

**SCIENCE HILL INDEPENDENT
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2019**

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October 30, 2019

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Science Hill Independent School District
6007 US-27
Science Hill, KY 42553

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 Science Hill Independent School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Science Hill Independent 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, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent School District as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in 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, budgetary comparison information, schedules of the district's proportionate share of net pension liabilities, or the schedules of the district's proportionate share of net other post-employment benefits on Pages 4 through 10, 55 through 56, and 59 through 61 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 Science Hill Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – School Activity Funds are presented for the purpose of additional analysis and are not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – School Activity Funds 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, statement of receipts, disbursements and fund balance – School Activity Funds are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 2019, on our consideration of Science Hill Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Science Hill Independent School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2019

As management of the Science Hill Independent School District we provide to our readers and users of the accompanying financial statements an analysis and overview presentation of the board's financial activities for the year ended June 30, 2019. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

- The beginning General Fund balance was \$476,175. The ending balance was \$260,720. General Fund revenues increased by \$80,402 and expenditures increased \$25,309 as compared with the prior year.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Total bond and lease principal payments for fiscal year 2019 were \$247,876 and the District paid an additional \$47,576 in interest payments.
- The District had \$ 4,820,212 in revenue and \$4,987,511 in expenses.
- The District's total net position decreased by \$167,299. Current assets decreased \$119,831, non-current assets decreased \$180,345, and total liabilities increased \$471,319.

OVERVIEW OF FINANCIAL STATEMENTS

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

District Wide financial statements

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

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

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

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non- instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The district-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The district uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are agency funds that account for activities of student groups and other types of activities requiring clearing accounts. The only proprietary fund is our food service operation. All other activities of the district are included in governmental funds.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21-52 of this report.

DISTRICT – WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$375,627 as of June 30, 2019.

The largest portion of the districts net position reflects its investment in capital assets (e.g., land Improvements, buildings, and improvements, vehicles, furniture and equipment). Less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Districts 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.

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

A comparison of June 30, 2019 and June 30, 2018 government wide net position is as follows:

	Governmental		Business – Type		Total	
	Activities		Activities		Primary Government	
	<u>2019</u>	<u>2018 Restated</u>	<u>2019</u>	<u>2018 Restated</u>	<u>2019</u>	<u>2018 Restated</u>
Current and Other Assets	\$ 307,267	\$493,291	\$ 140,605	\$ 74,412	\$ 447,872	\$ 567,703
Net Capital Assets	4,553,402	4,726,019	129,752	137,480	4,683,154	4,863,499
Deferred Outflows	528,560	546,455	72,012	82,427	600,572	628,882
Total Assets and Def Outflows	<u>5,389,229</u>	<u>5,765,765</u>	<u>342,369</u>	<u>294,319</u>	<u>5,731,598</u>	<u>6,060,084</u>
Current Liabilities	393,162	30,349	721	-	393,883	30,349
Non-Current Liabilities	4,423,487	5,041,364	245,735	236,245	4,669,222	5,277,609
Deferred Inflows	263,273	180,492	29,593	28,708	292,866	209,200
Total Liabilities and Def Inflows	<u>5,079,922</u>	<u>5,252,205</u>	<u>276,049</u>	<u>264,953</u>	<u>5,355,971</u>	<u>5,517,158</u>
Net Position						
Net Investment in Capital Assets	2,434,529	2,495,919	129,752	137,480	2,564,281	2,633,399
Restricted	8,008	126,080	(63,432)	-	(55,424)	126,080
Unrestricted	(2,133,230)	(2,108,439)	-	(108,114)	(2,133,230)	(2,216,553)
Total Net Position	<u>\$ 309,307</u>	<u>\$ 513,560</u>	<u>\$ 66,320</u>	<u>\$ 29,366</u>	<u>\$375,627</u>	<u>\$ 542,926</u>

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2019 and June 30, 2018.

	Governmental		Business – Type		Total	
	Activities		Activities		Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
REVENUES						
Program revenues						
Charges for services	\$ 8,495	\$ -	\$ 33,052	\$38,681	\$41,547	\$ 38,681
Operating grants and contributions	583,324	492,411	348,385	273,975	931,709	766,386
Capital grants	198	191,624			198	191,624
General revenues						
Property taxes	638,906	844,741			638,906	844,741
Motor vehicle taxes	81,472				81,472	
Utility Taxes	89,096				89,096	
Other taxes	12,965				12,965	
Investment earnings	8,010	4,783			8,010	4,783
State and formula grants	2,901,964	2,630,541		17,214	2,901,964	2,647,755
Miscellaneous	114,345	71,796		3,504	114,345	75,300
Fund Transfer	14,132	-	(14,132)	-	-	-
Total revenues	<u>4,452,907</u>	<u>4,235,896</u>	<u>367,305</u>	<u>333,374</u>	<u>4,820,212</u>	<u>4,569,270</u>
EXPENSES						
Program Activities						
Instructional	3,037,127	3,624,286			3,037,127	3,624,286
Student support	256,415	350,438			256,415	350,438
Instructional staff Support	6,910	119,398			6,910	119,398
District administrative support	367,029	489,762			367,029	489,762
School administrative support	55,601	47,617			55,601	47,617
Business support	127,973	192,315			127,973	192,315
Plant operations and maintenance	572,718	583,254			572,718	583,254
Student transportation	150,579	209,376			150,579	209,376
Community service activities	36,819	54,533			36,819	54,533
Debt Service	45,989	77,283			45,989	77,283
Business-type Activities						
Food service			330,351	311,794	330,351	304,187
Total expenses	<u>4,657,160</u>	<u>5,748,262</u>	<u>330,351</u>	<u>311,794</u>	<u>4,987,511</u>	<u>5,212,949</u>
Increase (Decrease) in net position	<u>\$(204,253)</u>	<u>\$ (1,512,366)</u>	<u>\$ 36,954</u>	<u>\$ 21,580</u>	<u>\$ (167,299)</u>	<u>\$ 237,754</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2019 and 2018 were \$1,062,291 and \$1,049,889 respectively.

Governmental Activities

For the governmental program expenses, instructional expenses comprise 65% of total expenses, support services equate to 33%, and interest and other expenses make up the remaining 2% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Instructional	\$ 3,037,127	\$ 3,624,286	2,514,955	3,131,875
Support Services	1,537,225	1,992,160	1,504,268	1,992,160
Other	36,819	54,533	129	54,533
Interest Costs	<u>45,989</u>	<u>77,283</u>	<u>45,791</u>	<u>(114,341)</u>
Total Expenses	<u>\$ 4,657,160</u>	<u>\$ 5,748,252</u>	<u>\$ 4,065,143</u>	<u>\$ 5,064,227</u>

Business-Type Activities

The business type activities consist of the food service program. This program had total revenues of \$381,437 and expenses of \$344,483 for fiscal year 2019. These revenues were made up of \$33,052 charges for services and \$348,385 federal and state operating grants. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. The District uses the modified accrual basis of accounting for these funds to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2019 was \$4,395,612 and expenditures were \$4,672,437. The most significant net change in fund balance was in the general fund with a decrease of \$215,455.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$3,009,466 with actual results being \$3,599,710. Budgeted expenditures were \$3,489,535 compared to actual expenditures of \$3,815,165. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$1,062,291, which are not budgeted.

Future Budgetary Implications

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2019 – 2020 with a contingency greater than the required minimum of 2%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2019 fiscal year, the District had invested \$4,683,154 in a broad range of capital assets, including equipment, buses, buildings, and land net of accumulated depreciation. This amount represents a net decrease of \$180,345. Depreciation expense for the year was \$186,215.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2019 and 2018.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	2019	2018	2019	2018	2019	2018
Construction in Progress	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Land and Improvements	87,795	93,254	-	-	87,795	93,254
Buildings and Improvements	4,343,293	4,483,598	114,625	119,503	4,457,918	4,603,101
Technology	1,185	10,742	-	-	1,185	10,742
Vehicles	105,199	123,858	-	-	105,199	123,858
General Equipment	15,930	14,567	15,127	17,977	31,057	32,544
Total	\$ 4,553,402	\$ 4,726,019	\$ 129,752	\$ 137,480	\$ 4,683,154	\$ 4,863,499

The table below shows the changes in capital assets for fiscal years ended June 30, 2019 and 2018.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Beginning Balance,	\$ 4,726,019	\$ 4,906,058	\$ 137,480	\$ 142,357	\$ 4,863,499	\$ 5,048,415
Additions	15,393	-	-	-	15,393	-
Retirements	(9,523)	-	-	-	(9,523)	-
Depreciation	(178,487)	(180,039)	(7,728)	(4,877)	(186,215)	(184,916)
Ending Balance	\$ 4,553,402	\$ 4,726,019	\$ 129,752	\$ 137,480	\$ 4,683,154	\$ 4,863,499

Long-Term Debt

At year-end the District had \$2,010,000 in bonds outstanding and \$108,873 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2019 was \$230,000 and capital lease obligation principal paid was \$17,876. A total of \$253,228 of principal is due within one year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jimmy Dyehouse, Superintendent, or Jamey Tilley, Director Business Operations at (606)423-3341. The District mailing address is 6007 North Highway 27, Science Hill, Kentucky 42553.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	288,779	122,281	411,060
Accounts Receivable:			
Accounts	4,016		4,016
Taxes - Current	14,472		14,472
Inventories for Consumption		18,324	18,324
Total Current Assets	<u>307,267</u>	<u>140,605</u>	<u>447,872</u>
Noncurrent Assets - Note F			
Land	51,625		51,625
Buildings & Improvements	7,136,859		7,136,859
Furniture & Equipment	825,863	348,145	1,174,008
Less: Accumulated Depreciation	<u>(3,460,945)</u>	<u>(218,393)</u>	<u>(3,679,338)</u>
Total Noncurrent Assets	<u>4,553,402</u>	<u>129,752</u>	<u>4,683,154</u>
TOTAL ASSETS	4,860,669	270,357	5,131,026
Deferred Outflows Related to Other Post Employment Benefits	208,517	21,020	229,537
Deferred Outflows Related to Pensions	320,043	50,992	371,035
TOTAL DEFERRED OUTFLOWS	<u>528,560</u>	<u>72,012</u>	<u>600,572</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>5,389,229</u></u>	<u><u>342,369</u></u>	<u><u>5,731,598</u></u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	7,794	721	8,515
Advances from Grantors	30,745		30,745
KSBIT Assessment	5,052		5,052
Bond Obligations - Note D	235,000		235,000
Capital Lease Obligation - Note E	18,228		18,228
Accrued Sick Leave - Note A	82,136		82,136
Accrued Interest Payable	14,207		14,207
Total Current Liabilities	<u>393,162</u>	<u>721</u>	<u>393,883</u>
Noncurrent Liabilities:			
Bond Obligations - Note D	1,775,000		1,775,000
Capital Lease Obligation - Note E	90,645		90,645
Net Pension Liability	1,142,009	191,220	1,333,229
Net Other Post Employment Benefits Liability	1,362,155	54,515	1,416,670
KSBIT Assessment	5,052		5,052
Accrued Sick Leave - Note A	48,626		48,626
Total Noncurrent Liabilities	<u>4,423,487</u>	<u>245,735</u>	<u>4,669,222</u>
TOTAL LIABILITIES	4,816,649	246,456	5,063,105
Deferred Inflows Related to Other Post Employment Benefits	148,669	9,951	158,620
Deferred Inflows Related to Pensions	114,604	19,642	134,246
TOTAL DEFERRED INFLOWS	<u>263,273</u>	<u>29,593</u>	<u>292,866</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u><u>5,079,922</u></u>	<u><u>276,049</u></u>	<u><u>5,355,971</u></u>
NET POSITION:			
Net Investment in Capital Assets	2,434,529	129,752	2,564,281
Restricted for:			
School Activities	8,008		8,008
Food Service		(63,432)	(63,432)
Unrestricted	<u>(2,133,230)</u>		<u>(2,133,230)</u>
TOTAL NET POSITION	<u>309,307</u>	<u>66,320</u>	<u>375,627</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>5,389,229</u></u>	<u><u>342,369</u></u>	<u><u>5,731,598</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	3,037,127	8,495	513,677		(2,514,955)		(2,514,955)
Support Services:							
Student Support Services	256,415		31,705		(224,710)		(224,710)
Staff Support Services	6,910		520		(6,390)		(6,390)
District Administration	367,029				(367,029)		(367,029)
School Administration	55,601				(55,601)		(55,601)
Business Support Services	139,393				(139,393)		(139,393)
Plant Operation & Maintenance	572,718		732		(571,986)		(571,986)
Student Transportation	150,579				(150,579)		(150,579)
Community Service Operations	36,819		36,690		(129)		(129)
Interest on Long-Term Debt	45,989			198	(45,791)		(45,791)
TOTAL GOVERNMENTAL ACTIVITIES	4,668,580	8,495	583,324	198	(4,076,563)		(4,076,563)
BUSINESS-TYPE ACTIVITIES:							
Food Service	330,351	33,052	348,385			51,086	51,086
TOTAL BUSINESS-TYPE ACTIVITIES	330,351	33,052	348,385	0	0	51,086	51,086
TOTAL SCHOOL DISTRICT	4,998,931	41,547	931,709	198	(4,076,563)	51,086	(4,025,477)
GENERAL REVENUES:							
Taxes:							
Property					638,906		638,906
Motor Vehicle					81,472		81,472
Utility					89,096		89,096
Other					12,965		12,965
State Aid - Formula Grants					2,913,384		2,913,384
Investment Earnings					8,010		8,010
Miscellaneous					71,182		71,182
Loss Compensation					50,277		50,277
Gain(Loss) Sale of Assets					(7,114)		(7,114)
Funds Transfer (Expense)					14,132	(14,132)	0
TOTAL GENERAL REVENUES & TRANSFERS					3,872,310	(14,132)	3,858,178
CHANGE IN NET POSITION					(204,253)	36,954	(167,299)
NET POSITION, BEGINNING OF YEAR - AS RESTATED NOTE R					513,560	29,366	542,926
NET POSITION - ENDING					309,307	66,320	375,627

See independent auditor's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	GENERAL FUND	SPECIAL REVENUE	BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	242,974	33,856		11,949	288,779
Accounts Receivable:					
Taxes - Current	14,472				14,472
Accounts	4,016				4,016
TOTAL ASSETS	261,462	33,856	0	11,949	307,267
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	742	3,111		3,941	7,794
Advances from Grantors		30,745			30,745
Total Liabilities	742	33,856	0	3,941	38,539
Fund Balance:					
Restricted for:					
School Activities				8,008	8,008
Committed for:					
Sick Leave	130,762				130,762
Assigned for:					
Purchase Obligations	11,086				11,086
Unassigned Fund Balance	118,872				118,872
Total Fund Balance	260,720	0	0	8,008	268,728
TOTAL LIABILITIES AND FUND BALANCES	261,462	33,856	0	11,949	307,267

See independent auditor's report and accompanying notes to financial statements.

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

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

TOTAL GOVERNMENTAL FUND BALANCE		268,728
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	8,014,347	
Accumulated Depreciation	<u>(3,460,945)</u>	4,553,402
Deferred Outflows on Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		
		320,043
Deferred Outflows Related to Other Post Employment Benefits are not a current and therefore are not reported as assets in governmental funds.		
		208,517
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(2,010,000)	
Capital Lease Obligation	(108,873)	
Net Pension Liability	(1,142,009)	
Net Other Post Employment Benefits Liability	(1,362,155)	
KSBIT Assessment	(10,104)	
Accrued Interest on Bonds	(14,207)	
Accrued Sick Leave	<u>(130,762)</u>	(4,778,110)
Deferred Inflows Related to Other Post Employment Benefits are not a current liabilities and therefore are not reported as liabilities in governmental funds.		
		(148,669)
Deferred Inflows on Related to Pensions are not a current liability and therefore are not reported as liabilities in governmental funds.		
		<u>(114,604)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>309,307</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	GENERAL	SPECIAL REVENUE	BUILDING FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	526,218		112,688		638,906
Motor Vehicle	81,472				81,472
Utility	89,096				89,096
Other	12,965				12,965
Earnings on Investments	8,010				8,010
Intergovernmental - State	2,708,187	196,307	170,256	35,139	3,109,889
Intergovernmental - Federal	5,528	381,489			387,017
Other Sources	69,553	735		9,389	79,677
TOTAL REVENUES	3,501,029	578,531	282,944	44,528	4,407,032
EXPENDITURES:					
Instructional	2,406,606	515,483		3,941	2,926,030
Support Services:					
Student Support Services	215,589	31,816			247,405
Staff Support Services	1,472	522			1,994
District Administration	358,398				358,398
School Administration	54,655				54,655
Business Support Services	140,794				140,794
Plant Operation & Maintenance	492,944	735			493,679
Student Transportation	128,631				128,631
Community Service Operations		36,819			36,819
Debt Service:					
Principal	17,876			230,000	247,876
Interest	2,776			44,800	47,576
TOTAL EXPENDITURES	3,819,741	585,375	0	278,741	4,683,857
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(318,712)	(6,844)	282,944	(234,213)	(276,825)
OTHER FINANCING SOURCES(USES):					
Operating Transfers In - Note N	57,415	6,844		273,587	337,846
Operating Transfers Out - Note N	(6,844)		(282,944)	(33,926)	(323,714)
Proceeds from Sale of Assets	2,409				2,409
Loss Compenastion	50,277				50,277
TOTAL OTHER FINANCING SOURCES	103,257	6,844	(282,944)	239,661	66,818
NET CHANGE IN FUND BALANCES	(215,455)	0	0	5,448	(210,007)
FUND BALANCES - BEGINNING	476,175	0	0	2,560	478,735
FUND BALANCES - ENDING	260,720	0	0	8,008	268,728

See independent auditor's report and accompanying notes to financial statements.

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

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

NET CHANGES - GOVERNMENTAL FUNDS		(210,007)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(178,487)	
Capital Outlays	15,393	(163,094)
<p>Bond and Capital Lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		247,876
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
District Pension Contributions	96,191	
Cost of Benefits Earned Net of Employee Contributions	(235,408)	
District Other Post Employment Benefits Contributions	95,466	
Cost of Benefits Earned Net of Employee Contributions - OPEB	(27,711)	
KSBIT Assessment	5,052	
Accrued Interest Payable	1,587	
Accrued Sick Leave	(4,682)	(69,505)
Loss on Sale of Assets		(9,523)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		(204,253)

See independent auditor's report and accompanying notes to financial statements.

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

	<u>FOOD SERVICE</u>
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	122,281
Inventories for Consumption	18,324
Total Current Assets	<u>140,605</u>
Noncurrent Assets:	
Buildings & Improvements	
Furniture & Equipment	348,145
Less: Accumulated Depreciation	(218,393)
Total Noncurrent Assets	<u>129,752</u>
TOTAL ASSETS	<u>270,357</u>
Deferred Outflows Related to Other Post Employment Benefits	21,020
Deferred Outflows Related to Pensions	50,992
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>342,369</u>
LIABILITIES:	
Current Liabilities:	
Account Payable	721
Total Current Liabilities	<u>721</u>
Noncurrent Liabilities:	
Net Other Post Employment Benefits Liability	54,515
Net Pension Liability	191,220
Total Noncurrent Liabilities	<u>245,735</u>
TOTAL LIABILITIES	<u>246,456</u>
Deferred Inflows Related to Other Post Employment Benefits	9,951
Deferred Inflows Related to Pensions	19,642
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>276,049</u>
Net Position:	
Net Investment in Capital Assets	129,752
Restricted	(63,432)
Total Net Position	<u>66,320</u>
TOTAL LIABILITIES AND NET POSITION	<u>342,369</u>

See independent auditor's report and accompanying notes to financial statements.

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

	<u>FOOD SERVICE</u>
OPERATING REVENUES:	
Lunchroom Sales	33,052
TOTAL OPERATING REVENUES	<u>33,052</u>
OPERATING EXPENSES:	
Salaries & Benefits	141,660
Contract Services	3,199
Materials & Supplies	177,764
Depreciation - Note F	7,728
TOTAL OPERATING EXPENSES	<u>330,351</u>
OPERATING INCOME(LOSS)	(297,299)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	300,972
State Grants	26,004
Donated Commodities	21,409
Transfer Out to General Fund	(14,132)
TOTAL NONOPERATING REVENUE	<u>334,253</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	36,954
CAPITAL CONTRIBUTIONS	<u>0</u>
CHANGE IN NET POSITION	36,954
TOTAL NET POSITION - BEGINNING AS RESTATED NOTE R	<u>29,366</u>
TOTAL NET POSITION - ENDING	<u><u>66,320</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	<u>FOOD SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	33,052
Cash Paid to/for:	
Employees	(104,707)
Supplies	(155,634)
Other Activities	(3,199)
	<u>(230,488)</u>
Net Cash Provided (Used) by Operating Activities	(230,488)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer Out to General Fund	(14,132)
Federal Grants	300,972
State Grants	9,841
	<u>296,681</u>
Net Cash Provided by Non-Capital and Related Financing Activities	296,681
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
	-
CASH FLOWS FROM INVESTING ACTIVITIES	
	<u>-</u>
Net Increase in Cash and Cash Equivalents	66,193
Balances, Beginning of Year	<u>56,088</u>
Balances, End of Year	<u><u>122,281</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Loss	(297,299)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	7,728
State On-Behalf Payments	16,164
Donated Commodities	21,408
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Deferred Outflows	10,415
Deferred Inflows	885
Net Pension Liability	14,124
Net Other Post Employment Benefits	(4,634)
Inventory	-
Accounts Payable	721
	<u>(230,488)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(230,488)</u></u>
Schedule of Non-Cash Transactions:	
Donated Commodities	21,408
State On-Behalf Payments	16,164

See independent auditor's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

	<u>SCHOOL ACTIVITY FUNDS</u>
ASSETS:	
Cash and Cash Equivalents	29,356
TOTAL ASSETS	<u>29,356</u>
LIABILITIES:	
Due to Student Groups	29,356
TOTAL LIABILITIES	<u>29,356</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Science Hill Independent Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Science Hill Independent 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 and account groups relevant to the operation of the Science Hill Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as 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 organizations are included in the accompanying financial statements:

Science Hill Independent Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Science Hill Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as 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 and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan. This is a major fund of the District.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's 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.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are 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 generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for 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 Nonexchange 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 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange 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.

Deferred Revenue – Deferred 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 deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred 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 costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$0.674 per \$100 valuation for real property, \$0.678 per \$100 valuation for business personal property, and \$0.532 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 gases.

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

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

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	130,762	Long-Term Sick Leave Commitment

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Position

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

Operating Revenues and Expenses

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

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

Pensions

Teachers' Retirement System - 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 Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. 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.

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

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

Postemployment Benefits Other Than Pensions

Teachers' Retirement System – 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 additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. 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.

County Employees Retirement System - 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 County Employees Retirement System of the State of Kentucky (CERS) and

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$440,416. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, \$190,416 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

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

	Bank Balance	Book Balance
Cumberland Security Bank	641,034	440,416
Breakdown per financial statements:		
Governmental Funds		288,779
Proprietary Funds		<u>122,281</u>
Subtotal		411,060
Agency Funds		<u>29,356</u>
Total Cash and Cash Equivalents All Funds		<u><u>440,416</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make payments relating to the bonds issued by the Science Hill Independent School District Finance Corporation in the original amount aggregating \$2,555,000.

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

2016 Refunding	2,555,000	2.00%
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The District, through the General Fund (including utility taxes and the Support Education Excellence (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Science Hill Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission’s participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice if its intention not to participate not less than sixty days prior to the end of its biennium.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2019-20	235,000	40,200	1,213	273,987
2020-21	235,000	35,500	1,213	269,287
2021-22	240,000	30,800	1,213	269,587
2022-23	250,000	26,000	1,213	274,787
2023-24	255,000	21,000	1,212	274,788
2024-25	260,000	15,900	1,213	274,687
2025-26	265,000	10,700	1,213	274,487
2026-27	<u>270,000</u>	<u>5,400</u>	<u>1,213</u>	<u>274,187</u>
	<u>2,010,000</u>	<u>185,500</u>	<u>9,703</u>	<u>2,185,797</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LONG TERM OBLIGATIONS (CONTINUED)

Long-term liability activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	2,240,000	0	230,000	2,010,000	235,000
Capital Lease Obligations	126,749	0	17,876	108,873	18,228
KISBIT Assessment	15,156	0	5,052	10,104	5,052
Net OPEB Liability	1,480,344	0	118,189	1,362,155	0
Net Pension Liability	1,053,035	88,974	0	1,142,009	0
Accrued Sick Leave	<u>126,080</u>	<u>26,384</u>	<u>21,702</u>	<u>130,762</u>	<u>82,136</u>
Total Governmental Activities:	5,041,364	115,358	392,819	4,763,903	340,416
Proprietary Activities					
Net OPEB Liability	59,149	0	4,634	54,515	0
Net Pension Liability	<u>177,096</u>	<u>14,124</u>	<u>0</u>	<u>191,220</u>	<u>0</u>
Total Long-Term Liabilities	<u>5,277,609</u>	<u>129,482</u>	<u>397,453</u>	<u>5,009,638</u>	<u>340,416</u>

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of a bus under a capital lease expiring in fiscal year 2027. The asset and liability under the capital lease is recorded at the present value of the minimum lease payments or the fair value of the asset. The asset is amortized over its estimated productive life. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2019.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2019</u>
Gross amount of assets	184,387
Accumulated Amortization	<u>(73,755)</u>
	110,632

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2019:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2020	20,647
2021	20,633
2022	20,614
2023	20,635
2024	17,524
2025	<u>17,551</u>
Net minimum lease payments	117,604
Amount representing interest	<u>(8,731)</u>
Present value of net minimum lease payments	<u>108,873</u>

Interest rates on capitalized leases vary from 1.000% - 2.625%. The capital lease provides for the bus to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

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

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Construction In Progress				-
Depreciable Assets:				
Land Improvements	325,980			325,980
Buildings & Building Improvements	6,862,504			6,862,504
Technology Equipment	328,985			328,985
Vehicles	548,588		198,380	350,208
General Equipment	200,145	15,393	68,868	146,670
TOTAL AT HISTORICAL COST	8,266,202	15,393	267,248	8,014,347
LESS ACCUMULATED DEPRECIATION FOR:				
Land Improvements	232,726	5,459		238,185
Buildings & Building Improvements	2,378,906	140,305		2,519,211
Technology Equipment	318,243	9,557		327,800
Vehicles	424,730	18,230	197,951	245,009
General Equipment	185,578	4,936	59,774	130,740
TOTAL ACCUMULATED DEPRECIATION	3,540,183	178,487	257,725	3,460,945
GOVERNMENTAL ACTIVITIES CAPITAL NET	4,726,019	(163,094)	9,523	4,553,402
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Buildings & Building Improvements	243,882			243,882
General Equipment	104,263			104,263
TOTALS AT HISTORICAL COST	348,145	-	-	348,145
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	124,379	4,878		129,257
General Equipment	86,286	2,850		89,136
TOTAL ACCUMULATED DEPRECIATION	210,665	7,728	-	218,393
PROPRIETARY ACTIVITIES CAPITAL NET	137,480	(7,728)	-	129,752
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				86,474
Student Support Services				742
Staff Support Services				797
District Administration				1,616
Plant Operation & Maintenance				70,408
Student Transportation				18,450
TOTAL				178,487

NOTE G – RETIREMENT PLANS

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

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

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Benefits provided—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years’ service. For retirement purposes, employees are grouped into three tiers, based on hire date:

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years’ service and hire date multiplied by the average of the highest five years’ earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate of pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

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

General information about the Teachers' Retirement System of the State of Kentucky ("TRS")

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the 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/05_publications/index.htm.

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

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

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

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

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. 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 employees and \$5,000 for retired or disabled employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund 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 employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) 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.

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS 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 Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability \$ 1,333,229

Commonwealth's proportional share of the TRS net pension liability associated with the District 7,468,509

\$ 8,801,738

The net pension liability for each plan 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 for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.021891 percent.

For the year ended June 30, 2019, the District recognized pension expense of \$261,182 related to CERS and \$541,150 related to TRS. The District also recognized revenue of \$541,150 for TRS support provided by the Commonwealth. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 43,486	\$ 19,516
Changes of assumptions	130,295	-
Net difference between projected and actual earnings on pension plan investments	61,996	77,982
Changes in proportion and differences between District contributions and proportionate share of contributions	39,067	36,748
District contributions subsequent to the measurement date	<u>96,191</u>	<u>-</u>
Total	<u>\$ 371,035</u>	<u>\$ 134,246</u>

\$96,191 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2020	104,016
2021	53,557
2022	(9,819)
2023	(7,156)
2024	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Teachers' Retirement System (TRS)

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, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Projected salary increases	4.0-8.2%, includes inflation
Cost of living adjustments	1.50% annually
Inflation rate	3.50%

County Employees' Retirement System (CERS)

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, 2018
Experience Study	July 1, 2008-June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	6.25%, net of pension plan investment expenses, including inflation
Projected salary increases	3.05% average, includes inflation
Inflation rate	2.30%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled 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 actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, 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 AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2015.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For TRS, 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	40.00%	4.20%
International Equity	22.00%	5.20%
Fixed Income	15.00%	1.20%
Additional Categories	8.00%	3.30%
Real Estate	6.00%	3.80%
Private Equity	7.00%	6.3%
Cash	2.0%	.9%
Total	100.0%	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For CERS 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.50%	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
Non U.S. Equity	17.50%	
International Developed	12.50%	2.63%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.0%	1.5%
Total	100.0%	6.09%

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

For TRS, the discount rate used to measure the total pension liability was 6.50%. 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 statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	1,678,397	1,333,229	1,044,038
TRS	5.50%	6.50%	7.50%
District's proportionate share of net pension liability	0	0	0

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and TRS.

NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Teachers’ Retirement System of Kentucky

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

Medical Insurance Plan

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2019, the Science Hill Independent District reported a liability of \$1,028,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District’s proportion was .0296 percent, compared to .0609 percent at June 30, 2017.

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

District’s proportionate share of the net OPEB liability	\$ 1,028,000
State’s proportionate share of the net OPEB liability associated with the District	<u>886,000</u>
Total	<u>\$ 1,914,000</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$76,054 and revenue of \$46,009 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 52,635
Changes of assumptions	13,964	-
Net difference between projected and actual earnings on pension plan investments	-	4,297
Changes in proportion and differences between District contributions and proportionate share of contributions	-	27,929
District contributions subsequent to the measurement date	<u>64,272</u>	<u>-</u>
Total	<u>78,236</u>	<u>84,861</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$64,272 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2020	\$ (13,962)
2021	(13,962)
2022	(13,962)
2023	(12,351)
2024	(12,351)
Thereafter	(4,309)

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

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and Older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B Premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Municipal Bond Index Rate	3.56%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

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

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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%
Additional Categories	20.0%	3.3%
Cash	1.0%	0.9%
Total	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 assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease	Current Discount Rate	1% Increase
TRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	1,204,000	1,028,000	879,000

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 proportionate share of net OPEB liability	852,000	1,028,000	1,243,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Life Insurance Plan

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

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

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

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

District’s proportionate share of the net OPEB liability	-0-
State’s proportionate share of the net OPEB liability associated with the District	<u>15,000</u>
Total	<u>\$ 15,000</u>

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

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	4.00-8.10%, including inflation
Inflation rate	3.5%
Real Wage Growth	0.50%
Wage Inflation	4.00%
Municipal Bond Index Rate	3.56%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) 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:

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
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%
Additional Categories	6.0%	3.3%
Cash	2.0%	90.0%
Total	<u>100.0%</u>	

**As the LIF investment policy is to change, the above reflects the pension allocation and returns that achieve the target 7.5% long-term rate of return.*

***Modeled as 50% High Yield and 50% Bank Loans.*

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.50%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

County Employees' Retirement System of Kentucky

Plan description – Classified (non-certified) employees of the Kentucky School District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan retirement annuity plan coverage for local school districts and other public agencies in the state. CERS was established July 1, 1958 by the state legislature. CERS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. CERS issues a publicly available financial report that can be obtained at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>.

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 CERS Medical Insurance. The following information is about the CERS plans:

Medical Insurance Plan

Plan description –The Kentucky Retirement Systems’ Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS, the state retirement options. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. It is noted that while this insurance fund covers employees eligible through KERS, CERS, and SPRS, only the portion related to CERS is applicable to Science Hill Independent School District since the District does not have or qualify to have employees participate in KERS or SPRS.

Benefits provided – Medical Insurance coverage is provided based on the member’s initial participation date and length of service. Members received either a percentage or dollar amount for insurance coverage. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Paid By Insurance Fund (%)</u>
20+	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

Medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a vesting period of 10 years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. Only benefit descriptions applicable to CERS Non-Hazardous have been included with this information since only that portion is applicable to the District.

Contributions – In order to fund the post-retirement healthcare benefit, four and seventy tenths percent (4.70%) of the gross annual payroll of members is contributed for the year ended June 30, 2019 for CERS Non-Hazardous, which is the portion of the plan applicable to the District, and this portion is paid 100% paid by employer contributions. One percent (1.00%) is contributed by employees hired on or after September 1, 2008.

At June 30, 2019, the Science Hill Independent District reported a liability of \$388,670 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District’s proportion was .021891 percent, compared to .021016 percent at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

District's proportionate share of the net OPEB liability	\$ 388,670
State's proportionate share of the net OPEB liability associated with the District	<u>-0-</u>
Total	<u>\$ 388,670</u>

For the year ended June 30, 2019, the District recognized OPEB expense of \$20,210. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 45,294
Changes of assumptions	77,623	898
Net difference between projected and actual earnings on pension plan investments	-	26,772
Changes in proportion and differences between District contributions and proportionate share of contributions	10,822	795
District contributions subsequent to the measurement date	<u>62,856</u>	<u>-</u>
Total	<u>151,301</u>	<u>73,759</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$62,856 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2020	\$ 3,239
2021	3,239
2022	3,239
2021	8,439
2023	(1,525)
Thereafter	(1,945)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2008-June 30 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pat
Remaining Amortization Period	28 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	6.25%
Projected salary increases	3.05% average
Inflation rate	2.30%
Payroll Growth Rate	4.00%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Ages 65 and Older	Initial trend starting at 5.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

Mortality rates were based on the 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 for one year for females) For Disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013(set back four years for males) is used for period after disability retirement.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The target 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.50%	
U.S. Large Cap	5.00%	4.50%
U.S. Mid Cap	6.00%	4.50%
U.S. Small Cap	6.50%	5.50%
Non U.S. Equity	17.50%	
International Developed	12.50%	2.63%
Emerging Markets	5.00%	7.25%
Global Bonds	4.00%	3.00%
Credit Fixed	24.00%	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.0%	1.5%
Total	100.0%	6.09%

Discount rate - The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	504,820	388,670	289,732

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Systems' net pension liability	289,369	388,670	505,718

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

NOTE I – CONTINGENCIES

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

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through the Ohio Casualty Insurance Association.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE L– DEFICIT OPERATING BALANCES

The following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

General Fund	318,712
Debt Service Fund	273,587
Special Revenue Fund	6,844

NOTE M – COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	6,844
Operating	Building	Debt Service	Debt Service	273,587
Operating	Building	General	Operation	9,357
Operating	Capital Outlay	General	Operation	<u>33,926</u>
		Subtotal Governmental Fund Transfers		323,714
Operating	Food Service	General	Indirect Costs	<u>14,132</u>
		Total Transferred Funds		<u><u>337,846</u></u>

NOTE O – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 30, 2019, the date the report was available for release. There are no material subsequent events to disclose.

NOTE P – ON-BEHALF PAYMENT

For the year ended June 30, 2019, \$1,062,291 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$541,150
Teachers Retirement System (GASB 75)	46,009
Health Insurance	463,256
Life Insurance	656
Administrative Fee	5,419
HRA/Dental/Vision	15,583
Federal Reimbursement	(52,177)
Technology	41,182
SFCC Debt Service Payments	<u>1,213</u>
Total	<u><u>\$1,062,291</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2019, Science Hill Independent School District's remaining assessment is valued at \$10,104. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment over a seven-year period with the final payment in fiscal year 2021.

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2020	5,052
2021	<u>5,052</u>
Total	<u>\$ 10,104</u>

NOTE R – NET POSITION, AS RESTATED

Beginning net position of the government activities was overstated by \$600,384 and the beginning net position of the proprietary activities was overstated by \$48,430. Below are the details of the restatement:

	<u>Government Activities</u>	<u>Business-Type Activities</u>
Net Position June 30, 2018	\$ 1,113,944	\$ 77,796
Understatement of KSBIT Assessment	(15,156)	-0-
Understatement of Accrued Interest Payable	(15,794)	-0-
Understatement of Capital Lease Obligations	(126,749)	-0-
Understatement of OPEB Deferred Outflows	83,503	13,593
Understatement of Net OPEB Liability	(363,344)	(59,149)
Understatement of Bonds Payable	(9,900)	-0-
Understatement of OPEB Deferred Inflows	(26,864)	(2,874)
Understatement of Accrued Sick Leave	<u>(126,080)</u>	<u>-0-</u>
Beginning Net Position, As Restated	<u>\$ 513,560</u>	<u>\$ 29,366</u>

REQUIRED SUPPLEMENTARY
INFORMATION

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	690,000	690,000	709,751	19,751
Other Local Sources	5,000	5,000	8,010	3,010
State Sources	2,265,647	2,265,647	2,708,187	442,540
Federal Sources			5,528	5,528
Other Sources	48,819	48,819	179,654	130,835
TOTAL REVENUES	3,009,466	3,009,466	3,611,130	601,664
EXPENDITURES:				
Instructional	1,953,662	1,953,662	2,406,606	(452,944)
Student Support Services	193,622	193,622	215,589	(21,967)
Staff Support Services	75,265	75,265	1,472	73,793
District Administration	371,688	371,688	358,398	13,290
School Administration	130,620	130,620	54,655	75,965
Business Support Services	137,032	137,032	140,794	(3,762)
Plant Operation & Maintenance	412,765	412,765	492,944	(80,179)
Student Transportation	183,583	183,583	128,631	54,952
Debt Service:				
Principal	23,298	23,298	17,876	
Interest			2,776	
Other	8,000	8,000	6,844	1,156
TOTAL EXPENDITURES	3,489,535	3,489,535	3,826,585	(339,696)
NET CHANGE IN FUND BALANCE	(480,069)	(480,069)	(215,455)	261,968
FUND BALANCES - BEGINNING	480,069	480,069	476,175	0
FUND BALANCES - ENDING	0	0	260,720	261,968

On-behalf payments totaling \$1,062,291 are not budgeted by the Science Hill Independent School District.

See independent auditor's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State Sources	176,080	176,080	196,307	20,227
Federal Sources	244,744	244,744	381,489	136,745
Other Sources	12,700	12,700	7,579	(5,121)
TOTAL REVENUES	433,524	433,524	585,375	151,851
EXPENDITURES:				
Instructional	365,409	365,409	515,483	(150,074)
Student Support Services	24,355	24,355	31,816	(7,461)
Staff Support Services	1,100	1,100	522	578
District Administration			0	0
School Administration			0	0
Business Support Services			0	0
Plant Operation & Maintenance	4,700	4,700	735	3,965
Student Transportation			0	0
Central Office			0	0
Community Service Operations	37,960	37,960	36,819	1,141
Facility Acquisition & Construction			0	0
Other			0	0
TOTAL EXPENDITURES	433,524	433,524	585,375	(151,851)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	-	-	-	-
State of Kentucky's share of the net pension liability associated with the district					
TOTAL	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 1,929,009	1,862,837	1,833,139	1,858,377	1,886,186
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%	39.80%	59.30%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
District's proportion of net pension liability	0.022076%	0.021167%	0.023099%	0.024984%	0.021891%
District's proportionate share of the net pension liability	\$ 716,000	910,078	1,137,294	1,230,131	1,333,229
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-	-
TOTAL	<u>\$ 716,000</u>	<u>910,078</u>	<u>1,137,294</u>	<u>1,230,131</u>	<u>1,333,229</u>
District's covered-employee payroll	\$ 492,071	495,931	511,338	538,381	593,042
District's proportionate share of the net pension liability as a percentage of its covered-payroll	145.51%	183.51%	222.42%	228.49%	203.44%
Plan fiduciary net position as a percentage of the total pension liability	66.801%	63.46%	55.50%	53.30%	53.54%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	\$ 1,929,009	\$ 1,862,837	\$ 1,833,139	\$ 1,858,377	\$ 1,886,186
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contributions (actuarially determined)	\$ 62,739	\$ 61,595	\$ 71,332	\$ 77,958	\$ 96,191
Contributions in relation to the actuarially determined contributions	<u>62,739</u>	<u>61,595</u>	<u>71,332</u>	<u>77,958</u>	<u>96,191</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Covered employee payroll	\$ 492,071	\$ 495,931	\$ 511,338	\$ 538,381	\$ 593,042
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY - MEDICAL INSURANCE
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>
District's proportion of net OPEB liability	0.021016%	0.021891%
District's proportionate share of the net OPEB liability	422,493	388,670
State of Kentucky's share of the net OPEB liability associated with the district	-	-
TOTAL	<u><u>422,493</u></u>	<u><u>388,670</u></u>
District's covered-employee payroll	\$ 538,381	\$ 593,042
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	78.47%	65.54%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
 TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	2018	2019
District's proportion of net OPEB liability	0.0609%	0.0296%
District's proportionate share of the net OPEB liability	1,117,000	1,028,000
State of Kentucky's share of the net OPEB liability associated with the district	912,000	886,000
TOTAL	2,029,000	1,914,000
District's covered-employee payroll	\$ 1,858,377	\$ 1,886,186
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	60.11%	54.50%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN
 TEACHERS' RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>
District's proportion of net OPEB liability	0.0000%	0.0000%
District's proportionate share of the net OPEB liability	-	-
State of Kentucky's share of the net OPEB liability associated with the district	<u>12,000</u>	<u>15,000</u>
TOTAL	<u><u>12,000</u></u>	<u><u>15,000</u></u>
District's covered-employee payroll	\$ 1,858,377	\$ 1,886,186
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSUARANCE PLAN
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	2018	2019
Contractually required contributions (actuarially determined)	\$ 25,304	\$ 31,194
Contributions in relation to the actuarially determined contributions	25,304	31,194
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 538,381	\$ 593,042
Contributions as a percentage of Covered employee payroll	4.70%	5.26%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	2018	2019
Contractually required contributions (actuarially determined)	\$ 55,751	\$ 56,586
Contributions in relation to the actuarially determined contributions	55,751	56,586
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 1,858,377	\$ 1,886,186
Contributions as a percentage of Covered employee payroll	3.00%	3.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE LIFE INSURANCE PLAN
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	2018	2019
Contractually required contributions (actuarially determined)	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	-	-
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 1,858,377	\$ 1,886,186
Contributions as a percentage of Covered employee payroll	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

In the 2016 valuation, rates of withdrawal, retirement, disability, mortality and rates of salary increases were adjusted to more closely reflect actual experience. In the 2016 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2025 with projection scale BB, set forward two years for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with projection scales AA, which was used prior to 2016.

In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2020 with projection scale AA, set back one year for females rather than the 1994 Group Annuity Mortality Tables which was used prior to 2016. For the 2011 valuation through the 2013 valuation, an interest smoothing methodology was used to calculate liabilities for purposes of determining the actuarially determined contributions.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

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 the schedule:

Actuarial Cost Method	Entry age
Amortization Period	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.5 percent
Salary Increase	4.00 to 8.20 percent, including inflation
Ultimate Investment rate of return	7.50 percent, net of pension plan investment Expense, including inflation

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for TRS pension.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2015

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015:

The assumed investment rate of return was decreased from 7.75% to 7.50%

The assumed inflation rate was reduced from 3.5% to 3.255%

The assumed rate of wage inflation was reduced from 1.00% to .75%

Payroll growth assumption was reduced from 4.5% to 4%

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.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016

There were no changes of assumptions for the year ended June 30, 2016.

2017

The following changes were made by the KRS Board of trustees and reflected in the valuation performed as of June 30, 2017:

The assumed rate of inflation was reduced to 2.30% from 3.25%

The assumed salary increases were reduced to 3.05%, average, from 4.00%, average including inflation

The assumed investment rate of return was reduced to 6.25% from 7.50%

2018

There were no changes in assumptions.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2019

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of contribution are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2015. 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 the rates reported in that schedule:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	27 years, Closed
Payroll Growth Rate	4.00%
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 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS pension.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2019

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2017

There were no changes in assumptions.

2018

There were no changes in assumptions.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Methods and assumptions used in the actuarially determined contributions – 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 the 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, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	30 years, Open
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	4.00%
Salary increases, including wage inflation	3.5% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2023
Ages 65 and older	5.75% for FY 2017 decreasing to an ultimate rate of 5.00% by FY 2020
Medicare Part B premiums	1.02% for FY 2017 with an ultimate rate of 5.00% by 2029
Under age 65 claims	the current premium charged by KEHP is used as the base cost and is projected forward using only the health care trend assumption (no implicit rate subsidy is recognized).

NOTE C – CHANGES OF BENEFITS

Changes of benefit terms – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the state will only finance, via its KEHP “Shared Responsibility” contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2019
COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2017

The assumed investment return was changed from 7.5% to 6.2%

The price inflation assumption was changed from 3.25% to 2.30% which resulted in a .95% decrease in the salary increase assumption at all years of service

The payroll growth assumption (*applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.0% to 2.0%

For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%. For the hazardous plan the single discount rate changed from 7.37% to 5.96%

2018

There were no changes in assumptions.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Methods and assumptions used in the actuarially determined contributions – 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 the 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, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	28 years, Closed
Payroll Growth Rate	4.00%
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 percent
Salary Increase	4.0 percent, average
Investment Rate of Return	7.5 %
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.5% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years
Ages 65 and Older	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

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 for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS OPEB.

**OTHER SUPPLEMENTARY
INFORMATION**

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

	DEBT SERVICE FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents				11,949	11,949
TOTAL ASSETS	0	0	0	11,949	11,949
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable				3,941	3,941
Total Liabilities	0	0	0	3,941	3,941
Fund Balances:					
Restricted for:					
School Activities				8,008	8,008
Total Fund Balances	0	0	0	8,008	8,008
TOTAL LIABILITIES AND FUND BALANCES	0	0	0	11,949	11,949

See independent auditor's report and accompanying notes to financial statements.

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

	DEBT SERVICE FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Intergovernmental - State	1,213	33,926			35,139
Other Sources				9,389	9,389
TOTAL REVENUES	<u>1,213</u>	<u>33,926</u>	<u>0</u>	<u>9,389</u>	<u>44,528</u>
EXPENDITURES:					
Instructional				3,941	3,941
Debt Service:					
Principal	230,000				230,000
Interest	44,800				44,800
TOTAL EXPENDITURES	<u>274,800</u>	<u>0</u>	<u>0</u>	<u>3,941</u>	<u>278,741</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(273,587)	33,926	0	5,448	(234,213)
OTHER FINANCING SOURCES(USES):					
Operating Transfers In	273,587				273,587
Operating Transfers Out		(33,926)			(33,926)
TOTAL OTHER FINANCING SOURCES(USES)	<u>273,587</u>	<u>(33,926)</u>	<u>0</u>	<u>0</u>	<u>239,661</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,448</u>	<u>5,448</u>
FUND BALANCES - BEGINNING			0	2,560	2,560
FUND BALANCES - ENDING	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,008</u>	<u>8,008</u>

See independent auditor's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>FUND BALANCE JULY 1, 2018</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>FUND BALANCE JUNE 30, 2019</u>
Science Hill School Activity Funds	<u>29,317</u>	<u>80,862</u>	<u>80,823</u>	<u>29,356</u>
Total Activity Funds (Due to Student Groups)	<u><u>29,317</u></u>	<u><u>80,862</u></u>	<u><u>80,823</u></u>	<u><u>29,356</u></u>

See independent accountant's report and accompanying notes to financial statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	CASH BALANCE JULY 1, 2018	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2019	ACCOUNTS RECEIVABLE JUNE 30, 2019	ACCOUNTS PAYABLE JUNE 30, 2019	FUND BALANCE JUNE 30, 2019
General Fund	107	1,587	1,370	324			324
Faculty - Pepsi	2,119	864	1,039	1,944			1,944
Athletic	7,484	18,671	24,228	1,927			1,927
Baseball Booster	1,132	1,583	1,083	1,632			1,632
Basketball Booster	348	3,800	2,592	1,556			1,556
Girls Basketball Booster	699	250	471	478			478
Soccer Booster	1,184	5,465	3,300	3,349			3,349
Softball Booster	1,783	1,854	2,643	994			994
Golf	3,500	3,108	2,969	3,639			3,639
Volleyball	1,278	4,839	4,209	1,908			1,908
Cheerleaders	273	2,181	1,932	522			522
Archery	2,476	11,888	12,927	1,437			1,437
Academic Team	240	2,051	1,710	581			581
Annuals	3,199	3,524	2,457	4,266			4,266
Assignment Books	273	0	273	0			0
BETA	605	1,433	1,880	158			158
Car Tags	2	138	0	140			140
Student Council	0	518	314	204			204
Dance	294	2,611	2,387	518			518
Field Trips	0	5,946	5,726	220			220
Eighth Grade	1,358	8,415	7,497	2,276			2,276
Music/Band	963	320	0	1,283			1,283
Total All Funds	<u>29,317</u>	<u>81,046</u>	<u>81,007</u>	<u>29,356</u>	<u>0</u>	<u>0</u>	<u>29,356</u>
Interfund Transfers	<u>0</u>	<u>(184)</u>	<u>(184)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u><u>29,317</u></u>	<u><u>80,862</u></u>	<u><u>80,823</u></u>	<u><u>29,356</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>29,356</u></u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2019

There were no prior year audit findings.

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October 30, 2019

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

Members of the Board of Education
Science Hill Independent School District
140 Science Hill-Danville Road
Science Hill, KY 40310

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Science Hill Independent School District's basic financial statements, and have issued our report thereon dated October 30, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 Science Hill Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Science Hill Independent School District in a separate letter dated October 30, 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.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 30, 2019

MANAGEMENT LETTER

Members of the Board of Education
Science Hill Independent School District
6007 US-27
Science Hill, KY 42553

In planning and performing our audit of the financial statements of Science Hill Independent School District for the year ended June 30, 2019, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

In addition, we have reviewed recommendations made by the prior auditors in the audit report for the year ended June 30, 2019, and we have reviewed management's responses to those recommendations. Our findings based upon those prior year recommendations are also summarized below.

Prior Year District Recommendation:

2018-1 – Prior Year Recommendation:

During prior year testing, it was noted that activity fund detail and reports were handwritten. It was recommended that EPES be implemented and used to automate School Activity funds.

Current Year Status and Recommendation:

EPES has been implemented and is operating as designed during the current year.

2018-2 – Prior Year Recommendation:

During prior year testing, several instances were noted of purchase orders being absent or issued after the charge had been made. It was recommended that purchase orders be completed prior to all charges being made.

Current Year Status and Recommendation:

During current year testing, several instances were noted of maintenance charges being made without the issuance of a purchase order. Upon inquiry, it was established that prior to the audit, it was normal procedure for maintenance employees to make charges as needed without the issuance of a purchase order prior to the charge. We recommend that all charges, including maintenance, be issued a purchase order prior to the charge being made, except in case of emergency in which a standard invoice should be used with detail of what the emergency was.

Management Response:

We will stress to all district employees the requirement to be issued a purchase order prior to any charge being made.

2018-3 – Prior Year Recommendation:

During prior year testing, it was noted that employees were inappropriately reimbursed for meals on all approved trips outside of the district. It was recommended that a meal per diem be implemented.

Current Year Status & Recommendation:

During current year testing, no instances were noted of inappropriate travel reimbursements being made. Further, all trips outside of the district were approved beforehand and all meals were approved for payment prior to reimbursement. The implementation of a meal per diem is at the discretion of management and the board.

2018-4 – Prior Year Recommendation:

During prior year testing, it was noted that sales tax was being paid on charges made by employees personally and later reimbursed. It was suggested that a tax-exempt form be provided to any employee making purchases that are to be reimbursed by the district.

Current Year Status & Recommendation:

No such instances were noted during current year testing.

2018-5 – Prior Year Recommendation:

During prior year testing, it was recommended that voucher packets be assembled with check stubs attached to the front.

Current Year Status & Recommendation:

During current year testing, it was noted that voucher packets have been created with check stubs attached.

2018-6 – Prior Year Recommendation:

During prior year testing, it was noted that late fees were being paid. It was recommended that all invoices be turned in on a timely basis to ensure payment is made before additional charges are added.

Current Year Status & Recommendation:

During current year testing, one instance was noted of a credit card late fee being charged. The card had minimal activity during the year and was overlooked at month's end. We recommend that invoices be turned in timely and credit card statements be examined at least monthly.

Management Response:

We will stress the importance of turning in invoices when received and will monitor credit card payments more closely.

2018-7 – Prior Year Recommendation:

During prior year testing, a control concern was noted regarding the duties of the Finance Officer. She was responsible for approving payment, preparing the checks, and served as a second check signer.

Current Year Status & Recommendation:

During current year it was noted that the two individuals signing district checks are the Superintendent and the Board Chairman. A list of invoices is prepared and delivered to the Board in the form of a Treasury Report. The checks are prepared based on this report, which is approved by the Board. There are no concerns regarding overlapping controls of the Finance Officer during the current year.

2018-8 – Prior Year Recommendation:

During the prior year, it was noted that material misstatements were present in the Annual Financial Report. Specifically, sick and vacation days had not been used or accrued within MUNIS. Further, it was suggested that the Finance Officer potentially lacked the competence needed to perform all duties required as a District Finance Officer.

Current Year Status and Recommendation:

During current year, it was noted that all misstatements within the Annual Financial Report were immaterial. A third-party contractor was hired once again to aid in year-end closing procedures. Sick and vacation days were properly used and accrued within MUNIS and the Finance Officer displayed a competent understanding of MUNIS operations and district finances. We recommend that the Finance Officer continue participating in training offered through KDE.

Management Response

The District Finance Officer will continue attending trainings related to district finances and MUNIS operations.

Prior Year Recommendations – School Activity Funds

2018-9 – Prior Year Recommendation:

During prior year testing, it was noted that fundraiser approval forms were not completed prior to fundraising activities taking places.

Current Year Status and Recommendation:

No such instances were noted during current year testing.

2018-10 – Prior Year Recommendation:

During prior year testing, it was noted that invoices were not available upon request from the auditor. It was suggested that payment not be made if adequate support of the purchase is not received.

Current Year Status and Recommendation:

During current year testing, two instances were noted of payments being made from a vendor statement rather than the invoice related to the charges being paid. We recommend that all charges be paid from the corresponding invoices.

Management Response:

We will stress the importance of receiving and paying from invoices with all district staff.

2018-11 – Prior Year Recommendation:

During prior year testing, several instances were noted of concession and multiple receipt forms being completed incorrectly. It was suggested that a Redbook training be attended by school staff.

Current Year Status and Recommendation:

No such instances were noted during current year testing

Current Year District Recommendation:

2019-1 – Current Year Recommendation:

During current year testing, it was noted that timesheets completed were never approved by a supervisory employee. We recommend that all timesheets be reviewed for accuracy and reasonableness by a supervisory employee and signed by that employee once the task is completed.

Management Response:

We will stress the need for supervisory employees to review timesheets and the requirement to sign the timesheet once it has been reviewed.

2019-2 – Current Year Recommendation:

During current year testing, it was noted that board members were paid for all board meetings, regardless of attendance. We recommend that board members be paid only for meetings and trainings that are attended.

Management Response:

We will pay board members based on attendance records moving forward.

Current Year Recommendations – School Activity Funds

2019-3 – Current Year Recommendation:

During current year testing, four instances were noted of charges being made prior to the issuance of a purchase order. We recommend that a purchase order be issued prior to all charges being made.

Management Response:

We will stress the requirement of a purchase order being created prior to a charge being made.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 30, 2019

Members of the Board of Education
Science Hill Independent School District
6007 US-27
Science Hill, KY 42553

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent School District for the year ended June 30, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 3, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting polices used by Science Hill Independent School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2019. We noted no transactions entered into by Science Hill Independent School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Science Hill Independent School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Science Hill Independent School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 53 and 54, or on the schedules of the district's proportionate share of net pension liabilities and other post-employment benefit plans on pages 55-56 and 59-61, or on the schedules of contributions to the County Employees Retirement System and Teachers Retirement System pension plans or the County Employees Retirement System and Teachers Retirement System other post-employment benefit plans on pages 57-58 and 62-64, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Science Hill Independent School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants