

**ROCKCASTLE COUNTY
SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES**

For the year ended June 30, 2019

Prepared by:

WHITE & ASSOCIATES, PSC
CERTIFIED PUBLIC ACCOUNTANTS
1407 Lexington Road
Richmond, Kentucky 40475
Phone (859) 624-3926 Fax (859) 625-0227

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Rockcastle County School District
Mt. Vernon, 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 Rockcastle 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 Rockcastle 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 Rockcastle 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 & 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 Rockcastle 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 October 27, 2019, on our consideration of the Rockcastle 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 Rockcastle 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 Rockcastle County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 12, 2019

ROCKCASTLE COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2019

The management of Rockcastle County School District offers the readers this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30th, 2019. We encourage readers to review the information found within the body of the audit.

Financial Highlights

The beginning fund balance for the General Fund was \$2,712,161. The year ended with a balance of \$2,278,018. This general fund balance is \$605,966 above the \$1,672,052 general fund contingency budget.

The school district continues a concentrated effort to build and maintain facilities that are state of the art and well maintained. The district composes of three elementary schools (grades P-5), one middle school (grades 6-8), one high school (grades 9-12), one area technology center school (grades 9-12), and an alternative school (grades 6-12) in addition to a central office, an adult education center and a central teaching and training center.

The efforts of the Rockcastle County Board of Education along with district and school leadership in addressing continued cuts to state and federal financial resources is to maintain staff, resources and programs that provide important educational services to Rockcastle County students and families. Additional federal grant funding sources are producing less funds for local districts. Kentucky regulatory statues require Rockcastle County Schools to maintain a contingency of 2% in the general fund. Specific resource efficiency has been a priority at every level, all while enduring significant declining revenues annually, and the district has continued to budget at 7% for contingency funding at \$1,672,052 in the general fund budget.

Bus Fleet. Rockcastle County Schools owns sixty school buses of varying sizes and types. Of those sixty buses, forty-four were used daily on regular routes. Buses depreciate out in value over a 14-year period. Fourteen buses were out of depreciation. None of the buses being used on regular routes were out of depreciation. In addition to the depreciation value, newly purchased buses come with a 5-year warranty. The warranty will cover any costs to repair and maintain buses outside of general maintenance. Nineteen buses were covered under warranty. The more buses that can be repaired and maintained under warranty will provide the district with savings. It is suggested that we should replace 6% of regular route buses each year, which works out to three buses for Rockcastle County Schools.

In fiscal year 2019, the board approved purchase of two new buses. Both of those buses are 72 passenger and came with a base purchase price of \$90,319. The total price for both buses with all add-ons was \$188,220. These buses replaced regular route buses that are now used as sub buses. Both buses were placed on routes so that they could be parked at the School Bus Garage and available to be used on field trips. To better accommodate these bigger buses we had to replace the current garage door at the bus garage at a cost of \$3895, the majority of which was paid for by Bluegrass International Buses.

Physical year 2019 also saw the departure of two mechanics from the School Bus Garage with over 20 years of combined experience. Those departures most certainly cost the district extra money in repairs that the new mechanics were unable to do.

Bonds are issued consistent with the districts long-range facilities plan that has been established with community input and in keeping with the Kentucky Department of Education stringent compliance regulations. The following is an analysis of debt activity for the year.

Outstanding Debt at Year-End
(in Millions)

	Government Activities	
	2018	2019
General Obligation		
Bonds	\$ 11.03	\$ 10.07
KSBIT	0.04	0.03
Total Obligations	11.07	10.10

Construction Projects: Rockcastle County High School construction project was broken down into two bid packages.

Bid package #1

The systems that were repaired or replaced include:

- EIFS
- standing seam metal roof panels
- PVC roof membrane,
- windows/window glazing
- masonry work

Bid package #2

The systems that were repaired or replaced include:

- HVAC
- HVAC controls
- cooling tower
- indoor/outdoor lighting
- ceilings and grid
- intercom
- data and voice cabling
- sound
- clocks
- security cameras

The impact of the project has been tremendous and well worth the minor disruptions endured as much of the work was completed during the school year. Rockcastle County High School campus has been transformed into a modern high school environment that enriches student learning. Substantial savings have already been recognized in maintenance costs to aging systems that were replaced and reduced electricity demand. The following is an analysis of capital asset activity for the year:

Capital Assets at Year-End FY2019

(In Millions)

	Governmental Activities		Business Type Activities		Totals	
	2018	2019	2018	2019	2018	2019
Land and Improvements	1.83	1.83			1.83	1.83
Buildings & Improvements	43.44	43.45	0.88	0.88	44.32	44.33
Technology Equipment	0.96	0.96	0.04	0.04	1.00	1.00
Vehicles	5.38	5.54			5.38	5.54
General Equipment	0.34	0.34	0.51	0.51	0.85	0.85
Construction In Progress	2.71	6.02			2.71	6.02

The general fund had \$25,093,732 in revenue, excluding inter-fund transfers and proceeds from the sales of assets, which primarily consisted of state program (SEEK) and property, utilities, and motor vehicle taxes. Excluding transfers, there was \$25,692,731 in General Fund expenditures.

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

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

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

The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues.

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

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. There 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, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and

teacher support. The proprietary funds are our food service and day care 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 of this report.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 are still outstanding. The District used 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.

The School District as a Whole

	<u>2018</u>	<u>2019</u>
Current and other assets	9,124,738	5,665,006
Capital assets	<u>29,515,117</u>	<u>31,841,817</u>
Total Assets	<u><u>38,639,855</u></u>	<u><u>37,506,823</u></u>
Deferred outflows	4,553,871	3,775,355
Current liabilities	1,271,364	1,500,858
Non current liabilities	<u>30,578,581</u>	<u>28,878,270</u>
Total Liabilities	<u><u>31,849,945</u></u>	<u><u>30,379,128</u></u>
Deferred inflows	1,265,245	2,356,089
Investment in capital assets, net of related debt	18,480,751	21,769,836
Restricted net position	5,791,034	2,546,672
Unrestricted net position	<u>(14,193,249)</u>	<u>(15,769,547)</u>
Total Net Position	<u><u>10,078,536</u></u>	<u><u>8,546,961</u></u>

Food Service/Community Eligibility Provision (CEP). Rockcastle County Schools continue to implement the Community Eligibility Provision (CEP) as part of the National School Lunch and School Breakfast Programs. All Rockcastle County students are offered a nutritious breakfast and lunch each day at no cost, regardless of eligibility status. On an as-needed basis, each school also serves after school snack.

Increase in food purchases and food costs:

- As participation continues to grow in some areas, we see an increase in food purchases.
- Increase in produce expense due to offering chef salads being offered at every school.

Equipment expense:

- A new oven and steamer were purchased for Roundstone Elementary School in December 2018.
- Equipment repair and maintenance continues to be a large expense for our program.

Other expense:

- Plans to renovate the RCHS cafeteria began in January 2019. This included the expense of design/art fees with Palmer Hamilton.

Increase in revenue:

- Revenues continue to show a slight increase due participation increasing at some levels and a slight increase in reimbursements rates for both breakfast and lunch.

	Breakfast Fall 2014 (not CEP)	Breakfast Fall 2015 w/ CEP	Breakfast Fall 2016 w/ CEP	Breakfast Fall 2017 w/ CEP	Breakfast Fall 2018 w/ CEP
Elem	44%	54%	67%	74%	79%
Middle	23%	81%	87%	88%	87%
High	21%	51%	67%	67%	68%

	Lunch Fall 2014 (not CEP)	Lunch Fall 2015 w/ CEP	Lunch Fall 2016 w/ CEP	Lunch Fall 2017 w/ CEP	Lunch Fall 2018 w/ CEP
Elem	77%	86%	88%	92%	92%
Middle	71%	79%	84%	89%	90%
High	62%	72%	73%	81%	80%

BUDGETARY IMPLICATION

In Kentucky, the public school district’s fiscal year is July 1 through June 30; however, other programs, such as, some federal programs operate on a different fiscal calendar, but are reflected in the District’s overall budget. By law, the budget must have a minimum 2% contingency (recommend 5% minimum). The District adopted a budget for 2018-2019 with \$1,672,052 in the contingency fund, which is an 7% contingency in an attempt to maintain present staffing levels for as long as possible. Items of note that impacts the District budget includes increased salary and salary fixed costs, less revenue flow to the District, the need for improving programming and meeting the academic audit standards. In addition, the fact that the local board of education constantly reacts toward showing a strong commitment in providing resources for high level instructional strategies that are researched based. Also, the board maintains a commitment towards state of the art facilities which dictates a better learning environment for students. Significant variations in the actual results of operations

and the final budget are primarily due to on-behalf payments that are included in the financial statements, but are not budgeted by the District.

The following is an analysis of changes in net position for 2018 and 2019.

	Changes in Net Position (in millions)						Total Percentage Change 2018-2019
	Governmental Activities		Business-Type Activities		Total School District		
	2018	2019	2018	2019	2018	2019	
Revenues:							
Charges for services	\$ -	\$ -	\$ 0.07	\$ 0.07	\$ 0.07	\$ 0.07	0%
Operating grants and contributions	10.77	3.04	2.30	2.21	13.07	5.25	-60%
Capital grants and contributions	1.16	1.13			1.16	1.13	-3%
General revenues	17.56	25.55		(0.09)	17.56	25.46	45%
Total revenue	29.49	29.72	2.29	2.19	31.86	31.91	0%
Expenses:							
Instruction	\$ 18.95	\$ 19.02			\$ 18.95	\$ 19.02	0%
Student	1.92	1.91			1.92	1.91	-1%
Instructional staff	1.09	1.25			1.09	1.25	15%
District administration	0.56	0.51			0.56	0.51	-9%
School administration	1.56	1.57			1.56	1.57	1%
Business	0.34	0.41			0.34	0.41	21%
Plant operation & maintenance	2.63	2.60			2.63	2.60	-1%
Student transportation	1.98	2.04			1.98	2.04	3%
Food Service Operations			2.23	2.29	2.23	2.29	3%
Community services operations	0.31	0.33			0.31	0.33	6%
Amortization	0.03	0.03			0.03	0.03	0%
Depreciation	1.21	1.22	0.03	0.03	1.24	1.25	1%
Interest on long-term debt	0.36	0.25			0.36	0.25	-31%
Total Expenses	\$ 30.94	\$ 31.13	\$ 2.26	\$ 2.32	\$ 33.20	\$ 33.45	1%
Change in net position	\$ (1.45)	\$ (1.41)	\$ 0.03	\$ (0.13)	\$ (1.34)	\$ (1.54)	-16%

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2018 & 2019.

	2018	2019
Revenue and other financing sources		
Local revenue sources	3,608,914	3,717,974
State revenue sources	23,412,159	23,393,994
Federal revenue	2,382,463	2,519,073
Total Revenue	<u>29,403,536</u>	<u>29,631,041</u>
Expenditures and other financing uses		
Instruction	18,012,447	17,958,794
Student support services	1,927,807	1,912,108
Instructional support	1,096,119	1,251,503
District administration	567,552	507,427
School administration	1,564,246	1,568,302
Business operations	341,771	407,868
Plant operation and maintenance	2,631,938	2,599,615
Student transportation	2,167,443	2,253,043
Other instructional		
Community services	312,042	330,938
Debt service	1,249,493	1,214,894
Building acquisitions and construction	2,708,341	3,358,608
Total expenditures	<u>32,579,199</u>	<u>33,363,100</u>
Other financing sources (uses)		
Bond proceeds	6,530,000	
Transfers in	1,308,231	1,187,850
Transfers out	(1,219,418)	(1,093,532)
Proceeds from sale of assets	2,899	
Total other financing sources (uses)	<u>6,621,712</u>	<u>94,318</u>
Net change in fund balance	<u>3,446,049</u>	<u>(3,637,741)</u>

On behalf payments are included in the amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenue; therefore, have no effect on the District's level fund balance.

Questions regarding this report should be directed to the Superintendent at (606) 256-2125 or to the Finance Officer, Jenny Sweet at (606) 256-2125 or by mail at Rockcastle County Schools, 245 Richmond Street, Mount Vernon, Kentucky 40456.

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 634,976	\$ 394,102	\$ 1,029,078
Certificates of deposit	4,025,151		4,025,151
Receivables			
Taxes-current	126,827		126,827
Taxes-delinquent	8,105		8,105
Accounts	6,729		6,729
Intergovernmental	457,673		457,673
Inventories		16,271	16,271
Prepaid expenditures	73,043		73,043
Capital assets:			
Land and construction in progress	6,675,675		6,675,675
Other capital assets, net of depreciation	24,730,497	435,645	25,166,142
Total capital assets	<u>31,406,172</u>	<u>435,645</u>	<u>31,841,817</u>
Total assets	<u>36,738,676</u>	<u>846,018</u>	<u>37,584,694</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	2,411,437	112,897	2,524,334
Deferred outflows related to OPEB	1,159,196	29,238	1,188,434
Deferred savings from refunding bonds	62,587		62,587
Total deferred outflows of resources	<u>3,633,220</u>	<u>142,135</u>	<u>3,775,355</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>40,371,896</u>	<u>988,153</u>	<u>41,360,049</u>
LIABILITIES			
Accrued interest payable	121,599		121,599
Accounts payable	20,849		20,849
Unearned revenue	409,553		409,553
Long-term liabilities:			
Due within 1 year:			
Bond obligations	1,020,000		1,020,000
KSBIT payable	12,732		12,732
Total due within 1 year	<u>1,032,732</u>	<u>-</u>	<u>1,032,732</u>
Due in more than 1 year:			
Bond obligations	9,038,618		9,038,618
KSBIT payable	12,732		12,732
Sick leave	208,037		208,037
Net pension liability	9,318,571	436,270	9,754,841
Net OPEB liability	9,723,501	127,178	9,850,679
Total due in more than 1 year	<u>28,301,459</u>	<u>563,448</u>	<u>28,864,907</u>
Total liabilities	<u>29,886,192</u>	<u>563,448</u>	<u>30,449,640</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	884,817	41,425	926,242
Deferred inflows related to OPEB	1,402,304	27,543	1,429,847
Total deferred inflows of resources	<u>2,287,121</u>	<u>68,968</u>	<u>2,356,089</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>32,173,313</u>	<u>632,416</u>	<u>32,805,729</u>
NET POSITION			
Net Investment in capital assets	21,347,554	435,645	21,783,199
Restricted for:			
Capital projects	2,546,213		2,546,213
Permanent-Spendable	459		459
Unrestricted (deficit)	(15,695,643)	(79,908)	(15,775,551)
Total net position	<u>8,198,583</u>	<u>355,737</u>	<u>8,554,320</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 40,371,896</u>	<u>\$ 988,153</u>	<u>\$ 41,360,049</u>

See the accompanying notes to the financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 19,016,974	\$ -	\$ 2,005,627	\$ -	\$ (17,011,347)		\$ (17,011,347)
Support Services							
Student	1,912,108		186,924		(1,725,184)		(1,725,184)
Instructional Staff	1,251,503		122,345		(1,129,158)		(1,129,158)
District Administration	507,427		49,605		(457,822)		(457,822)
School Administration	1,568,302		153,314		(1,414,988)		(1,414,988)
Business	407,868		39,872		(367,996)		(367,996)
Plant Operation & Maintenance	2,599,615		254,134	840,169	(1,505,312)		(1,505,312)
Student Transportation	2,035,773		199,013		(1,836,760)		(1,836,760)
Community Services Operations	330,938		32,352		(298,586)		(298,586)
Amortization	34,523				(34,523)		(34,523)
Depreciation*	1,217,565				(1,217,565)		(1,217,565)
Interest on general long-term debt	317,665			294,438	(23,227)		(23,227)
Total governmental activities	<u>31,200,261</u>	<u>-</u>	<u>3,043,187</u>	<u>1,134,607</u>	<u>(27,022,467)</u>		<u>(27,022,467)</u>
Business-type activities:							
Food service operations	2,289,285	73,810	2,206,613			\$ (8,862)	(8,862)
Depreciation	31,613					(31,613)	(31,613)
Total business-type activities	<u>2,320,898</u>	<u>73,810</u>	<u>2,206,613</u>	<u>-</u>	<u>-</u>	<u>(40,475)</u>	<u>(40,475)</u>
Total primary government	\$ <u>33,521,159</u>	\$ <u>73,810</u>	\$ <u>5,249,800</u>	\$ <u>1,134,607</u>	<u>(27,022,467)</u>	<u>(40,475)</u>	<u>(27,062,942)</u>
General revenues:							
Taxes:							
Property taxes					2,168,514		2,168,514
Motor vehicle taxes					479,691		479,691
Utility taxes					706,468		706,468
State and formula grants					21,735,273		21,735,273
Other local revenue					294,625		294,625
Unrestricted investment earnings					146,547	7,608	154,155
Transfers					94,318	(94,318)	-
Total general revenues and transfers					<u>25,625,436</u>	<u>(86,710)</u>	<u>25,538,726</u>
Change in net position					(1,397,031)	(127,185)	(1,524,216)
Net position - beginning					9,595,614	482,922	10,078,536
Net position - ending					\$ <u>8,198,583</u>	\$ <u>355,737</u>	\$ <u>8,554,320</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.

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

	Governmental Funds						
	<u>General</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>FSPK</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 634,976	\$ -	\$ -	\$ 634,976
Certificates of deposit	3,525,151		500,000				4,025,151
Prepaid expenditures	73,043						73,043
Interfund receivables			1,235,477	175,760			1,411,237
Receivables							
Taxes-current	126,827						126,827
Taxes-delinquent	8,105						8,105
Intergovernmental-state		6,729					6,729
Intergovernmental-federal		457,673					457,673
Total assets	<u>3,733,126</u>	<u>464,402</u>	<u>1,735,477</u>	<u>810,736</u>	<u>-</u>	<u>-</u>	<u>6,743,741</u>
LIABILITIES							
Interfund payable	1,356,388	54,849					1,411,237
Accounts payable	20,849						20,849
Unearned revenue		409,553					409,553
Total liabilities	<u>1,377,237</u>	<u>464,402</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,841,639</u>
FUND BALANCE							
Nonspendable Fund: Permanent Fund Corpus	25,000						25,000
Restricted							
Capital Projects			1,735,477	810,736			2,546,213
Spendable Fund: Permanent Fund	459						459
Unassigned	2,330,430						2,330,430
Total fund balance	<u>2,355,889</u>	<u>-</u>	<u>1,735,477</u>	<u>810,736</u>	<u>-</u>	<u>-</u>	<u>4,902,102</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,733,126</u>	<u>\$ 464,402</u>	<u>\$ 1,735,477</u>	<u>\$ 810,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,743,741</u>

See the accompanying notes to the financial statements.

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

Fund balances-total governmental funds	\$	4,902,102
<p>Amounts reported for governmental activities in the statement of net position are different because:</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.		31,406,172
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		62,587
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		
Accrued interest payable		(121,599)
Bonds payable		(10,058,618)
Sick leave liability		(208,037)
Net pension liability		(9,318,571)
Net OPEB liability		(9,723,501)
KSBIT liability		(25,464)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows related to pensions		2,411,437
Deferred outflows related to OPEB's		1,159,196
Deferred inflows related to OPEB's		(1,402,304)
Deferred inflows related to pensions		(884,817)
		8,198,583
Net position of governmental activities	\$	8,198,583

See the accompanying notes to the financial statements.

Rockcastle 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 Fund</u>	<u>FSPK</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
From Local Sources							
Taxes							
Property	\$ 1,791,885	\$ -	\$ -	\$ 298,758	\$ -	\$ -	\$ 2,090,643
Motor vehicle	479,691						479,691
Utilities	784,339						784,339
Earnings on investments	85,790	2,461	58,296				146,547
Other local revenue	294,625						294,625
Intergovernmental - state	21,474,410	784,977		718,312	294,438	121,857	23,393,994
Intergovernmental - federal	260,863	2,258,210					2,519,073
Total revenues	<u>25,171,603</u>	<u>3,045,648</u>	<u>58,296</u>	<u>1,017,070</u>	<u>294,438</u>	<u>121,857</u>	<u>29,708,912</u>
EXPENDITURES							
Instruction	15,753,181	2,205,613					17,958,794
Support Services							
Student	1,839,764	72,344					1,912,108
Instructional Staff	900,634	350,869					1,251,503
District Administration	507,427						507,427
School Administration	1,568,302						1,568,302
Business	407,868						407,868
Plant Operation & Maintenance	2,599,615						2,599,615
Student Transportation	2,115,940	137,103					2,253,043
Community Operations		330,938					330,938
Building Acquisitions & Construction			3,358,608				3,358,608
Debt Service					1,214,894		1,214,894
Total expenditures	<u>25,692,731</u>	<u>3,096,867</u>	<u>3,358,608</u>	<u>-</u>	<u>1,214,894</u>	<u>-</u>	<u>33,363,100</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(521,128)	(51,219)	(3,300,312)	1,017,070	(920,456)	121,857	(3,654,188)
OTHER FINANCING SOURCES (USES)							
Operating transfers in	216,175	51,219			920,456		1,187,850
Operating transfers (out)	(51,219)			(920,456)		(121,857)	(1,093,532)
Total other financing sources and (uses)	<u>164,956</u>	<u>51,219</u>	<u>-</u>	<u>(920,456)</u>	<u>920,456</u>	<u>(121,857)</u>	<u>94,318</u>
NET CHANGE IN FUND BALANCE	(356,172)	-	(3,300,312)	96,614	-	-	(3,559,870)
FUND BALANCE-BEGINNING	<u>2,712,061</u>	<u>-</u>	<u>5,035,789</u>	<u>714,122</u>	<u>-</u>	<u>-</u>	<u>8,461,972</u>
FUND BALANCE-ENDING	<u>\$ 2,355,889</u>	<u>\$ -</u>	<u>\$ 1,735,477</u>	<u>\$ 810,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,902,102</u>

See the accompanying notes to the financial statements.

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

Net change in fund balances-total governmental funds	\$	(3,559,870)
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
District pension contributions less costs of benefits earned net employee contributions		(760,122)
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.		
District OPEB contributions less costs of benefits earned net employee contributions		(215,648)
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.		
		2,358,313
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.		
		(34,523)
Bonds sold at a discount/premium are deducted/added to the related bond issues and amortized over the life of the bond in the government wide financial statements, but are recognized in the year the bonds are sold in the fund financial statements.		
		(14,252)
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.		
		990,000
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.		
Accrued interest payable		(78,519)
KSBIT payable		12,731
Noncurrent sick leave payable		(95,141)
		(95,141)
Change in net position of governmental activities	\$	(1,397,031)

See the accompanying notes to the financial statements.

Rockcastle 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		
REVENUES				
From Local Sources				
Taxes				
Property	\$ 1,877,234	\$ 1,783,234	\$ 1,791,885	\$ 8,651
Motor vehicle	444,000	444,000	479,691	35,691
Utilities	801,000	801,000	784,339	(16,661)
Earnings on investments	57,000	57,000	85,790	28,790
Other local revenue	201,000	295,000	294,625	(375)
Intergovernmental - state	18,905,909	19,094,134	21,474,410	2,380,276
Intergovernmental - federal	275,000	275,000	260,863	(14,137)
Total revenues	22,561,143	22,749,368	25,171,603	2,422,235
EXPENDITURES				
Instruction	14,337,524	14,431,760	15,753,181	(1,321,421)
Support Services				
Student	1,525,212	1,490,705	1,839,764	(349,059)
Instructional Staff	1,151,087	1,194,254	900,634	293,620
District Administration	706,823	635,784	507,427	128,357
School Administration	1,180,417	1,212,940	1,568,302	(355,362)
Business	256,605	256,937	407,868	(150,931)
Plant Operation & Maintenance	2,404,327	2,615,601	2,599,615	15,986
Student Transportation	1,931,608	1,974,558	2,115,940	(141,382)
Total expenditures	23,493,603	23,812,539	25,692,731	(1,880,192)
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(932,460)	(1,063,171)	(521,128)	542,043
OTHER FINANCING SOURCES (USES)				
Sale of equipment	3,000	3,000	-	(3,000)
Operating transfers in	340,056	96,531	216,175	119,644
Operating transfers (out)		(51,219)	(51,219)	-
Total other financing sources and (uses)	343,056	48,312	164,956	116,644
NET CHANGE IN FUND BALANCE	(589,404)	(1,014,859)	(356,172)	658,687
FUND BALANCE-BEGINNING	2,435,364	2,686,911	2,712,061	25,150
FUND BALANCE-ENDING	\$ 1,845,960	\$ 1,672,052	\$ 2,355,889	\$ 683,837

See the accompanying notes to the financial statements.

RockcastleCounty 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>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From Local Sources				
Earnings on investments	\$ -	\$ 2,438	\$ 2,461	\$ 23
Other local revenue	-	10,000	-	(10,000)
Intergovernmental - state	976,239	917,577	784,977	(132,600)
Intergovernmental - federal	1,901,500	3,300,611	2,258,210	(1,042,401)
Total revenues	<u>2,877,739</u>	<u>4,230,626</u>	<u>3,045,648</u>	<u>(1,184,978)</u>
EXPENDITURES				
Instruction	2,142,068	3,405,027	2,205,613	1,199,414
Support Services				
Student	93,797	120,289	72,344	47,945
Instructional Staff	179,096	365,760	350,869	14,891
Student Transportation	137,016	137,016	137,103	(87)
Community Services Operations	325,762	330,744	330,938	(194)
Total expenditures	<u>2,877,739</u>	<u>4,358,836</u>	<u>3,096,867</u>	<u>1,261,969</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	-	(128,210)	(51,219)	76,991
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)		139,611	51,219	(88,392)
Total other financing sources and (uses)	<u>-</u>	<u>139,611</u>	<u>51,219</u>	<u>(88,392)</u>
NET CHANGE IN FUND BALANCE	-	11,401	-	(11,401)
FUND BALANCE-BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ 11,401</u>	<u>\$ -</u>	<u>\$ (11,401)</u>

See the accompanying notes to the financial statements.

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

	School Food Services
ASSETS	
Cash and cash equivalents	\$ 394,102
Inventories	16,271
Capital assets:	
Other capital assets, net of depreciation	435,645
Total assets	846,018
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	112,897
Deferred outflows related to OPEB	29,238
Total deferred outflows of resources	142,135
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	988,153
LIABILITIES	
Net pension liability	436,270
Net OPEB liability	127,178
Total liabilities	563,448
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	41,425
Deferred inflows related to OPEB	27,543
Total deferred inflows of resources	68,968
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	632,416
NET POSITION	
Net Investment in capital assets	435,645
Unrestricted (deficit)	(79,908)
Total net position	355,737
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 988,153

See the accompanying notes to the financial statements.

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

		<u>Enterprise Fund</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	73,810
Total operating revenues		<u>73,810</u>
OPERATING EXPENSES		
Depreciation		31,613
Food service operations		
Employee services		908,525
Operational expense		<u>1,380,760</u>
Total operating expenses		<u>2,320,898</u>
Operating income (loss)		<u>(2,247,088)</u>
NONOPERATING REVENUES (EXPENSES)		
Intergovernmental revenues		2,206,613
Transfers (out)		(94,318)
Earnings from investments		<u>7,608</u>
Total nonoperating revenues (expenses)		<u>2,119,903</u>
CHANGE IN NET POSITION		(127,185)
NET POSITION-BEGINNING		<u>482,922</u>
NET POSITION-ENDING	\$	<u><u>355,737</u></u>

See the accompanying notes to the financial statements.

Rockcastle 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	\$	73,810
Payments to suppliers		(1,316,023)
Payments to employees		(908,525)
Net cash provided (used) by operating activities		<u>(2,150,738)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers		(94,318)
Operating grants and contributions		2,206,613
Net cash provided (used) by noncapital financing activities		<u>2,112,295</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of capital assets		
Interest		7,608
Net cash provided (used) by investing activities		<u>7,608</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (30,835)

CASH AND CASH EQUIVALENTS-BEGINNING 424,937

CASH AND CASH EQUIVALENTS-ENDING \$ 394,102

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

Operating income (loss)	\$	(2,247,088)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation		31,613
Changes in assets and liabilities:		
Inventory		(1,589)
Deferrals		30,076
Deferrals		19,821
Pension liability		30,886
OPEB liability		(12,052)
Accrued expenses		(2,405)
Net cash provided (used) by operating activities	\$	<u><u>(2,150,738)</u></u>

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$122,541 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 \$43,367 provided by state government.

See the accompanying notes to the financial statements.

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

		School Activity Funds
		<hr/>
ASSETS		
Cash and cash equivalents	\$	447,881
Accounts receivable		6,031
		<hr/>
Total Assets		<u>453,912</u>
 LIABILITIES		
Accounts payable		2,913
Due to student groups		450,999
		<hr/>
Total Liabilities		<u>453,912</u>

See the accompanying notes to the financial statements.

ROCKCASTLE 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 Rockcastle 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 Rockcastle 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 Rockcastle 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

The Board authorized establishment of the Rockcastle 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 Rockcastle County Board of Education.

Basis of Presentation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. Within the General Fund, a permanent fund was established from a gift to the Rockcastle High School for scholarships to benefit of students seeking a college degree. 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. KDE requires this fund to be a major fund.

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. This is a major fund of the District.

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. This is a major fund of the District.

The District applies all GASB pronouncements to proprietary funds.

III. Fiduciary Fund Types

(A) 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. The schools funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

Basis of Accounting

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

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

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

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

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

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

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 end of the current fiscal year 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 governmental 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. In general, payables and accrued

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Accumulated Unpaid Sick Leave Benefits

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

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

Fund Balances

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

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

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

Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position is reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

position when an expense is incurred for which both restricted and unrestricted net position are available.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$.42 per \$100 valuation of real property, \$.42 per \$100 valuation for business personal property and \$.483 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 interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Interfund Transfers

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Postemployment Benefits Other Than OPEBs (OPEB)

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

Bond and Related Premiums, Discounts, and Issuance Costs

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. 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.

The General Fund expenditures exceeded its appropriations by \$1,880,192.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 AND CERTIFICATES OF DEPOSIT

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 and certificates of deposit was \$5,502,110. The bank balance for the same time was \$6,570,577.

The General Fund had \$3,525,151 in certificates of deposit at June 30, 2019 to maximize interest earned for the fund and the Construction Fund had \$500,000 in certificates of deposit to maximize interest earned for the fund. Non-negotiable certificates of deposit are stated at cost which approximates fair value.

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

NOTE C – CAPITAL ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Land	\$ 658,955	\$ -	\$ -	\$ 658,955
Land improvements	1,178,144	-	-	1,178,144
Buildings	43,449,264	-	-	43,449,264
Technology equipment	958,997	-	-	958,997
Vehicles	5,379,599	217,270	55,329	5,541,540
General equipment	339,224	-	-	339,224
Construction in progress	2,658,112	3,358,608	-	6,016,720
Total at historical cost	\$ 54,622,295	\$ 3,575,878	\$ 55,329	\$ 58,142,844
Less: Accumulated depreciation				
Land improvements	\$ 1,072,637	\$ 11,023	\$ -	\$ 1,083,660
Buildings	19,340,541	919,233	-	20,259,774
Technology equipment	960,875	-	-	960,875
Vehicles	3,863,278	285,288	55,329	4,093,237
General equipment	337,105	2,021	-	339,126
Total accumulated depreciation	\$ 25,574,436	\$ 1,217,565	\$ 55,329	\$ 26,736,672
Governmental Activities Capital Assets-net	\$ 29,047,859	\$ 2,358,313	\$ -	\$ 31,406,172
<u>Business-Type Activities</u>	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Buildings	\$ 880,926	\$ -	\$ -	\$ 880,926
Technology equipment	35,760	-	-	35,760
General equipment	506,924	-	-	506,924
Total at historical cost	\$ 1,423,610	\$ -	\$ -	\$ 1,423,610
Less: Accumulated depreciation				
Vehicles	486,225	17,353	-	503,578
Technology equipment	35,708	-	-	35,708
General equipment	434,418	14,261	-	448,679
Total accumulated depreciation	\$ 956,352	\$ 31,613	\$ -	\$ 987,965
Business-Type Activities Capital Assets-net	\$ 467,258	\$ (31,613)	\$ -	\$ 435,645

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 Rockcastle County School District Finance Corporation.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Bond Issues</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest</u>	<u>Bonds Outstanding</u>			<u>Bonds Outstanding</u>
	<u>Amount</u>	<u>Dates</u>	<u>Rates</u>	<u>June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2019</u>
2015	\$ 655,000	8/1/35	3.25%	\$ 605,000	\$ -	\$ 25,000	\$ 580,000
2015R	\$ 1,015,000	8/1/2026	1.0 2.25%	900,000	-	55,000	845,000
2018	\$ 6,530,000	2/1/30	3-3.375%	6,530,000	-	40,000	6,490,000
2016	\$ 500,000	5/1/2036	2.6%	460,000	-	20,000	440,000
2008R	\$ 4,905,000	9/1/2020	3.4%	2,605,000	-	850,000	1,755,000
				11,100,000	-	990,000	10,110,000
Less:	Discount			(65,634)	-	(14,252)	(51,382)
Totals				<u>\$ 11,034,366</u>	<u>\$ -</u>	<u>\$ 975,748</u>	<u>\$ 10,058,618</u>

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

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

<u>Fiscal Year Ended at June 30,</u>	<u>Principal</u>		<u>Interest</u>		<u>Principal Total</u>	<u>Interest Total</u>
	<u>Local</u>	<u>KSFCC</u>	<u>Local</u>	<u>KSFCC</u>		
2020	792,981	227,019	226,715	66,092	1,020,000	292,806
2021	815,665	199,335	199,552	59,786	1,015,000	259,339
2022	296,799	128,201	184,819	55,181	425,000	240,000
2023	299,887	135,113	176,832	51,773	435,000	228,605
2024	302,923	137,077	168,593	48,187	440,000	216,780
2025-2029	1,621,617	618,383	714,519	186,593	2,240,000	901,113
2030-2034	1,881,339	563,661	461,840	105,123	2,445,000	566,964
2035-2038	1,734,878	355,122	145,317	22,642	2,090,000	167,959
	<u>\$ 7,746,089</u>	<u>\$ 2,363,911</u>	<u>\$ 2,278,187</u>	<u>\$ 595,378</u>	<u>\$ 10,110,000</u>	<u>\$ 2,873,565</u>

KSBIT

The District elected to take advantage of the 0% interest option repayment plan for the worker’s compensation with the now defunct Kentucky School Board Insurance Trust (KSBIT). The repayment plan required the District to pay 25% of the worker’s compensation deficit during fiscal year 2018 with the remaining balance to be repaid over the next six years. The activity during fiscal year 2019 for the worker’s compensation deficit is as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Insurance Fund</u>	<u>2018 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019 Outstanding Balance</u>
Worker's Compensation	\$ 38,195	\$ -	\$ 12,731	\$ 25,464

The minimum payments are as follows:

<u>Fiscal Year</u>	
<u>Ended June 30,</u>	
	<u>Payment</u>
2020	12,732
2021	<u>12,732</u>
Total	<u>\$ 25,464</u>

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:

	<u>2018 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019 Outstanding Balance</u>
Sick Leave	\$ 112,896	\$ 95,141	\$ -	\$ 208,037
Totals	<u>\$ 112,896</u>	<u>\$ 95,141</u>	<u>\$ -</u>	<u>\$ 208,037</u>

Net Pension & OPEB Liability

The net pension liability is \$9,318,571 for governmental activities and \$436,270 for business-type activities as of June 30, 2019. (See Note F for additional information) The net OPEB liability is \$9,723,501 for governmental activities and \$127,178 for business-type activities as of June 30, 2019. (See Note H for additional information)

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

<u>Description</u>	<u>2018 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2019 Outstanding Balance</u>	<u>Amount Due in 1 Year</u>
Bonds, Net Premium and Discount	\$ 11,034,366	\$ -	\$975,748	\$ 10,058,618	\$1,020,000
KSBIT	38,195		12,731	25,464	12,732
Sick Leave	112,896	95,141	-	208,037	-
Net Pension Liability	9,644,436	110,405	-	9,754,841	-
Net OPEB Liability	10,751,420	-	900,741	9,850,679	-
Totals	<u>\$ 31,581,313</u>	<u>\$ 205,546</u>	<u>\$1,889,220</u>	<u>\$ 29,897,639</u>	<u>\$1,032,732</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE E – 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	46,770
2021	18,147
2022	13,048
Total	<u><u>\$ 77,965</u></u>

Expenditures for equipment under operating leases for the year ending June 30, 2019 totaled \$61,734.

NOTE F – RETIREMENT PLANS

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

Teachers Retirement System Kentucky (TRS)

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

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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>50,850,207</u>
	\$	<u><u>50,850,207</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 0.3883%.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	100.0%	

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

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 7.50%, as well as what the Commonwealth’s net pension

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
KTRS Commonwealth's proportionate share of net pension liability	\$ 65,180,845	\$ 50,850,207	\$ 38,792,890

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 \$799,218 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

CERS-Medical Insurance Plan

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 0.16017%.

District's proportionate share of CERS net pension liability	\$	9,754,841
Commonwealth's proportionate share of the KTRS net pension liability associated with the District		<u>-</u>
	\$	<u><u>9,754,841</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$816,383. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 318,176	142,790
Changes of assumptions	953,332	-
Net difference between projected and actual earnings on pension plan investments	453,608	570,573
Changes in proportion and differences between District contributions and proportionate share of contributions	-	212,879
District contributions subsequent to the measurement date	<u>799,218</u>	<u>-</u>
	\$ <u><u>2,524,334</u></u>	\$ <u><u>926,242</u></u>

The \$799,218 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

		<u>Year Ended June 30,</u>
2020	\$	682,263
2021		311,629
2022		(142,664)
2023		(52,354)
	\$	<u>798,874</u>

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

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

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

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

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	1% Decrease	Current Discount Rate	1% Increase
CERS District's proportionate share of net pension liability	\$ 12,280,335	\$ 9,754,841	\$ 7,638,920

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

NOTE G – ACCOUNTING STANDARDS STATEMENT NO. 75

Government Accounting Standards Board (GASB) Statement No. 75 replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for 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 H – POSTEMPLOYMENT BENEFITS OTHER THAN OPEB

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

TRS – General Information about the OPEB Plans

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

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the TRS Medical Insurance and Life Insurance Plans.

Retiree Medical Plan funded by the Medical Insurance Fund

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

Benefits provided - To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to members under the age of 65

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2019, the District reported a liability of \$7,007,000 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 .201937 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	\$	7,007,000
Commonwealth's proportionate share of the KTRS net OPEB liability associated with the District		6,038,000
	\$	13,045,000

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 668,000
Changes of assumptions	179,000	-
Net difference between projected and actual earnings on pension plan investments	-	53,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	93,000
District contributions subsequent to the measurement date	<u>355,690</u>	<u>-</u>
	\$ <u>534,690</u>	\$ <u>814,000</u>

The \$355,690 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	\$ (126,000)
2021	(126,000)
2022	(126,000)
2023	(102,000)
2024	(107,000)
Thereafter	<u>(48,000)</u>
	\$ <u>(635,000)</u>

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%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
High Yield	20.0%	3.3%
Cash	1.0%	0.9%
	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- 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

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's & State's proportionate share of net OPEB liability	\$ 15,297,000	\$ 13,045,000	\$ 11,169,000

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

	1% Decrease	Current Trend Rate	1% Increase
District's & State's proportionate share of net OPEB liability	\$ 10,817,000	\$ 13,045,000	\$ 15,794,000

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)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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>104,000</u>
	\$	<u><u>104,000</u></u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$111,023 and revenue of \$111,023 for support provided by the State.

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, 2018
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%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
KTRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 158,000	\$ 104,000	\$ 59,000

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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>\$ 721,193</u>

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

At June 30, 2019, the District reported a liability of \$2,843,679 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 .16016400 percent.

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

District's proportionate share of net OPEB liability	\$ 2,843,679
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>-</u>
	<u>\$ 2,843,679</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$117,097. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	331,393
Changes of assumptions	567,925	6,570
Net difference between projected and actual earnings on pension plan investments	-	195,874
Changes in proportion and differences between District contributions and proportionate share of contributions	-	82,010
District contributions subsequent to the measurement date	<u>85,818</u>	<u>-</u>
	\$ <u>653,744</u>	\$ <u>615,847</u>

The \$85,818 (includes \$45,874 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	\$ (5,633)
2021	(5,633)
2022	(5,633)
2023	32,409
2024	(40,425)
Thereafter	<u>(23,006)</u>
	\$ <u>(47,921)</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.

*Changes of Benefit Terms-*None

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 3,693,484	\$ 2,843,679	\$ 2,119,802

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:

	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 2,117,148	\$ 2,843,679	\$ 3,700,052

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

NOTE I – SCHOLARSHIPS

On November 20, 1998, the District received a gift from the estate of Goldie Emerick Race Clark to establish a scholarship permanent fund to help young people acquire a college degree. The principal amount of the gift, \$25,000 was to remain intact and the earnings were to be used for scholarships. The permanent fund is reported within the General Fund with the gift (corpus) as of June 30, 2019 as \$25,000 and the earnings as \$459.

NOTE J – COMMITMENTS

The District has commitments of \$500,349 as of June 30, 2019 for future construction projects.

NOTE K - 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 L – LITIGATION

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

NOTE M – INSURANCE AND RELATED ACTIVITIES

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE N – 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, unemployment, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

NOTE O – DEFICIT FUND AND OPERATING BALANCES

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

<u>Fund</u>		<u>Change in Net Position/ Net Change in Fund Balance</u>
Governmental Activities	\$	(1,397,031)
Business Type Activities		(127,185)
General Fund		(434,043)
Construction Fund	\$	(3,300,312)

NOTE P - 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 Q – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>		<u>Amount</u>
Operating	Capital Outlay	General Fund	Operating	\$	121,857
Operating	Food Service	General Fund	Indirect Cost		94,318
Operating	General Fund	Special Revenue	KETS		51,219
Debt Service	Building Fund	Debt Service	Debt Payments	\$	920,456

NOTE R – 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)	\$	3,998,076
Health Insurance		3,241,605
Life Insurance		5,326
Administrative Fee		43,950
HRA/Dental/Vision		178,417
Federal Reimbursement		(153,572)
Technology		88,253
SFCC Debt Service Payments		294,438
Total	\$	<u>7,696,493</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 S – RESTRICTED FUND BALANCES

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
FSPK	810,736	School Facilities Construction Commission Requirement
Construction	1,735,477	Future Construction
Permanent	459	Scholarship

NOTE T– SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 12, 2019, the date the financial statements were available to be issued.

ROCKCASTLE COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS and KTRS

For the Year Ended June 30, 2019

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Districts' proportion of the net pension liability	0.16017%	0.16477%	0.167670%	0.16939%
District's proportionate share of the net pension liability	\$ 9,754,841	\$ 9,644,436	\$ 8,255,576	\$ 7,283,086
State's proportionate share of the net pension liability associated with the District	-	-	-	-
Total	<u>\$ 9,754,841</u>	<u>\$ 9,644,436</u>	<u>\$ 8,255,576</u>	<u>\$ 7,283,086</u>
District's covered-employee payroll	\$ 3,973,000	\$ 4,017,598	\$ 3,999,811	\$ 3,952,293
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	245.53%	240.05%	206.40%	184.27%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	53.30%	59.00%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Districts' proportion of the net pension liability	0.388%	0.393%	0.395%	0.392%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	<u>50,850,207</u>	<u>105,942,079</u>	<u>116,532,506</u>	<u>91,110,678</u>
Total	<u>\$ 50,850,207</u>	<u>\$ 105,942,079</u>	<u>\$ 116,532,506</u>	<u>\$ 91,110,678</u>
District's covered-employee payroll	\$ 13,029,458	\$ 12,925,599	\$ 12,940,309	\$ 12,485,227
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	59.30%	39.80%	35.22%	42.29%

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

See the accompanying notes to the required supplementary information.

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

For the Year Ended June 30, 2019

	2019	2018	2017	2016
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):				
Contractually required contribution	\$ 799,218	\$ 728,252	\$ 750,487	\$ 682,368
Contributions in relation to the contractually required contributions	799,218	728,252	750,487	682,368
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 3,576,288	\$ 3,973,000	\$ 4,017,598	\$ 3,999,811
District's contributions as a percentage of it's covered-employee payroll	22.35%	18.33%	18.68%	17.06%
 KENTUCKY TEACHER'S RETIREMENT SYSTEM (KTRS):				
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	-	-	-	-
Contribution deficiency (excess)	-	-	-	-
District's covered-employee payroll	\$ 12,830,543	\$ 13,029,458	\$ 12,925,599	\$ 12,940,309
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.

ROCKCASTLE 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%

ROCKCASTLE 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.

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

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
MEDICAL INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.20194%	0.20862%
District's proportionate share of the collective net OPEB liability (asset)	\$ 7,007,000	\$ 7,439,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>6,038,000</u>	<u>6,076,000</u>
Total	<u>\$ 13,045,000</u>	<u>\$ 13,515,000</u>
District's covered-employee payroll	\$ 13,029,458	\$ 12,925,599
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	53.78%	57.55%
Plan fiduciary net position as a percentage of the total OPEB liability	25.50%	21.20%
LIFE INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.00000%	0.00000%
District's proportionate share of the collective net OPEB liability (asset)	\$ -	\$ -
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>104,000</u>	<u>81,000</u>
Total	<u>\$ 104,000</u>	<u>\$ 81,000</u>
District's covered-employee payroll	\$ 13,029,458	\$ 12,925,599
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.

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

	2019	2018
MEDICAL INSURANCE PLAN		
Contractually required contribution	\$ 355,690	\$ 359,713
Contributions in relation to the contractually required contribution	355,690	359,713
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 12,830,543	\$ 13,029,458
District's contributions as a percentage of it's covered-employee payroll	2.77%	2.76%
 LIFE INSURANCE PLAN		
Contractually required contribution	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 12,830,543	\$ 13,029,458
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.

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

	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
	<u> </u>	<u> </u>
HEALTH INSURANCE PLAN		
District's proportion of the collective net OPEB liability (asset)	0.16016%	0.16477%
District's proportionate share of the collective net OPEB liability (asset)	\$ 2,843,679	\$ 3,312,420
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>-</u>	<u>-</u>
Total	<u>\$ 2,843,679</u>	<u>\$ 3,312,420</u>
District's covered-employee payroll	\$ 3,973,000	\$ 4,017,598
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	71.58%	82.45%
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.

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

	2019	2018
HEALTH INSURANCE PLAN		
Contractually required contribution	\$ 85,818	\$ 76,400
Contributions in relation to the contractually		
	85,818	76,400
Contribution deficiency (excess)	-	-
District's covered-employee payroll	\$ 3,576,288	\$ 3,973,000
District's contributions as a percentage of it's covered-employee payroll	2.40%	1.92%

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.

ROCKCASTLE COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB

For the year ended June 30, 2019

TRS

(1) CHANGES OF BENEFIT TERMS

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

(2) CHANGES OF ASSUMPTIONS

Medical Insurance Fund

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

Life Insurance Fund

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

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

Medical Insurance Fund

The actuarially determined contribution rates, as a percentage of payroll used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

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, 2018:

ROCKCASTLE 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.

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

	Other Governmental Funds	
	Capital Outlay	Total
Assets		
Cash and Cash Equivalents	\$ -	\$ -
Total Assets	-	-
Fund Balance		
Restricted		-
Total Fund Balance	\$ -	\$ -

See the accompanying notes to the financial statements.

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

	Other Governmental Funds	
	Capital Outlay	Total
Revenues		
Intergovernmental - State	\$ 121,857	\$ 121,857
Total Revenues	121,857	121,857
Expenditures		
Building Acquisitions & Construction		-
Total Expenditures	-	-
Excess (Deficit) of Revenues Over Expenditures	121,857	121,857
Other Financing Sources (Uses)		
Operating transfers in		-
Operating transfers (out)	(121,857)	(121,857)
Total Other Financing Sources (Uses)	(121,857)	(121,857)
Net Change in Fund Balances	-	-
Fund Balance Beginning	-	-
Fund Balance Ending	\$ -	\$ -

See the accompanying notes to the financial statements.

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

SCHOOL ACTIVITY FUNDS

	<u>ROCKCASTLE CO HIGH SCHOOL</u>	<u>ROCKCASTLE CO MIDDLE SCHOOL</u>	<u>BROADHEAD ELEMENTARY</u>	<u>MT. VERNON ELEMENTARY</u>	<u>ROUNDSTONE ELEMENTARY</u>	<u>TOTAL</u>
ASSETS						
Cash and cash equivalents	\$ 208,171	\$ 93,944	\$ 75,833	\$ 49,416	\$ 20,517	\$ 447,881
Accounts receivable	-	-	5,929	102	-	6,031
Total Assets	<u>208,171</u>	<u>93,944</u>	<u>81,762</u>	<u>49,518</u>	<u>20,517</u>	<u>453,912</u>
LIABILITIES						
Accounts payable	2,349	484	-	80	-	2,913
FUND BALANCE						
School activities	<u>205,822</u>	<u>93,460</u>	<u>81,762</u>	<u>49,438</u>	<u>20,517</u>	<u>450,999</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 208,171</u>	<u>\$ 93,944</u>	<u>\$ 81,762</u>	<u>\$ 49,518</u>	<u>\$ 20,517</u>	<u>\$ 453,912</u>

See the accompanying notes to the financial statements.

Rockcastle County School District
Combining Statement of Revenues, Expenses and Changes In Fund Balance
School Activity Fund
Year ended June 30, 2019

	SCHOOL ACTIVITY FUNDS					
	ROCKCASTLE CO HIGH SCHOOL	ROCKCASTLE CO MIDDLE SCHOOL	BROADHEAD ELEMENTARY	MT. VERNON ELEMENTARY	ROUNDSTONE ELEMENTARY	TOTAL
Revenues						
Student/Trust revenues	\$ 461,127	\$ 229,234	\$ 82,260	\$ 63,880	\$ 19,728	\$ 856,229
Expenses						
Student/Trust activities	464,385	213,444	78,207	54,568	16,373	826,977
Excess (Deficit) of Revenues Over Expenses	(3,258)	15,790	4,053	9,312	3,355	29,252
Fund Balance Beginning	209,080	77,670	77,709	40,126	17,162	421,747
Fund Balance Ending	\$ 205,822	\$ 93,460	\$ 81,762	\$ 49,438	\$ 20,517	\$ 450,999

See the accompanying notes to the financial statements.

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

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	TRANSFERS	FUND BALANCE ENDING
GENERAL	\$ 14,084	\$ 11,950	\$ 17,486	\$ 7,901	\$ 16,449
YOUTH SERVICES CENTER	6,844	3,323	2,136	70	8,101
UNITE	424	1,790	2,058	219	375
GAME CLUB	97	72	-	-	169
PINTEREST PROJECT	27	-	-	-	27
FELLOWSHIP OF CHRISTIAN ATHLETES	194	747	394	(36)	511
SPECIAL NEEDS	29	1,980	1,995	-	14
DUCT TAPE CLUB	30	-	-	-	30
JROTC	8,468	1,485	6,377	500	4,076
RCHS ACADEMIC	51	17,550	17,219	-	382
DRAMA CLUB	638	451	508	-	581
SCIENCE CLUB	46	-	-	-	46
GEARUP	86	-	-	-	86
INTERNATIONAL CLUB	647	-	-	-	647
DANCE BLUE CLUB	857	6,869	7,238	170	658
SPACE CLASS	1,279	22	-	-	1,301
ROCKET CLUB	77	1,470	-	-	1,547
YOUNG REPUBLICANS	981	595	779	(148)	649
YOUNG DEMOCRATS	583	-	-	-	583
NATIONAL HONOR SOCIETY	4,139	2,778	3,442	(136)	3,339
CARD SHARKS	7	-	-	-	7
MEDITATION CLUB	127	-	-	-	127
FUTURE EDUCATORS ASSOCIATE	122	191	264	-	49
KEY CLUB	824	1,892	2,503	7	220
MATH CLUB	-	-	-	-	-
B I O	333	361	218	-	476
ENVIROTHON	35	70	-	-	105
PYSCHOLOGY	156	96	251	-	1
Y CLUB	1,665	14,034	14,493	95	1,301
BAND	438	40,088	40,518	-	8
ENVIRONMENTAL CLUB	93	30	-	-	123
MARTIAL ARTS CLUB	181	-	-	-	181
STUDENT COUNCIL	638	1,845	854	200	1,829
STAFF CLIMATE	277	1,683	1,612	-	348
CONCESSIONS	-	13,405	8,721	(4,684)	-
BOWS & ARROWS	1,679	2,560	-	(1,060)	3,179
GIRLS ARCHERY	-	75	1,155	1,080	-
GIRLS BASS FISHING	-	-	385	385	-
BASS ANGLERS	142	4,335	3,961	-	516
EXAMS GUIDANCE	-	10,807	7,590	(3,217)	-
PHYSICAL EDUCATION	437	1,360	1,036	-	761
ROCK MOVES	1,905	1,351	2,187	(90)	979
E-SPORTS	-	1,152	1,152	-	-
ATHLETICS	103,756	65,198	30,476	(44,118)	94,360
BOYS ARCHERY	-	75	1,155	1,080	-
BASS FISHING	-	-	385	385	-
BOYS BASKETBALL	-	250	6,998	6,748	-
TIP OFF BOYS BASKETBALL	(319)	26,298	24,832	(360)	787
GIRLS BASKETBALL	-	250	12,549	12,299	-
LADY ROCKETS	4,163	27,798	23,915	(5,049)	2,997
BASEBALL	-	200	4,795	4,306	(289)
DUGOUT RCHS BASEBALL	2,379	10,435	10,824	(56)	1,934
FOOTBALL	-	1,000	10,366	9,366	-
QUARTERBACK CLUB	3,432	15,558	9,789	(1,366)	7,835
SOFTBALL	-	200	4,079	3,879	-
SOFTBALL BOOSTERS	415	16,271	16,128	566	1,124
GIRLS GOLF BOOSTERS	2,354	3,538	4,301	(770)	821
GIRLS GOLF	-	-	1,680	1,680	-
GOLF BOYS	-	-	1,161	1,161	-
BOYS GOLF BOOSTERS	2,001	3,342	5,132	129	340
TRACK BOYS	-	-	1,345	1,345	-
TRACK GIRLS	-	-	1,611	1,611	-
RUNNING TRACK BOYS	21	1,134	845	389	699
CROSS COUNTRY GIRLS	-	82	938	856	-
CROSS COUNTRY BOYS	-	82	1,757	1,675	-
RUNNER CROSS COUNTRY BB	365	949	63	(867)	384
KICK CLUB	80	-	-	-	80
VOLLEYBALL BOOSTERS	2,281	15,182	13,405	-	4,058
VOLLEYBALL	-	300	3,150	2,851	1
VB DISTRICTS 18-19	-	1,520	1,031	(489)	-
SWIM-SCOREBOARD	-	250	-	-	250
RACQUET CLUB	255	750	943	-	62
TENNIS GIRLS	-	-	775	775	-
SWIM	-	-	3,307	3,307	-
SWIM ROCKETS	883	3,215	1,553	(1,787)	758
FFA	1,786	23,050	19,216	1,244	6,864
KY RIVER REGION FFA	3,025	3,338	2,588	(132)	3,643
FCCLA	2,650	14,615	14,925	(679)	1,661
CHEERLEADERS	4,636	24,374	22,859	(209)	5,942
AGRICULTURE	4,080	4,393	2,703	(1,050)	4,720
AGR CONSTRUCTION	719	26	262	(475)	8
ART BOOSTERS	-	677	416	300	561
CHORUS	2,082	4,025	5,386	450	1,171
RANDOM ACTS OF KINDNESS	-	204	-	-	204
PROM	1,942	8,511	5,436	-	5,017
YEARBOOK	11,725	19,876	21,899	-	9,702
PERFECT FIT	10	-	-	(10)	-
PROJECT GRADUATION 2011	-	12,893	12,893	-	-
LIBRARY	249	781	930	209	309
VEX-ROBOTICS	5,470	4,070	9,052	(450)	38
TOTALS	\$ 209,080	\$ 461,127	\$ 464,385	\$ -	\$ 205,822

See the accompanying notes to the financial statements.

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
US Department of Agriculture					
Passed Through State Department of Education					
School Breakfast Program	10.553				
Fiscal Year 18		7760005 18	\$ -	\$ -	N/A \$ 138,657
Fiscal Year 19		7760005 19	-	-	N/A 597,708
National School Lunch Program	10.555				
Fiscal Year 18		7750002 18	-	-	N/A 245,181
Fiscal Year 19		7750002 19	-	-	N/A 1,072,587
Summer Food Service Program	10.559				
Fiscal Year 18		7690024 18	-	-	N/A 158
Fiscal Year 18		7740023 18	-	-	N/A 1,502
Fiscal Year 19		7690024 19	-	-	N/A 135
Fiscal Year 19		7740023 19	-	-	N/A 1,315
Child Nutrition Cluster Subtotal					<u>2,057,243</u>
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 19		510.4950	-	-	N/A 122,541
Total US Department of Agriculture					<u>2,179,784</u>
US Department of Education					
Passed Through State Department of Education					
* Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 17		3100002 17	-	990,900	2,804
Fiscal Year 18		3100002 18	-	1,141,371	77,273
Fiscal Year 19		3100002 19	-	1,130,412	1,036,780
					<u>1,116,857</u>
Special Education Grants to States	84.027A				
Fiscal Year 19		3810002 19	-	577,394	500,385
Special Education - Preschool Grants	84.173A				
Fiscal Year 19		3800002 19	-	29,650	29,650
Special Education Cluster Subtotal					<u>530,035</u>
Vocational Education - Basic Grants to States	84.048				
Fiscal Year 18		3710002 18	-	20,673	3,994
Fiscal Year 19		3710002 19	-	19,974	16,539
					<u>20,533</u>
Rural Education	84.358				
Fiscal Year 18		3140002 18	-	47,555	47,555
Fiscal Year 19		3140002 19	-	50,484	49,199
					<u>96,754</u>
Title IV Part A	84.424				
Fiscal Year 18		3420002 18	-	25,686	24,798
Fiscal Year 19		3420002 19	-	72,289	41,668
					<u>66,466</u>
Improving Teacher Quality State Grants	84.367A				
Fiscal Year 18		3230002 18	-	139,611	87,455
Fiscal Year 19		3230002 19	-	137,945	70,181
					<u>157,636</u>
Passed Through Berea College					
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A				
Fiscal Year 19		379EG	-	196,612	196,612
					<u>196,612</u>
Total US Department of Education					<u>2,184,893</u>
US Department of Commerce					
Passed Through The Center for Rural Development					
Pride Grant	11.420				
Fiscal Year 18		EF16-18	-	2,084	2,084
Total US Department of Commerce					<u>2,084</u>
US Department of Defense					
ROTC	12.000				
Fiscal Year 18		504D	-	-	N/A 6,289
Fiscal Year 19		504E	-	-	N/A 82,656
Total US Department of Defense					<u>88,945</u>
Total Expenditure of Federal Awards					<u>\$ 4,455,706</u>

* Major program

ROCKCASTLE 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 Rockcastle 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 Rockcastle 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 \$122,541.

NOTE D – INDIRECT COST RATE

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

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

To the Board of Education of the Rockcastle County School District
Mt. Vernon, 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 Rockcastle 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 Rockcastle County School District's basic financial statements, and have issued our report thereon dated November 12, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rockcastle 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 Rockcastle County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockcastle 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 Rockcastle 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 Rockcastle County School District in a separate letter dated November 12, 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 12, 2019

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

To the Board of Education of the Rockcastle County School District
Mt. Vernon, KY
and the State Committee of School District Audits

Report on Compliance for Each Major Federal Program

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

Opinion on Each Major Federal Program

In our opinion, the Rockcastle 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 Rockcastle 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 Rockcastle 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 Rockcastle 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 12, 2019

ROCKCASTLE 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
Was any material noncompliance reported (GAGAS)?	None Reported
Were there material weaknesses in internal control disclosed for major programs?	None Reported
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]
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.

ROCKCASTLE COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019

There were no prior year findings.

MANAGEMENT LETTER POINTS

Rockcastle County School District
Mt. Vernon, Kentucky

In planning and performing our audit of the financial statements of the Rockcastle 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 12, 2019. This letter does not affect our report dated November 12, 2019, on the financial statements of the Rockcastle County School District. The conditions observed are as follows:

MT. VERNON ELEMENTARY

No conditions.

ROUNDSTONE ELEMENTARY

No conditions.

BRODHEAD ELEMENTARY

1-19

Statement of Condition: The deposit slips do not indicate that a second person is verifying the deposit.

Recommendation for Correction: An employee, or someone other than the person that prepares the deposit slip needs to initial the deposit slip verifying that the amount of the deposit equals the total amount of receipts recorded in the ledger sheets and that the bank validation stamp matches the amount of the deposit slip.

Management Response to the Recommendation: Someone has been verifying and initialing my deposit slips. A self-audit will continue to be utilized to ensure this condition is met.

2-19

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

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

Management Response to the Recommendation: The school treasurer and principal will ensure that all purchases will have a PO approved before money is spent.

ROCKCASTLE COUNTY MIDDLE SCHOOL

3-19

Statement of Condition: Instances of improper reporting of checks deposited.

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

Management Response to the Recommendation: The school treasurer shall prepare deposit slips containing the issuers name and the amount of each check or retain a copy of all checks to be deposited.

4-19

Statement of Condition: The Multiple Receipt Form (F-SA-6) is not consistently being signed and dated by the teacher or sponsor.

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

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

5-19

Statement of Condition: Purchase Orders are being utilized but not consistently.

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

Management Response to the Recommendation: The person requesting to make a purchase or expend activity funds will prepare a Purchase Request/Order (F-SA-7) and have it approved by the sponsor and principal. After proper approval, a Purchase Order number shall be issued or an (EPES) Purchase Order generated so the expenditure can be purchased or ordered.

ROCKCASTLE COUNTY HIGH SCHOOL

6-19

Statement of Condition: Activity Fund accounts ended the fiscal year (June 30) with a deficit balance (Baseball).

Recommendation for Correction: Monies can be transferred between activity fund accounts, as long as money generated by the students goes back to benefiting the students. Monies generated for a specific purpose must be spent on the intended purpose. Any monies transferred to cover deficit balances shall be reimbursed by the deficit account when funds become available. Closer monitoring of activity fund account ending balances before signing off on purchase orders will decrease the chances of accounts becoming deficit.

Management Response to the Recommendation: The principal will work with the school treasurer to insure no activity fund account ends the fiscal year with a deficit balance.

7-19

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

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

Management Response to the Recommendation: The administrative team will communicate to all staff that pre-numbered tickets must be utilized for all events and colors changed accordingly. Requisition and Report of Ticket Sales (F-SA-1) will be utilized for all events that charge admission. This report will be reconciled at the end of the event and shortages/overages explained accordingly.

8-19

Statement of Condition: Instances of lack of segregation of duties in the process of ticket sales.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money. The ticket seller gives the entire ticket to the customer and collects the fee. The ticket taker tears the ticket in half, gives half to the customer, and retains half. The ticket seller and the ticket taker must be two separate people. Both must sign the Requisition and Report of Ticket Sales (F-SA-1) form.

Management's Response to the Recommendation: The administrative team will meet with all staff and explain the process of segregation of duties in ticket sales. The ticket seller will give the ticket and collect the fee and the ticket taker tears the ticket in half and gives half to the customer and retains half. Assurance of the proper form (F-SA-1) will be affirmed.

9-19

Statement of Condition: Purchase Orders are being utilized but not consistently.

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

Management Response to the Recommendation: The school utilizes pre-numbered Purchase Request (F-SA-7) that are completed by the sponsor and approved by the principal prior to any purchase or order is processed.

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

Conditions 2-19, 4-19, 5-19, 7-19, 8-19, and 9-19 are repeat conditions from the prior year. All prior year conditions have been corrected. David Pensol, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer 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 12, 2019