College, and life.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Owsley County School 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.

**District-Wide Financial Statements** - The district-wide financial statements are designed to provide readers with a broad overview of the Owsley County School District's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the Owsley County School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The district-wide financial statements outline functions of the Owsley County School District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

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

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

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows were less than liabilities and deferred inflows by approximately \$3,023,132 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 and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

2019 District-Wide Governmental Net position compared to 2018 as follows:

See schedule on the next page

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

**Table 1**  
**Net Position (in Millions)**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>		<u>Total Percentage Change 2018-2019</u>
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>		
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	
<b>Assets:</b>							
Current and Other Assets	1.14	2.26	0.10	0.15	1.24	2.41	94%
Capital Assets	4.05	6.12	0.05	0.04	4.10	6.16	50%
<b>Total Assets</b>	<b>5.19</b>	<b>8.38</b>	<b>0.15</b>	<b>0.19</b>	<b>5.34</b>	<b>8.58</b>	61%
<b>Deferred Outflows</b>	1.83	1.46	0.08	0.07	1.91	1.52	-20%
	1.83	1.46	0.08	0.07	1.91	1.52	-20%
<b>Liabilities:</b>							
Current Liabilities	0.04	0.47	-	0.02	0.04	0.49	1125%
Noncurrent Liabilities	9.70	11.41	0.27	0.26	9.97	11.68	17%
<b>Total Liabilities</b>	<b>9.74</b>	<b>11.88</b>	<b>0.27</b>	<b>0.28</b>	<b>10.01</b>	<b>12.17</b>	22%
<b>Deferred Inflows</b>	0.59	0.93	0.03	0.03	0.62	0.96	100%
	<b>0.59</b>	<b>0.93</b>	<b>0.03</b>	<b>0.03</b>	<b>0.62</b>	<b>0.96</b>	100%
Invested in Capital Assets							
Net of Debt	1.61	1.39	0.05	0.04	1.66	1.44	-13%
Restricted	0.36	0.89			0.36	0.89	147%
Unrestricted Net Position	(5.29)	(5.24)	(0.11)	(0.10)	(5.40)	(5.34)	-1%
<b>Total Net Position</b>	<b>(3.32)</b>	<b>(2.96)</b>	<b>(0.06)</b>	<b>(0.06)</b>	<b>(3.38)</b>	<b>(3.01)</b>	-11%

**GOVERNMENTAL ACTIVITIES**

Ending net position was (\$3.02) million for the District. This was an increase of \$357,265 from 2018.

See schedule next page



Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

Table 2  
Changes in Net Position  
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018-2019</u>
<b>Revenues:</b>							
Charges for services	\$ -	\$ -	\$ 0.08	\$ 0.11	\$ 0.08	\$0.11	35%
Operating grants and contributions	6.04	4.01	0.74	0.87	6.78	4.88	-28%
Capital grants and contributions	0.40	0.49			0.40	0.49	22%
General revenues	4.83	6.64		(0.03)	4.83	6.60	37%
<b>Total revenue</b>	<b>11.27</b>	<b>11.13</b>	<b>0.82</b>	<b>0.95</b>	<b>12.09</b>	<b>12.08</b>	<b>0%</b>
<b>Expenses:</b>							
Instruction	\$ 6.61	\$ 6.52			\$ 6.61	\$6.52	-1%
Student	0.49	0.43			0.49	0.43	-12%
Instructional staff	0.74	0.60			0.74	0.60	-19%
District administration	0.60	0.40			0.60	0.40	-34%
School administration	0.41	0.29			0.41	0.29	-28%
Business	0.37	0.36			0.37	0.36	-4%
Plant operation & maintenance	1.07	1.03			1.07	1.03	-4%
Student transportation	0.27	0.26			0.27	0.26	-3%
Food Service Operations	0.01	0.01	0.87	0.94	0.88	0.95	8%
Other instructional		0.02			-	0.02	100%
Community services operations	0.24	0.25			0.24	0.25	5%
Amortization	0.01	0.01			0.01	0.01	-40%
Depreciation	0.36	0.39	0.04	0.00	0.40	0.39	-2%
Interest on long-term debt	0.10	0.21			0.10	0.21	108%
<b>Total Expenses</b>	<b>\$ 11.28</b>	<b>\$ 10.77</b>	<b>\$ 0.91</b>	<b>\$ 0.94</b>	<b>\$12.19</b>	<b>\$11.7</b>	<b>-4%</b>
<b>Change in net position</b>	<b>\$ (0.01)</b>	<b>\$ 0.36</b>	<b>\$ (0.09)</b>	<b>\$ 0.01</b>	<b>\$(0.10)</b>	<b>\$0.36</b>	<b>465%</b>

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

**CAPITAL ASSETS**

At the end of fiscal 2019, the District had \$6.17 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents an increase (including additions and deductions) of \$2.1 million over last year.

Capital Assets at Year-End FY2019  
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Land	216,605	216,605			216,605	216,605
Land Improvements	(2,247)	(3,779)			(2,247)	(3,779)
Buildings & Improvements	3,088,844	2,841,382	3,922	3,922	3,092,766	2,845,304
Technology Equipment	(23,767)	(44,514)	26,826	26,630	3,059	(17,884)
Vehicles	629,931	864,038			629,931	864,038
General Equipment	136,070	128,474	15,337	13,555	151,407	142,029
Construction In Progress		2,118,999			-	2,118,999

**DEBT**

Capital lease and general obligation debt increased \$2.41 million from FY 2018.

Outstanding Debt at Year-End  
(in Millions)

	Government Activities	
	2018	2019
Capital Lease Obligations	\$ 0.51	\$ 0.42
General Obligation Bonds	1.93	4.31
KSBIT	0.11	0.22
<b>Total Obligations</b>	<b>\$ 2.54</b>	<b>\$ 4.95</b>

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

**THE DISTRICT'S FUNDS**

As the District completed the year, the General Fund reflected a fund balance of \$1,207,574, which is more than last year's fund balance of \$762,560. The unassigned portion of the fund balance at the end of fiscal year 2019 is \$1,157,574, compared to \$745,560 from the preceding year. The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2019:

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	1,222,347	143,746		63,093	585	50,841	107,756
State Revenue Sources	5,107,781	385,561	61,101	191,696	101,636	133,521	166,292
Federal Revenue Sources	15,837	3,620,594					708,104
Other					2,529,248		
Transfers	214,896	14,978				135,538	
<b>TOTALS</b>	<b>6,560,861</b>	<b>4,164,879</b>	<b>61,101</b>	<b>254,789</b>	<b>2,631,469</b>	<b>319,900</b>	<b>982,152</b>
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 320	Fund 400	Fund 51
Instruction	3,142,753	3,013,024					
Student Support Services	296,686	134,046					
Instructional Staff Support Services	187,186	411,964					
District Admin Support	398,948						
School Admin Support	294,334						
Business Support Services	356,449						
Plant Operation & Management	729,494	296,392					
Student Transportation	573,995	39,360					
Food Service Operations	13,001						941,685
Community Services	132	253,473					
Debt Service	109,391				34,780	269,059	
Other Instructional		15,120					
Building Acquisitions & Construction					2,118,999		
Transfers	13,478	1,500	61,101	254,789			34,544
<b>TOTALS</b>	<b>6,115,847</b>	<b>4,164,879</b>	<b>61,101</b>	<b>254,789</b>	<b>2,153,779</b>	<b>269,059</b>	<b>976,229</b>
Excess / (Deficit)	445,014	-	-	-	477,690	50,841	5,923

Owsley County School District  
**MANAGEMENT DISCUSSION & ANALYSIS**  
Year Ended June 30, 2019

\*Note: This chart does not include beginning balances.

**Comments on Budget Comparisons**

- The District's total general fund revenues for the fiscal year ended June 30, 2019 net of other financing sources and uses were \$6.35 million including "On-Behalf" payments.
- General fund budget compared to actual revenue varied slightly from line item to line item.
- The total cost of all general fund programs and services was \$6.10 million excluding transfers.
- General fund budget expenditures to actual were \$70,530 less than the budget.
- General fund budget revenues to actual were \$682,015 more than the budget.

**BUDGETARY IMPLICATIONS**

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2018-2019 with a 4.6% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- Continued insufficient funding of the state transportation formula.
- Collection of franchise taxes for the past three years.

Questions regarding this report should be directed to the Finance Officer, Jerry McIntosh or Superintendent, Dr. Tim Bobrowski. at (606) 593-6363 or by mail at Owsley County Board of Education, 14 Old Hwy 11, Booneville, Kentucky 41314.

Owsley County School District  
**Statement of Net Position**  
June 30, 2019

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,489,442	\$ 85,106	\$ 1,574,548
Receivables			
Taxes-current	64,580		64,580
Taxes-delinquent	11,912		11,912
Accounts	10,887	32,109	42,996
Intergovernmental-state	30,042		30,042
Intergovernmental-federal	595,678		595,678
Prepaid expenses	65,189		65,189
Inventories		30,501	30,501
Capital assets:			
Land and construction in progress	2,335,604		2,335,604
Other capital assets, net of depreciation	3,785,601	44,108	3,829,709
Total capital assets	<u>6,121,205</u>	<u>44,108</u>	<u>6,165,313</u>
Total assets	<u>8,388,935</u>	<u>191,824</u>	<u>8,580,759</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	1,042,187	52,307	1,094,494
Deferred outflows related to OPEB	391,372	13,654	405,026
Deferred savings from refunding bonds	25,568		25,568
Total deferred outflows of resources	<u>1,459,127</u>	<u>65,961</u>	<u>1,525,088</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>9,848,062</u>	<u>257,785</u>	<u>10,105,847</u>
<b>LIABILITIES</b>			
Accrued interest payable	44,151		44,151
Accrued expenses	12,376	18,298	30,674
Unearned revenue	157,851		157,851
Long-term liabilities:			
Due within 1 year:			
Bond obligations	230,000		230,000
Capital lease obligations	70,060		70,060
KSBIT payable	14,721		14,721
Total due within 1 year	<u>314,781</u>	<u>-</u>	<u>314,781</u>
Due in more than 1 year:			
Bond obligations	4,079,351		4,079,351
Capital lease obligations	347,441		347,441
KSBIT payable	80,324		80,324
Net pension liability	4,067,067	204,125	4,271,192
Net OPEB liability	2,732,604	59,505	2,792,109
Sick leave	50,000		50,000
Total due in more than 1 year	<u>11,356,787</u>	<u>263,630</u>	<u>11,620,417</u>
Total liabilities	<u>11,885,946</u>	<u>281,928</u>	<u>12,167,874</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	427,654	21,464	449,118
Deferred inflows related to OPEB	498,749	13,238	511,987
Total deferred inflows of resources	<u>926,403</u>	<u>34,702</u>	<u>961,105</u>
<b>NET POSITION</b>			
Net Investment in capital assets	1,394,353	44,108	1,438,461
Restricted for:			
Debt Service	393,836		393,836
Capital Projects	496,093		496,093
Unrestricted (deficit)	<u>(5,248,569)</u>	<u>(102,953)</u>	<u>(5,351,522)</u>
Total net position (deficit)	<u>(2,964,287)</u>	<u>(58,845)</u>	<u>(3,023,132)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 9,848,062</u>	<u>\$ 257,785</u>	<u>\$ 10,105,847</u>

See the accompanying notes to the financial statements.

Owsley 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
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 6,522,383	\$ -	\$ 2,649,604	\$ -	\$ (3,872,779)		\$ (3,872,779)
Support services							
Student	430,732		160,049		(270,683)		(270,683)
Instructional staff	599,150		222,629		(376,521)		(376,521)
District administration	398,947		148,239		(250,708)		(250,708)
School administration	294,334		109,367		(184,967)		(184,967)
Business	356,449		132,448		(224,001)		(224,001)
Plant operation & maintenance	1,025,886		381,194	354,433	(290,259)		(290,259)
Student transportation	263,587		97,942		(165,645)		(165,645)
Food services	13,001		4,831		(8,170)		(8,170)
Other instructional	15,120		5,618		(9,502)		(9,502)
Community services operations	253,605		94,233		(159,372)		(159,372)
Amortization	6,774				(6,774)		(6,774)
Depreciation*	392,998				(392,998)		(392,998)
Interest on general long-term debt	208,575			133,521	(75,054)		(75,054)
Total governmental activities	<u>10,781,541</u>	<u>-</u>	<u>4,006,155</u>	<u>487,954</u>	<u>(6,287,432)</u>		<u>(6,287,432)</u>
Business-type activities:							
Food service operations	939,708	107,711	874,396			\$ 42,399	42,399
Depreciation	1,977					(1,977)	(1,977)
Total business-type activities	<u>941,685</u>	<u>107,711</u>	<u>874,396</u>	<u>-</u>	<u>-</u>	<u>40,422</u>	<u>40,422</u>
Total primary government	\$ <u>11,723,226</u>	\$ <u>107,711</u>	\$ <u>4,880,551</u>	\$ <u>487,954</u>	<u>(6,287,432)</u>	<u>40,422</u>	<u>(6,247,010)</u>
General revenues:							
Taxes:							
Property taxes					562,480		562,480
Motor vehicle taxes					163,639		163,639
Utility taxes					217,405		217,405
State and formula grants					5,123,618		5,123,618
Unrestricted investment earnings					58,544	45	58,589
Other local revenue					478,544		478,544
Operating transfers					34,544	(34,544)	-
Total general revenues and operating transfers					<u>6,638,774</u>	<u>(34,499)</u>	<u>6,604,275</u>
Change in net position					351,342	5,923	357,265
Net position - beginning					(3,315,629)	(64,768)	(3,380,397)
Net position - ending					\$ <u>(2,964,287)</u>	\$ <u>(58,845)</u>	\$ <u>(3,023,132)</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.

Owsley County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2019

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Construction</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 599,513	\$ -	\$ 477,690	\$ 393,836	\$ 18,403	\$ 1,489,442
Prepaid expense	65,189					65,189
Interfund receivables	462,192					462,192
Receivables						
Taxes-current	64,580					64,580
Taxes-delinquent	11,912					11,912
Accounts		10,887				10,887
Intergovernmental-state	16,564	13,478				30,042
Intergovernmental-federal		595,678				595,678
Total assets	1,219,950	620,043	477,690	393,836	18,403	2,729,922
<b>LIABILITIES</b>						
Interfund payable		462,192				462,192
Accounts payable	127					127
Accrued salaries & benefits payable	12,249					12,249
Unearned revenue		157,851				157,851
Total liabilities	12,376	620,043	-	-	-	632,419
<b>FUND BALANCE</b>						
Restricted			477,690	393,836	18,403	889,929
Committed	50,000					50,000
Unassigned	1,157,574					1,157,574
Total fund balance	1,207,574	-	477,690	393,836	18,403	2,097,503
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,219,950</b>	<b>\$ 620,043</b>	<b>\$ 477,690</b>	<b>\$ 393,836</b>	<b>\$ 18,403</b>	<b>\$ 2,729,922</b>

See the accompanying notes to the financial statements.

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

<b>Fund balances-total governmental funds</b>	\$	2,097,503
<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>		6,121,205
<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 and amortized over the life of the bond.</p>		25,568
<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		(44,151)
Bonds payable		(4,309,351)
Capital lease obligations		(417,501)
KSBIT payable		(95,045)
Sick leave liability		(50,000)
Net pension liability		(4,067,067)
Net OPEB liability		(2,732,604)
<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 inflows related to OPEB		(498,749)
Deferred outflows related to OPEB		391,372
Deferred outflows related to pensions		1,042,187
Deferred inflows related to pensions		(427,654)
		(2,964,287)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>(2,964,287)</b>

See the accompanying notes to the financial statements.



Owsley 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>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 499,387	\$ -	\$ -	\$ -	\$ 63,093	\$ 562,480
Motor vehicle	163,639					163,639
Utilities	217,405					217,405
Earnings on investments	7,118		585	50,841		58,544
Other local revenue	334,798	143,746				478,544
Intergovernmental - state	5,107,781	385,561	101,636	133,521	252,797	5,981,296
Intergovernmental - federal	15,837	3,620,594				3,636,431
Total revenues	<u>6,345,965</u>	<u>4,149,901</u>	<u>102,221</u>	<u>184,362</u>	<u>315,890</u>	<u>11,098,339</u>
<b>EXPENDITURES</b>						
Instruction	3,142,753	3,013,024				6,155,777
Support services						
Student	296,686	134,046				430,732
Instructional staff	187,186	411,964				599,150
District administration	398,948					398,948
School administration	294,334					294,334
Business	356,449					356,449
Plant operation & maintenance	729,494	296,392				1,025,886
Student transportation	573,995	39,360				613,355
Food service operation	13,001					13,001
Other instructional		15,120				15,120
Community services	132	253,473				253,605
Building acquisitions & construction			2,118,999			2,118,999
Debt service	109,391		34,780	269,059		413,230
Total expenditures	<u>6,102,369</u>	<u>4,163,379</u>	<u>2,153,779</u>	<u>269,059</u>	<u>-</u>	<u>12,688,586</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	243,596	(13,478)	(2,051,558)	(84,697)	315,890	(1,590,247)
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond principal proceeds			2,570,000			2,570,000
Bond discount			(40,752)			(40,752)
Operating transfers in	214,896	14,978		135,538		365,412
Operating transfers (out)	(13,478)	(1,500)			(315,890)	(330,868)
Total other financing sources and (uses)	<u>201,418</u>	<u>13,478</u>	<u>2,529,248</u>	<u>135,538</u>	<u>(315,890)</u>	<u>2,563,792</u>
<b>NET CHANGE IN FUND BALANCE</b>	445,014	-	477,690	50,841	-	973,545
<b>FUND BALANCE-BEGINNING</b>	<u>762,560</u>	<u>-</u>	<u>-</u>	<u>342,995</u>	<u>18,403</u>	<u>1,123,958</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 1,207,574</u>	<u>\$ -</u>	<u>\$ 477,690</u>	<u>\$ 393,836</u>	<u>\$ 18,403</u>	<u>\$ 2,097,503</u>

See the accompanying notes to the financial statements.

Owsley 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

<b>Net change in fund balances-total governmental funds</b>	<b>\$</b>	<b>973,545</b>
<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		(281,747)
<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		(89,265)
<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>		
		2,075,769
<p>A discount/premium is an other financing use/expenditure in the fund financial statements for a sale of a bond, but is a reduction/addition to the bonds payable in the government wide financial statements.</p>		
		38,340
<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>		
		(6,774)
<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>		
		(2,328,744)
<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		(34,189)
KSBIT liability		14,407
Noncurrent sick leave payable		(10,000)
		(34,189)
		14,407
		(10,000)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>351,342</b>

See the accompanying notes to the financial statements.

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

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 424,763	\$ 334,000	\$ 499,387	\$ 165,387
Motor vehicle	55,964	65,000	163,639	98,639
Unmined minerals	400	16,000	-	(16,000)
Utilities	231,444	195,000	217,405	22,405
Earnings on investments	4,621	4,000	7,118	3,118
Student activities	250	1,000	-	(1,000)
Other local revenue	167,964	272,854	334,798	61,944
Intergovernmental - state	5,487,050	4,762,096	5,107,781	345,685
Intergovernmental - federal	17,410	14,000	15,837	1,837
Total revenues	<u>6,389,866</u>	<u>5,663,950</u>	<u>6,345,965</u>	<u>682,015</u>
<b>EXPENDITURES</b>				
Instruction	3,118,441	3,110,513	3,142,753	(32,240)
Support services				
Student	353,015	285,341	296,686	(11,345)
Instructional staff	333,429	186,103	187,186	(1,083)
District administration	435,667	474,122	398,948	75,174
School administration	413,795	286,824	294,334	(7,510)
Business	375,657	295,502	356,449	(60,947)
Plant operation & maintenance	691,594	703,188	729,494	(26,306)
Student transportation	541,814	679,790	573,995	105,795
Food service operations	12,939	15,894	13,001	2,893
Community services		500	132	368
Land/site acquisitions		2,000		2,000
Land improvements		1,000		1,000
Debt service	84,060	132,122	109,391	22,731
Total expenditures	<u>6,360,411</u>	<u>6,172,899</u>	<u>6,102,369</u>	<u>70,530</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	29,455	(508,949)	243,596	752,545
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment		1,500		(1,500)
Operating transfers in	50,142	37,468	214,896	177,428
Operating transfers (out)	(10,026)	(13,468)	(13,478)	(10)
Total other financing sources and (uses)	<u>40,116</u>	<u>25,500</u>	<u>201,418</u>	<u>175,918</u>
<b>NET CHANGE IN FUND BALANCE</b>	69,571	(483,449)	445,014	928,463
<b>FUND BALANCE-BEGINNING</b>	<u>624,903</u>	<u>742,560</u>	<u>762,560</u>	<u>20,000</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 694,474</u>	<u>\$ 259,111</u>	<u>\$ 1,207,574</u>	<u>\$ 948,463</u>

See the accompanying notes to the financial statements.

Owsley 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>		
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ 139,076	\$ 147,298	\$ 143,746	\$ (3,552)
Intergovernmental - state	389,649	366,420	385,561	19,141
Intergovernmental - federal	3,990,416	1,616,699	3,620,594	2,003,895
Total revenues	<u>4,519,141</u>	<u>2,130,417</u>	<u>4,149,901</u>	<u>2,019,484</u>
<b>EXPENDITURES</b>				
Instruction	3,303,920	1,534,433	3,013,024	(1,478,591)
Support Services				
Student	135,587	127,965	134,046	(6,081)
Instructional Staff	410,417	243,661	411,964	(168,303)
Business	12,953		-	-
Plant Operation & Maintenance	376,736	28,046	296,392	(268,346)
Student Transportation	37,416	18,742	39,360	(20,618)
Community Services Operations	236,313	186,599	253,473	(66,874)
Other Instructional	5,805	22,310	15,120	7,190
Total expenditures	<u>4,519,147</u>	<u>2,161,756</u>	<u>4,163,379</u>	<u>(2,001,623)</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(6)	(31,339)	(13,478)	17,861
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in (out)		31,339	13,478	(17,861)
Total other financing sources and (uses)	<u>-</u>	<u>31,339</u>	<u>13,478</u>	<u>(17,861)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(6)	-	-	-
<b>FUND BALANCE-BEGINNING</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ (6)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Net Position**  
**Proprietary Fund**  
June 30, 2019

	<b>School Food Services</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 85,106
Inventories	30,501
Accounts receivable	32,109
Capital assets:	
Other capital assets, net of depreciation	44,108
Total assets	191,824
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred outflows related to pensions	52,307
Deferred outflows related to OPEB	13,654
Total deferred outflows of resources	65,961
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>257,785</b>
<b>LIABILITIES</b>	
Accounts payable	18,298
Net pension liability	204,125
Net OPEB liability	59,505
Total liabilities	281,928
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflows related to pensions	21,464
Deferred inflows related to OPEB	13,238
Total deferred inflows of resources	34,702
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>316,630</b>
<b>NET POSITION</b>	
Net Investment in capital assets	44,108
Unrestricted (deficit)	(102,953)
Total net position	(58,845)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 257,785</b>

See the accompanying notes to the financial statements.

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

	<b>Enterprise Fund</b>
	<b>School Food Services</b>
<b>OPERATING REVENUES</b>	
Lunchroom sales	\$ 107,711
Total operating revenues	107,711
<b>OPERATING EXPENSES</b>	
Depreciation	1,977
Food service operations	
Employee services	329,358
Operational expense	610,350
Total operating expenses	941,685
Operating income (loss)	(833,974)
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Federal grants	708,104
State grants	166,292
Transfers	(34,544)
Earnings from investments	45
Total nonoperating revenues (expenses)	839,897
<b>CHANGE IN NET POSITION</b>	5,923
<b>NET POSITION-BEGINNING</b>	(64,768)
<b>NET POSITION-ENDING</b>	\$ (58,845)

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Cash Flows**  
**Proprietary Fund**  
Year Ended June 30, 2019

Enterprise Fund

School  
Food  
Services

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	107,711
Payments to suppliers		(572,169)
Payments to employees		(329,358)
Net cash provided (used) by operating activities		<u>(793,816)</u>

**CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES**

Purchase of capital assets		-
Net cash provided (used) by capital financing activities		<u>-</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Indirect cost transfer		(34,544)
Operating grants and contributions		874,396
Net cash provided (used) by noncapital financing activities		<u>839,852</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest		45
Net cash provided (used) by investing activities		<u>45</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

46,081

**CASH AND CASH EQUIVALENTS-BEGINNING**

39,025

**CASH AND CASH EQUIVALENTS-ENDING**

\$ 85,106

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities:**

Operating income (loss)	\$	(833,974)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		1,977
Changes in assets and liabilities:		
Receivables		2,882
Deferrals		18,567
Deferrals		6,603
Pension liability		4,325
OPEB liability		(9,117)
Accrued expenses		18,298
Inventories		(3,377)
Net cash provided (used) by operating activities	\$	<u><u>(793,816)</u></u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$96,295 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 \$161,555 provided by state government.

See the accompanying notes to the financial statements.

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

		<b>SCHOOL ACTIVITY FUNDS</b>
		<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	74,219
Accounts receivable		2,601
Total Assets		<u>76,820</u>
<b>LIABILITIES</b>		
Accounts payable		1,037
Due to student groups		75,783
Total Liabilities	\$	<u>76,820</u>

See the accompanying notes to the financial statements.



OWSLEY 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 Owsley 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 Owsley 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 Owsley 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

Owsley County Board Of Education Finance Corporation

The Board authorized establishment of the Owsley 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 Owsley 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (C) 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.

The District applies all GASB pronouncements to proprietary funds.

## III. Fiduciary Fund Types

### Agency Funds

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds 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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized. Unearned Revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

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

### Cash and Cash Equivalents

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Inventories

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

### Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which services are consumed.

### Capital Assets

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

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

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

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

### Accrued Liabilities and Long-Term Obligations

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Accumulated Unpaid Sick Leave Benefits

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

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

### Fund Balances

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

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
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 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District’s policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$.498 per \$100 valuation of real property, \$.498, including exonerations, per \$100 valuation for business personal property and \$.578 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 fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

### Interfund Receivables/Payables

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Interfund Transfers

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

### Deferred Outflows/Inflows of Resources

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

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

### Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous ("CERS") and Teachers Retirement System of the State of Kentucky ("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.

### 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



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

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

### Estimates

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

### Budgetary Process

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

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

Special Revenue Fund expenditures exceeded budgeted appropriations by \$2,001,623.

### 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 THE 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 \$1,648,767. The bank balance for the same time was \$2,535,047.

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 (held by Fiscal Agents), 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 FOLLOWING PAGE

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

<b><u>Governmental Activities</u></b>	<b><u>July 1, 2018</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2019</u></b>
Land	\$ 216,605	\$ -	\$ -	\$ 216,605
Land improvements	157,923	-	-	157,923
Buildings	8,542,944	-	-	8,542,944
Technology equipment	2,031,233	-	-	2,031,233
Vehicles	2,210,675	349,768	-	2,560,443
General equipment	431,630	-	-	431,630
Construction in progress	-	2,118,999	-	2,118,999
Total at historical cost	\$ <u>13,591,011</u>	\$ <u>2,468,767</u>	\$ <u>-</u>	\$ <u>16,059,778</u>
Less: Accumulated depreciation				
Land improvements	\$ 160,169	\$ 1,533	\$ -	\$ 161,702
Buildings	5,454,100	247,462	-	5,701,562
Technology equipment	2,055,000	20,746	-	2,075,747
Vehicles	1,580,744	115,661	-	1,696,405
General equipment	295,560	7,596	-	303,156
Total accumulated depreciation	\$ <u>9,545,574</u>	\$ <u>392,999</u>	\$ <u>-</u>	\$ <u>9,938,573</u>
Governmental Activities				
Capital Assets-net	\$ <u>4,045,436</u>	\$ <u>2,075,768</u>	\$ <u>-</u>	\$ <u>6,121,205</u>
<b><u>Business-Type Activities</u></b>	<b><u>July 1, 2018</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2019</u></b>
Buildings and Improvements	\$ 7,400	\$ -	\$ -	\$ 7,400
Technology equipment	103,156	-	-	103,156
General equipment	218,065	-	-	218,065
Total at historical cost	\$ <u>328,621</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>328,621</u>
Less: Accumulated depreciation				
Buildings and Improvements	\$ 3,478	\$ -	\$ -	\$ 3,478
Technology equipment	76,330	195	-	76,525
General equipment	202,729	1,781	-	204,510
Total accumulated depreciation	\$ <u>282,537</u>	\$ <u>1,976</u>	\$ <u>-</u>	\$ <u>284,513</u>
Business-Type Activities				
Capital Assets-net	\$ <u>46,085</u>	\$ <u>(1,976)</u>	\$ <u>-</u>	\$ <u>44,108</u>

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

**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 Owsley 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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 Dates</u>	<u>Interest Rates</u>	<u>2018 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019 Outstanding Balance</u>
2007	\$ 755,000	6/1/2027	3.9 - 4.3%	\$ 410,000	\$ -	\$ 40,000	\$ 370,000
2010R	695,000	2/1/2021	.75 - 2.55%	220,000	-	70,000	150,000
2010	1,000,000	12/1/2027	6.125%	1,000,000	-	-	1,000,000
2012R	1,340,000	10/1/2024	1.0 - 2.375%	300,000	-	40,000	260,000
2018	2,570,000	8/1/2038	3.0-3.625%	-	2,570,000	-	2,570,000
				1,930,000	2,570,000	150,000	4,350,000
Add:	Premium			8,640	-	1,234	7,406
Less:	Discount			(10,949)	(40,752)	(3,646)	(48,055)
Totals				\$ 1,927,691	\$ 2,529,248	\$ 147,589	\$ 4,309,351

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:

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>Federal Rebate</u>	<u>PRINCIPAL TOTAL</u>	<u>INTEREST TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>INTEREST</u>		
2020	105,091	30,551	124,909	138,016	(56,300)	230,000	112,266
2021	100,936	28,042	129,064	133,862	(56,300)	230,000	105,604
2022	58,914	25,392	116,086	129,565	(56,300)	175,000	98,657
2023	54,909	23,865	120,091	125,560	(56,300)	175,000	93,126
2024	55,742	22,478	124,258	121,394	(56,300)	180,000	87,572
2025-2029	1,160,924	95,652	589,076	427,371	(197,050)	1,750,000	325,973
2030-2034	227,806	66,486	522,194	147,358	-	750,000	213,844
2035-2039	269,859	24,697	590,141	51,525	-	860,000	76,222
	\$2,034,181	\$ 317,163	\$2,315,819	\$1,274,650	\$(478,550)	\$4,350,000	\$1,113,264

A qualified zone academy bond (QZAB) was issued in 2003 in the amount of \$500,000 to be used for construction. The bond required an initial payment of \$287,750 which retired the bond. The difference of \$212,250 was recorded as unearned revenue. Over the 15 year life of the bond, \$14,150 was recorded as revenue per year to reduce unearned revenue to zero over the life of the bond.

The 2010 issued bond is a QZAB bond that requires payments to an escrow fund that will draw interest and retire the bond December 1, 2027. The District had accumulated \$393,836 in the escrow fund as of June 30, 2019.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**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 Interlocal School Transportation Association (KISTA). The activity during fiscal year 2019 for the worker's compensation deficit is as follows:

<b><u>KISTA Issues</u></b>	<b><u>Original Amount</u></b>	<b><u>Maturity Date</u></b>	<b><u>Interest Rates</u></b>		<b><u>2018 KISTA Outstanding</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>2019 KISTA Outstanding</u></b>
KSBIT	\$ 149,028	8/1/2024	2.0 - 3.25%	\$	109,452	\$ -	\$ 14,407	\$ 95,045

The minimum payments are as follows:

<b><u>Fiscal Year Ended June 30th</u></b>	<b><u>Local Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total Payments</u></b>
2020	14,721	2,631	17,352
2021	15,105	2,247	17,352
2022	15,566	1,786	17,352
2023	16,040	1,312	17,352
2024	16,539.00	813.32	17,352
2025	17,074	277	17,351
	<u>\$ 95,045</u>	<u>\$ 9,067</u>	<u>\$ 104,112</u>

**Net Pension & OPEB Liability**

The net pension liability is \$4,067,067 for governmental activities and \$204,125 for business-type activities for a total of \$4,271,192 as of June 30, 2019. (See Note G for additional information) The net OPEB liability is \$2,732,604 for governmental activities and \$59,505 for business-type activities for a total of \$2,792,109 as of June 30, 2019. (See Note I for additional information)

**Accumulated Sick Leave**

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

	<b><u>2018 Outstanding Balance</u></b>	<b><u>Additions</u></b>	<b><u>Retirements</u></b>	<b><u>2019 Outstanding Balance</u></b>
Sick Leave	\$ 40,000	\$ 10,000	\$ -	\$ 50,000
Totals	<u>\$ 40,000</u>	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Description</u>	2018			2019	
	<u>Outstanding</u>			<u>Outstanding</u>	<u>Amount</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>	<u>Due in 1 Year</u>
Bonds, Net Premium and Discount	\$ 1,927,691	\$ 2,529,249	\$ 147,589	\$ 4,309,351	\$ 230,000
Capital Lease (See Note E)	508,757	-	91,256	417,501	70,060
KSBIT	109,452	-	14,407	95,045	14,721
Net Pension Liability	4,253,247	17,945	-	4,271,192	-
Net OPEB Liability	3,138,795	-	346,686	2,792,109	-
Sick Leave	40,000	10,000	-	50,000	-
Totals	<u>\$ 9,977,942</u>	<u>\$ 2,557,194</u>	<u>\$ 599,938</u>	<u>\$ 11,935,198</u>	<u>\$ 314,781</u>

### NOTE E – CAPITAL LEASES

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

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2018			2019
				<u>Outstanding</u>			<u>Outstanding</u>
				<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
2018 KISTA	\$ 210,822			\$ 210,822	\$ -	\$ 22,636	188,186
2008 KISTA	153,110	3/1/2018	3.0 - 3.75%	-	-	-	-
2009 KISTA	158,239	3/1/2019	2.0 - 3.9%	15,059	-	15,059	-
2011 KISTA	190,065	3/1/2021	1.0 - 4.0%	55,042	-	20,166	34,876
2012 KISTA	99,782	3/1/2022	2.0 - 2.625%	38,801	-	10,237	28,564
2017 KISTA	211,139	3/1/2027	2.550%	189,033	-	23,158	165,875
				<u>\$ 508,757</u>	<u>\$ -</u>	<u>\$ 91,256</u>	<u>\$ 417,501</u>

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

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	70,060	11,700	81,760
2021	66,553	9,864	76,417
2022	50,153	7,826	57,979
2023	42,068	6,449	48,517
2024	43,325	5,283	48,608
2025-2028	145,342	9,195	154,537
	<u>\$ 417,501</u>	<u>\$ 50,318</u>	<u>\$ 467,819</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Total minimum lease payments	\$	467,819
Less: Amount representing interest		<u>(50,318)</u>
Present Value of Net Minimum		
Lease Payments	\$	<u>417,501</u>

**NOTE F – OPERATING LEASES**

The District has commitments under operating lease agreements for office equipment provided for the minimum future rent payments as of June 30, 2019 are as follows:

Fiscal Year Ended June 30,	<u>Payment</u>
2020	19,057
2021	19,057
2022	9,645
2023	<u>7,762</u>
<b>Total</b>	<b>\$ <u>55,521</u></b>

Expenditures for equipment under operating leases for the year ending June 30, 2019 totaled \$19,057.

**NOTE G – 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:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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, 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.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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.

**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>11,279,430</u>
	\$	<u><u>11,279,430</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 0.04404%.

*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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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	<u>100.0%</u>	

*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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
KTRS	6.50%	7.50%	8.50%
Commonwealth's proportionate share of net pension liability	\$ 14,458,206	\$ 11,249,430	\$ 8,604,915

*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 \$339,147 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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 0.227077%.

District's proportionate share of CERS net pension liability	\$	4,271,192
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>-</u>
	\$	<u><u>4,271,192</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$298,736. 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	\$ 139,314	62,521
Changes of assumptions	417,420	-
Net difference between projected and actual earnings on pension plan investments	198,613	249,828
Changes in proportion and differences between District contributions and proportionate share of contributions		136,769
District contributions subsequent to the measurement date	<u>339,147</u>	<u>-</u>
	\$ <u><u>1,094,494</u></u>	\$ <u><u>449,118</u></u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The \$339,147 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:

		<b>Year Ended June</b>		<b>30,</b>
2020	\$			269,192
2021				125,772
2022				(65,809)
2023				(22,926)
	\$			306,229

*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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

<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:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 5,376,988	\$ 4,271,192	\$ 3,344,728

*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.

**Other Retirement Plans**

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

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until their termination, retirement, death or unforeseeable emergency.

GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, allows entities with little or no administrative involvement and who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not report these assets and liabilities on its financial statements.

**NOTE H – 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 Postemployment 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.

**NOTE I – 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### ***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 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*



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

At June 30, 2019, the District reported a liability of \$1,547,000 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 .044575 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	\$	1,547,000
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		<u>1,333,000</u>
	\$	<u><u>2,880,000</u></u>

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	\$ -	\$ 147,000
Changes of assumptions	40,000	-
Net difference between projected and actual earnings on pension plan investments	-	12,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	76,000
District contributions subsequent to the measurement date	<u>79,323</u>	<u>-</u>
	\$ <u><u>119,323</u></u>	\$ <u><u>235,000</u></u>

The \$79,323 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:

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

		<b>Year Ended June 30,</b>
		<hr/>
2020	\$	(38,000)
2021		(38,000)
2022		(38,000)
2023		(33,000)
2024		(34,000)
Thereafter		<hr/> (14,000) <hr/>
	\$	<hr/> <hr/> (195,000) <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 THE 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
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%
	<hr style="width: 50%; margin: 0 auto;"/> 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 THE 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:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
KTRS	7.00%	8.00%	9.00%
District's & State’s proportionate share of net OPEB liability	\$ 3,377,000	\$ 2,880,000	\$ 2,465,000

*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:

	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
District's & State’s proportionate share of net OPEB liability	\$ 2,387,000	\$ 2,880,000	\$ 3,487,000

*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 THE 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		<u>23,000</u>
	\$	<u><u>23,000</u></u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$42,000 and revenue of \$42,000 for support provided by the State.

## NOTES TO THE 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 THE FINANCIAL STATEMENTS (CONTINUED)**

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
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:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
KTRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 35,000	\$ 23,000	\$ 13,000

*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 THE 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 \$1,245,109 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 .07012800 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	\$ 1,245,109
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>-</u>
	<u><u>\$ 1,245,109</u></u>



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended June 30, 2019, the District recognized OPEB expense of \$50,653. 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	\$ -	145,101
Changes of assumptions	248,667	2,877
Net difference between projected and actual earnings on pension plan investments	-	85,764
Changes in proportion and differences between District contributions and proportionate share of contributions	-	43,245
District contributions subsequent to the measurement date	<u>37,036</u>	<u>-</u>
	\$ <u>285,703</u>	\$ <u>276,987</u>

The \$37,036 (includes \$20,086 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	\$ (3,851)
2021	(3,851)
2022	(3,851)
2023	12,805
2024	(19,082)
Thereafter	<u>(10,490)</u>
	\$ <u>(28,320)</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 THE 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:

	<b>1% Decrease</b>	<b>Current Discount Rate</b>	<b>1% Increase</b>
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 1,617,197	\$ 1,245,109	\$ 928,158

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

*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 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:

	<b>1% Decrease</b>	<b>Current Trend Rate</b>	<b>1% Increase</b>
District's proportionate share of net OPEB liability	\$ 926,996	\$ 1,245,109	\$ 1,620,072

*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 J – COMMITMENTS**

The District has committed \$477,690 for future construction projects at June 30, 2019, along with \$50,000 committed for sick leave.

**NOTE K – RESTRICTED BALANCES**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service	\$ 393,836	Escrow for 2010 QZAB Bond
Construction	477,690	School Facilities Construction Commission
FSPK	16,098	School Facilities Construction Commission
Capital Outlay	\$ 2,305	School Facilities Construction Commission

**NOTE L – 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 M – LITIGATION**

The District is involved in no pending or threatened litigation.

**NOTE N – 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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**NOTE O – 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.

**NOTE P – 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>Fund Balance/ Net Position</u>
Governmental Activities	\$ (2,964,287)
School Activity Funds	(11,241)
Business-type Activities/Proprietary Fund	\$ (58,845)

**NOTE Q - 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 R – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS	\$ 13,478
Food Service	General Fund	Indirect Costs	34,544
Building Fund	Debt Service Fund	Debt Payments	135,538
Capital Outlay	General Fund	Operating	61,101
Building Fund	General Fund	Operating	119,251
Special Revenue Fund	Special Revenue Fund	Interfund	\$ 1,500

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE S – 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)	\$ 886,503
Health Insurance	955,594
Life Insurance	1,688
Administrative Fee	13,915
HRA/Dental/Vision	23,975
Federal Reimbursements	(269,802)
Technology	71,276
SFCC Debt Service Payments	<u>133,521</u>
Total	<u>\$ 1,816,669</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.

**NOTE T – SUBSEQUENT EVENTS**

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

OWSLEY 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)
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):</b>				
Districts' proportion of the net pension liability	0.07013%	0.07266%	0.074500%	0.07870%
District's proportionate share of the net pension liability	\$ 4,271,192	\$ 4,253,247	\$ 3,668,450	\$ 3,381,594
State's proportionate share of the net pension liability associated with the District	-	-	-	-
Total	<u>\$ 4,271,192</u>	<u>\$ 4,253,247</u>	<u>\$ 3,668,450</u>	<u>\$ 3,381,594</u>
District's covered-employee payroll	\$ 1,735,808	\$ 1,775,140	\$ 1,781,344	\$ 1,837,021
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	246.06%	239.60%	205.94%	184.08%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	59.00%	59.97%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):</b>				
Districts' proportion of the net pension liability	0.086%	0.089%	0.098%	0.096%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	11,279,430	23,954,201	28,805,085	22,342,282
Total	<u>\$ 11,279,430</u>	<u>\$ 23,954,201</u>	<u>\$ 28,805,085</u>	<u>\$ 22,342,282</u>
District's covered-employee payroll	\$ 3,515,481	\$ 3,551,293	\$ 3,748,513	\$ 3,740,731
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

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

For the Year Ended June 30, 2019

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):</b>				
Contractually required contribution	\$ 339,147	\$ 320,878	\$ 332,997	\$ 303,898
Contributions in relation to the contractually required contributions	339,147	320,878	332,997	303,898
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 1,657,804	\$ 1,735,808	\$ 1,775,140	\$ 1,781,344
District's contributions as a percentage of it's covered-employee payroll	20.46%	18.49%	18.76%	17.06%
 <b>KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):</b>				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	-	-	-	-
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 3,573,093	\$ 3,515,481	\$ 3,551,293	\$ 3,748,513
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.

OWSLEY 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%



OWSLEY 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.

OWSLEY 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

	<b>Reporting Fiscal Year (Measurement Date) 2019 (2018)</b>	<b>Reporting Fiscal Year (Measurement Date) 2018 (2017)</b>
	<u>                    </u>	<u>                    </u>
<b>MEDICAL INSURANCE PLAN</b>		
District's proportion of the collective net OPEB liability (asset)	0.04458%	0.04705%
District's proportionate share of the collective net OPEB liability (asset)	\$ 1,547,000	\$ 1,678,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>1,333,000</u>	<u>1,370,000</u>
Total	<u>\$ 2,880,000</u>	<u>\$ 3,048,000</u>
District's covered-employee payroll	\$ 3,515,481	\$ 3,551,293
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	44.01%	47.25%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.20%
<b>LIFE INSURANCE PLAN</b>		
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>23,000</u>	<u>18,000</u>
Total	<u>\$ 23,000</u>	<u>\$ 18,000</u>
District's covered-employee payroll	\$ 3,515,481	\$ 3,551,293
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.

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

	<b>2019</b>	<b>2018</b>
<b>MEDICAL INSURANCE PLAN</b>		
Contractually required contribution	\$ 79,323	\$ 79,323
Contributions in relation to the contractually required contribution	79,323	79,323
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,573,093	\$ 3,515,481
District's contributions as a percentage of it's covered-employee payroll	2.22%	2.26%
<b>LIFE INSURANCE PLAN</b>		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,573,093	\$ 3,515,481
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.

OWSLEY 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

	<b>Reporting Fiscal Year (Measurement Date) 2019 (2018)</b>	<b>Reporting Fiscal Year (Measurement Date) 2018 (2017)</b>
	<u>                    </u>	<u>                    </u>
<b>HEALTH INSURANCE PLAN</b>		
District's proportion of the collective net OPEB liability (asset)	0.07013%	0.07266%
District's proportionate share of the collective net OPEB liability (asset)	\$ 1,245,109	\$ 1,460,795
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>-</u>	<u>-</u>
Total	<u>\$ 1,245,109</u>	<u>\$ 1,460,795</u>
District's covered-employee payroll	\$ 1,735,808	\$ 1,775,140
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	71.73%	82.29%
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.

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

	<b>2019</b>	<b>2018</b>
<b>HEALTH INSURANCE PLAN</b>		
Contractually required contribution	\$ 37,036	\$ 33,678
Contributions in relation to the contractually		
	37,036	33,678
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 1,657,804	\$ 1,735,808
District's contributions as a percentage of it's covered-employee payroll	2.23%	1.94%

**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.

OWSLEY 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

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

Life Insurance Fund

- o Amortization period switched to closed.
- o Projected salary increases increased to 4%.
- o Inflation rate increased to 3.5%.
- o Wage inflation increased to 4%.
- o 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:

OWSLEY 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.

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

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,305	\$ 16,098	\$ 18,403
Total assets	2,305	16,098	18,403
<b>Fund Balances</b>			
Restricted	2,305	16,098	18,403
Total fund balances	\$ 2,305	\$ 16,098	\$ 18,403

See the accompanying notes to the financial statements.



Owsley County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
For the year ended June 30, 2019

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Total</b>
<b>Revenues</b>			
From local sources			
Taxes			
Property	\$ -	\$ 63,093	\$ 63,093
Intergovernmental - state	61,101	191,696	252,797
Total revenues	61,101	254,789	315,890
<b>Expenditures</b>			
Plant operation and maintenance			-
Total expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	61,101	254,789	315,890
<b>Other Financing Sources (Uses)</b>			
Transfers (out)	(61,101)	(254,789)	(315,890)
Total Other Financing Sources (Uses)	(61,101)	(254,789)	(315,890)
<b>Net change in fund balances</b>	-	-	-
<b>Fund Balance beginning</b>	2,305	16,098	18,403
<b>Fund Balance ending</b>	\$ 2,305	\$ 16,098	\$ 18,403

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Balance Sheet of Fiduciary Fund - School Activity Funds**  
 June 30, 2019

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>OWSLEY COUNTY HIGH SCHOOL</b>	<b>OWSLEY COUNTY ELEMENTARY</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 62,549	\$ 11,670	\$ 74,219
Accounts receivable	1,587	1,014	2,601
Total Assets	64,136	12,684	76,820
<b>LIABILITIES</b>			
Accounts payable	1,037		1,037
Total Liabilities	1,037	-	1,037
<b>FUND BALANCE</b>			
Student activities	63,099	12,684	75,783
Total Liabilities & Fund Balances	\$ 64,136	\$ 12,684	\$ 76,820

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**School Activity Funds**  
For the year ended June 30, 2019

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>OWSLEY COUNTY HIGH SCHOOL</b>	<b>OWSLEY COUNTY ELEMENTARY</b>	<b>TOTAL</b>
<b>REVENUES</b>			
Student revenues	\$ 191,499	\$ 25,386	\$ 216,885
<b>EXPENSES</b>			
Student activities	189,705	38,421	228,126
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	1,794	(13,035)	(11,241)
<b>FUND BALANCES BEGINNING</b>	61,305	25,719	87,024
<b>FUND BALANCES ENDING</b>	\$ 63,099	\$ 12,684	\$ 75,783

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Owsley County High School**  
For the year ended June 30, 2019

	<b>FUND BALANCE BEGINNING</b>	<b>REVENUES</b>	<b>EXPENSES</b>	<b>TRANSFERS</b>	<b>FUND BALANCE ENDING</b>
GENERAL FUND	\$ 4,695	\$ 3,544	\$ 6,067	\$ 3,195	\$ 5,367
MISCELLANEOUS	2,175	1,019	2,121	1,623	2,696
ONE TO ONE	425	2,985	2,636	-	774
CLASSROOM CREATIONS	984	-	184	-	800
PROM MISC SENIOR ACCT	373	1,839	1,749	(320)	143
TEACHER	875	2,368	2,708	(535)	-
CONCESSIONS	493	17,619	8,441	(8,891)	780
SNACK	3,198	-	1,908	1,000	2,290
BETA CLUB	91	5,366	5,524	74	7
FFA	(335)	9,128	9,304	560	49
FARMERS MARKET	652	2,389	1,956	(843)	242
FBLA	558	1,078	1,586	-	50
FILM CLUB	250	-	-	(250)	-
CHESS CLUB	194	237	400	-	31
MS/HS ACADEMIC TEAM	97	1,532	1,523	-	106
YEARBOOK	10	-	-	-	10
JUNIOR BETA CLUB	-	1,320	1,197	-	123
TECHNOLOGY	3,714	54	1,792	-	1,976
CLASS OF 2018	190	50	(240)	(480)	-
CLASS OF 2019	2,442	34,590	38,131	1,226	127
CLASS OF 2020	2,649	4,689	1,165	-	6,173
CLASS OF 2021	400	66	-	-	466
CLASS OF 2022	-	-	-	-	-
GENERAL ATHLETICS	829	37,126	30,901	(5,765)	1,289
GIRLS BASKETBALL	1,792	14,755	11,766	2,500	7,281
BOYS BASKETBALL	5,706	2,461	6,428	2,500	4,239
ARCHERY	21	10	-	-	31
BASEBALL	1,503	2,744	2,453	1,000	2,794
CHEERLEADERS	3,206	12,432	14,173	250	1,715
GOLF	880	643	613	300	1,210
MS BOYS BASKETBALL	3,047	3,581	6,960	350	18
MS GIRLS BASKETBALL	1,340	2,794	3,501	506	1,139
SOFTBALL	2,192	1,947	1,992	1,000	3,147
TRACK CROSS COUNTRY	3,795	193	1,967	(1,500)	521
VOLLEYBALL	4,149	9,084	8,109	1,500	6,624
BAND	374	6,047	6,504	500	417
MS BASEBALL	138	1,373	1,478	250	283
MS SOFTBALL	250	-	-	-	250
MS VOLLEYBALL	-	294	120	250	424
LIBRARY	3,389	268	748	-	2,909
GIRLS WHO CODE	300	-	-	-	300
STUDENT AWARDS	2,529	-	-	-	2,529
D WILSON SCHOLARSHIP	1,000	-	-	-	1,000
DAF BUILDING	705	190	247	-	648
DAF EBAY SURPLUS	30	-	-	-	30
OUTDOORMANS CLUB	-	160	-	-	160
SIXTH GRADE CLASS	-	5,524	3,593	-	1,931
<b>TOTALS</b>	<b>\$ 61,305</b>	<b>\$ 191,499</b>	<b>\$ 189,705</b>	<b>\$ -</b>	<b>\$ 63,099</b>

See the accompanying notes to the financial statements.

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

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Passed Through to Subrecipients</b>	<b>Program or Award Amount</b>	<b>Expenditures</b>
US Department of Agriculture					
Passed Through State Department of Education					
* <b>School Breakfast Program</b>	10.553				
Fiscal Year 18		7760005 18	\$ -	N/A	\$ 40,099
Fiscal Year 19		7760005 19	-	N/A	140,773
* <b>National School Lunch Program</b>	10.555				
Fiscal Year 18		7750002 18	-	N/A	79,864
Fiscal Year 19		7750002 19	-	N/A	271,863
* <b>Summer Food Service Program For Children</b>	10.559				
Fiscal Year 18		7690024 18	-	N/A	5,407
Fiscal Year 19		7690024 19	-	N/A	1,017
* <b>Summer Food Service Program For Children</b>	10.559				
Fiscal Year 18		7740023 18	-	N/A	51,743
Fiscal Year 19		7740023 19	-	N/A	9,754
Child Nutrition Cluster Subtotal					<u>600,520</u>
<b>Child and Adult Food Program</b>	10.558				
Fiscal Year 18		7800016 18	-	N/A	193
Fiscal Year 19		7800016 19	-	N/A	1,274
<b>Child and Adult Food Program</b>	10.558				
Fiscal Year 18		7790021 18	-	N/A	2,718
Fiscal Year 19		7790021 19	-	N/A	17,944
					<u>22,129</u>
<b>Fruit &amp; Vegetable Program</b>	10.582				
Fiscal Year 18		7720012 18	-	N/A	7,828
Fiscal Year 19		7720012 19	-	N/A	20,725
					<u>28,553</u>
Passed Through State Department of Agriculture					
<b>Food Donation-Commodities</b>	10.565				
Fiscal Year 19		510.4950	-	N/A	96,295
Total US Department of Agriculture					<u>747,497</u>
US Department of Education					
Passed Through State Department of Education					
* <b>Title I Grants to Local Educational Agencies</b>	84.010A				
Fiscal Year 18		3100002 18	-	700,189	297,217
Fiscal Year 19		3100002 19	-	638,372	438,354
					<u>735,571</u>
<b>Special Education Grants to States</b>	84.027A				
Fiscal Year 18		3810002 18	-	188,031	62,799
Fiscal Year 19		3810002 19	-	188,578	115,424
<b>Special Education - Preschool Grants</b>	84.173A				
Fiscal Year 18		3800002 18	-	21,365	11,056
Fiscal Year 19		3800002 19	-	21,631	20,799
Special Education Cluster Subtotal					<u>210,078</u>
<b>Vocation Education - Basic Grants to States</b>	84.048				
Fiscal Year 18		3710002 18	-	429	429
Fiscal Year 19		3710002 19	-	11,228	11,228
					<u>11,657</u>
<b>Rural Education</b>	84.358B				
Fiscal Year 17		3140002 17	-	15,088	9,338
Fiscal Year 18		3140002 18	-	12,004	6,615
					<u>15,953</u>
<b>Title IV Part A</b>	84.424				
Fiscal Year 18		3420002 18	-	14,449	8,184
Fiscal Year 19		3420002 19	-	16,823	1,645
					<u>9,829</u>
<b>Improving Teacher Quality State Grants</b>	84.367A				
Fiscal Year 19		3230002 19	-	62,402	29,331
<b>Striving Readers</b>	84.371C				
Fiscal Year 19		466E	-	250,000	231,335

See the accompanying notes to the schedule of expenditures of federal awards.

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

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Passed Through to Subrecipients</b>	<b>Program or Award Amount</b>	<b>Expenditures</b>
Passed Through Berea College					
<b>Innovative Approaches to Literacy</b>	84.215G				
Fiscal Year 17		1960566	-	1,513,085	320,164
Fiscal Year 17-KEDC		577C	-	322,179	149,834
					<u>469,998</u>
Passed Through Berea College					
<b>Gaining Early Awareness and Readiness for Undergraduate F</b>	84.334A				
Fiscal Year 18		379DG	-	177,751	28,239
Fiscal Year 19		379EG	-	245,229	178,861
					<u>207,100</u>
Passed Through Kentucky Valley Educational Cooperative					
<b>Race to the Top - District</b>	84.416A				
Fiscal Year 19		B416A140080	-	75,000	75,000
					<u>75,000</u>
Total US Department of Education					<u>1,995,852</u>
US Department of Health and Human Services					
Passed Through Middle Kentucky Community Action Partnership					
<b>Head Start</b>	93.600				
Fiscal Year 19		04CH2596	-	787,618	583,936
Fiscal Year 20		04CH2596	-	200,547	200,547
<b>Early Head Start</b>	93.600				
Fiscal Year 19A		04CH4797	-	792,080	680,036
Fiscal Year 20A		04CH4798	-	118,445	118,445
					<u>1,582,964</u>
Total US Department of Health and Human Services					<u>1,582,964</u>
<b>Total Expenditure of Federal Awards</b>					<u>\$ 4,326,313</u>

\* Major program

OWSLEY 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 Owsley 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 Owsley 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 \$96,295.

**NOTE D – INDIRECT COST RATE**

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

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

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

To the Board of Education of the Owsley County School District  
Booneville, KY  
and the State Committee of School District Audits

**Report on Compliance for Each Major Federal Program**

We have audited the Owsley 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 Owsley County School District's major federal programs for the year ended June 30, 2019. Owsley 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 Owsley 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 Owsley 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 Owsley County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Owsley 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 Owsley 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 Owsley 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 Owsley 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

OWSLEY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 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 N/A
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 Grants [CFDA 84.010A] Child Nutrition Cluster [CFDA 10.553, 10.555, 10.559]
Dollar threshold of Type A and B programs	\$750,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

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

No findings at the major federal award programs level.

OWSLEY COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2019

There were no prior audit findings.

## MANAGEMENT LETTER POINTS

Owsley County School District  
Booneville, Kentucky

In planning and performing our audit of the financial statements of the Owsley 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 Owsley County School District. The conditions observed are as follows:

### OWSLEY COUNTY ELEMENTARY

1-19

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: Met with the school treasurer to insure they will review all invoices and reimbursements to insure sales tax is not paid.

### OWSLEY COUNTY HIGH SCHOOL

2-19

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: Met with the school treasurer to insure they will review all invoices and reimbursements to insure tax is not paid.

All prior year conditions have been implemented and corrected. Dr. Timothy Bobrowski, Superintendent, is the person responsible for initiation of the corrective action plan for the above comments which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

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

*White & Associates, PSC*

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