

PENDLETON COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021**

TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Pendleton County School District
Falmouth, Kentucky 41040

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County School District (the "District") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County School District as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 and the Schedule of District's Proportionate Share of the Net Pension Liability, Schedule of Pension Contributions, Schedule of District's Proportionate Share of the Net OPEB Liability, and Schedule of OPEB Contributions on pages 50 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 Pendleton County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the

underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2021, on our consideration of Pendleton County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kelley Ballaway Smith Goolsby, PSC

Ashland, Kentucky
November 11, 2021

**PENDLETON COUNTY SCHOOL DISTRICT
FALMOUTH, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDED JUNE 30, 2021**

As management of the Pendleton County School District ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for all funds of the District was approximately \$6,007,538 and the ending balance was approximately \$7,595,343, an increase of approximately \$1,587,805 for the year, principally due to a decrease in expenses in several categories.
- The General Fund had \$19,993,876 in revenue, which consisted primarily of the State program (SEEK), and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$18,131,395 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$2,131,980 during the current fiscal year.
- Net pension liabilities required to be recorded under GASB No. 68 increased during the year. Non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system, the District's share of the pension liability was \$8,847,250 as of June 30, 2020, which represents an increase of \$300,272 from the June 30, 2019 balance of \$8,546,978. The Kentucky Teachers Retirement System covers the District's professional staff members. The District's allocated pension liability as of June 30, 2020 was \$38,123,151, which represents an increase of \$125,945 from the June 30, 2019 balance of \$37,997,206. However, this pension liability is the responsibility of the Commonwealth of Kentucky.
- Net OPEB liabilities required to be recorded under GASB 75 decreased during the year. There are two sources of OPEB liabilities with which the District has to contend. The Kentucky Teachers Retirement System (KTRS) Medical Insurance Plan and Life Insurance Plan covers the District's professional staff members. The District's allocated OPEB liability as of June 30, 2020 for KTRS Medical Insurance Plan was \$6,556,000 with the District's responsibility being \$3,640,000 and the Commonwealth of Kentucky's responsibility being \$2,916,000. This is an overall decrease of \$1,307,000 from the District's allocated OPEB liability of \$7,863,000 at June 30, 2019 for KTRS Medical Insurance Plan. The liability for the KTRS Life Insurance Plan is the responsibility of the Commonwealth of Kentucky and the District's allocated amount as of June 30, 2020 was \$88,000, which represents an increase of \$6,000 from the June 30, 2019 balance of \$82,000. Non-professional staff members are covered by the County Employee Retirement System Insurance Fund. Under this fund the District's share of OPEB liability was \$2,784,531 as of June 30, 2020, which represents an increase of \$740,434 from the June 30, 2019 balance of \$2,044,097.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (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 government-wide financial statements can be found on pages 10 and 11 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 two categories: governmental funds and proprietary funds. The primary proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic fund financial statements can be found on pages 12 through 20 of this report.

Notes to the financial statements. The notes provided additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$7.1 million as of June 30, 2021.

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

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

Net Position for the period ending June 30, 2021 and 2020

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Current Assets | \$ 8,231,153 | \$ 6,658,986 |
| Noncurrent Assets | 32,037,867 | 33,844,796 |
| Total Assets | <u>40,269,020</u> | <u>40,503,782</u> |
| Deferred Outflows | 3,423,222 | 3,204,954 |
| Current Liabilities | 2,979,629 | 3,038,984 |
| Noncurrent Liabilities | 30,848,387 | 32,630,167 |
| Total Liabilities | <u>33,828,016</u> | <u>35,669,151</u> |
| Deferred Inflows | 2,763,849 | 2,351,642 |
| Net Position | | |
| Investment in capital assets (net of debt) | 14,785,528 | 14,522,401 |
| Restricted | (307,953) | 147,240 |
| Unrestricted | (7,377,198) | (8,981,698) |
| Total Net Position | <u>\$ 7,100,377</u> | <u>\$ 5,687,943</u> |

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2021, with comparison to 2020.

| | 2021 | 2020 |
|-------------------------------------|---------------------|--------------------|
| Revenues: | | |
| Local Revenue Sources | \$ 6,748,899 | \$ 6,781,735 |
| State Revenue Sources | 10,873,526 | 10,805,530 |
| Federal Revenue | 3,382,039 | 3,351,556 |
| Other Sources | 529 | 8,373 |
| Total Revenues | <u>21,004,993</u> | <u>20,947,194</u> |
| Expenses: | | |
| Instruction | 8,488,713 | 9,319,873 |
| Student Support Services | 1,526,673 | 1,280,804 |
| Instructional Support | 289,542 | 313,093 |
| District Administration | 744,156 | 638,118 |
| School Administration | 1,316,866 | 1,533,211 |
| Plant Operations | 2,311,792 | 2,259,400 |
| Student Transportation | 1,675,103 | 1,946,621 |
| Business and Other Support Services | 928,031 | 1,055,719 |
| Community Services | 222,762 | 173,586 |
| Debt Service | 599,535 | 662,888 |
| Food Services | 1,434,156 | 1,722,624 |
| Day Care Fund | 55,230 | 71,274 |
| Community Ed Fund | - | - |
| Total Expenses | <u>19,592,559</u> | <u>20,977,211</u> |
| Revenues Over (Under) Expenses | <u>\$ 1,412,434</u> | <u>\$ (30,017)</u> |

Governmental Funds Revenue

The majority of revenue was derived from state funding, making up 51.77% and federal funding of 16.10% of total revenue. Local revenues make up 32.13% of total revenue (32.42% in 2020).

District-Wide Support Allocation

District-wide support services expenditures were Transportation 8.55%, Maintenance & Operations 11.80%, and Business Functions 4.74% (as compared to 9.28%, 10.77%, and 5.03% in 2020, respectively).

The total cost of all programs and services for governmental activities was \$18,195,692 compared with \$19,183,313 in 2020.

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2021 and 2020, net of inter-fund transfers and bond proceeds, was approximately \$27.1 million and \$26.0 million, respectively.

Comments on Budget Comparisons

- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$4,702,666 less than budget, or approximately 20.59%. This is primarily due to on-behalf payments being difficult to budget.
- General Fund revenue compared to budget varied modestly from line item to line item, with the ending actual balance being less than budgeted amounts by \$192,077.

Capital Assets

At the end of June 30, 2021, the District's investment in capital assets for its governmental and business-type activities was \$32,037,867, representing a decrease of \$1,806,929 due primarily to depreciation for the current year.

Debt Service

At year-end, the District had approximately \$17.5 million in outstanding debt, compared to \$19.7 million last year.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal 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 the 2022 budget with approximately \$1,814,933 in contingency (9.9%). The general fund cash balance for beginning the next fiscal year is \$6,542,617. There was no significant Board action that impacts the finances for the new year.

Questions regarding this report should be directed to the Superintendent, Joe Buerkley or to his representative, Treasurer Jan Johnston at (859) 654-6911 or by mail at:

Pendleton County School District
2525 Hwy 27 North
Falmouth, Kentucky 41040

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2021

| | Governmental Activities | Business-Type Activities | Total |
|---|------------------------------------|-------------------------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 7,005,535 | \$ 589,808 | \$ 7,595,343 |
| Receivables (net of allowances for uncollectibles): | | | |
| Taxes | 82,016 | - | 82,016 |
| Other | 45,908 | - | 45,908 |
| Intergovernmental - state | 463,948 | - | 463,948 |
| Inventories | - | 43,938 | 43,938 |
| Capital assets, not being depreciated | 684,815 | - | 684,815 |
| Capital assets, being depreciated, net | 30,974,844 | 378,208 | 31,353,052 |
| Total assets | <u>39,257,066</u> | <u>1,011,954</u> | <u>40,269,020</u> |
| Deferred Outflows of Resources | | | |
| Deferred savings from refunding bonds | 294,953 | - | 294,953 |
| Deferred outflows - pension related | 1,153,846 | 207,388 | 1,361,234 |
| Deferred outflows - OPEB related | 1,593,663 | 173,372 | 1,767,035 |
| Total deferred outflows of resources | <u>3,042,462</u> | <u>380,760</u> | <u>3,423,222</u> |
| Liabilities | | | |
| Accounts payable | 60,389 | 5,259 | 65,648 |
| Accrued salaries and benefits | 80,340 | - | 80,340 |
| Accrued interest payable | 113,885 | - | 113,885 |
| Unearned revenue | 455,164 | - | 455,164 |
| Portion due or payable within one year: | | | |
| Capital leases | 159,592 | - | 159,592 |
| Bond obligations | 2,105,000 | - | 2,105,000 |
| Portion due or payable after one year: | | | |
| Accrued sick leave | 293,906 | - | 293,906 |
| Capital leases | 664,965 | - | 664,965 |
| Bond obligations | 14,617,735 | - | 14,617,735 |
| Net pension liability | 7,616,074 | 1,231,176 | 8,847,250 |
| Net OPEB liability | 6,013,446 | 411,085 | 6,424,531 |
| Total liabilities | <u>32,180,496</u> | <u>1,647,520</u> | <u>33,828,016</u> |
| Deferred Inflows of Resources | | | |
| Deferred inflows - pension related | 244,488 | 44,657 | 289,145 |
| Deferred inflows - OPEB related | 2,384,192 | 90,512 | 2,474,704 |
| Total deferred inflows of resources | <u>2,628,680</u> | <u>135,169</u> | <u>2,763,849</u> |
| Net Position | | | |
| Net investment in capital assets | 14,407,320 | 378,208 | 14,785,528 |
| Restricted for: | | | |
| Capital projects | 39,912 | - | 39,912 |
| Other | 420,318 | (768,183) | (347,865) |
| Unrestricted | (7,377,198) | - | (7,377,198) |
| Total net position | <u>\$ 7,490,352</u> | <u>\$ (389,975)</u> | <u>\$ 7,100,377</u> |

The accompanying notes to financial statements
are an integral part of this statement.

**PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

| Functions/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 |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | \$ 8,488,713 | \$ - | \$ 2,621,607 | \$ - | \$ (5,867,106) | \$ - | \$ (5,867,106) |
| Support services: | | | | | | | |
| Students | 1,526,673 | - | 209,540 | - | (1,317,133) | - | (1,317,133) |
| Instructional staff | 289,542 | - | 38,092 | - | (251,450) | - | (251,450) |
| District administration | 744,156 | - | 230,116 | - | (514,040) | - | (514,040) |
| School administration | 1,316,866 | - | - | - | (1,316,866) | - | (1,316,866) |
| Business and other support services | 928,031 | - | 100,978 | - | (827,053) | - | (827,053) |
| Operation and maintenance of plant | 2,311,792 | - | 485,615 | - | (1,826,177) | - | (1,826,177) |
| Student transportation | 1,675,103 | - | 29,058 | - | (1,646,045) | - | (1,646,045) |
| Food service operations | 66,308 | - | 66,308 | - | - | - | - |
| Day care operations | 26,211 | - | 26,211 | - | - | - | - |
| Community services | 222,762 | - | 215,485 | - | (7,277) | - | (7,277) |
| Interest | 599,535 | - | - | 150,419 | (449,116) | - | (449,116) |
| Total governmental activities | 18,195,692 | - | 4,023,010 | 150,419 | (14,022,263) | - | (14,022,263) |
| Business-type activities: | | | | | | | |
| Food service | 1,367,848 | 13,966 | 1,128,277 | - | - | (225,605) | (225,605) |
| Day Care Fund | 29,019 | 43,724 | - | - | - | 14,705 | 14,705 |
| Community Ed Fund | - | - | - | - | - | - | - |
| Total business-type activities | 1,396,867 | 57,690 | 1,128,277 | - | - | (210,900) | (210,900) |
| Total primary government | \$ 19,592,559 | \$ 57,690 | \$ 5,151,287 | \$ 150,419 | \$ (14,022,263) | \$ (210,900) | \$ (14,233,163) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes, levied for general purposes | | | | | \$ 4,439,419 | \$ - | \$ 4,439,419 |
| Motor vehicle | | | | | 743,440 | - | 743,440 |
| Utilities | | | | | 751,374 | - | 751,374 |
| Franchise Tax | | | | | 264,654 | - | 264,654 |
| Intergovernmental revenues: | | | | | | | |
| State | | | | | 8,953,859 | - | 8,953,859 |
| Investment earnings | | | | | 42,467 | 3,360 | 45,827 |
| Gain on sale of assets | | | | | 529 | - | 529 |
| Other local revenues | | | | | 446,495 | - | 446,495 |
| Total general revenues | | | | | 15,642,237 | 3,360 | 15,645,597 |
| Transfers | | | | | 85,170 | (85,170) | - |
| Change in net position | | | | | 1,705,144 | (292,710) | 1,412,434 |
| Net position, June 30, 2020 | | | | | 5,785,208 | (97,265) | 5,687,943 |
| Net position, June 30, 2021 | | | | | \$ 7,490,352 | \$ (389,975) | \$ 7,100,377 |

The accompanying notes to financial statements are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021

| | General Fund | Special Revenue Fund | Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------------|-------------------------------------|----------------------------------|---|---|
| Assets | | | | | |
| Cash and cash equivalents | \$ 6,542,617 | \$ 9,033 | \$ 2 | \$ 453,883 | \$ 7,005,535 |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Taxes | 82,016 | - | - | - | 82,016 |
| Other | 37,475 | - | - | 8,433 | 45,908 |
| Intergovernmental - state | - | 463,948 | - | - | 463,948 |
| Total assets | <u>\$ 6,662,108</u> | <u>\$ 472,981</u> | <u>\$ 2</u> | <u>\$ 462,316</u> | <u>\$ 7,597,407</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 40,484 | \$ 17,817 | \$ - | \$ 2,088 | \$ 60,389 |
| Accrued salaries and benefits | 80,340 | - | - | - | 80,340 |
| Unearned revenue | - | 455,164 | - | - | 455,164 |
| Total liabilities | <u>120,824</u> | <u>472,981</u> | <u>-</u> | <u>2,088</u> | <u>595,893</u> |
| Fund balances: | | | | | |
| Restricted | - | - | 2 | 460,228 | 460,230 |
| Committed | 146,953 | - | - | - | 146,953 |
| Assigned | 129,790 | - | - | - | 129,790 |
| Unassigned | 6,264,541 | - | - | - | 6,264,541 |
| Total fund balances | <u>6,541,284</u> | <u>-</u> | <u>2</u> | <u>460,228</u> | <u>7,001,514</u> |
| Total liabilities and fund balances | <u>\$ 6,662,108</u> | <u>\$ 472,981</u> | <u>\$ 2</u> | <u>\$ 462,316</u> | <u>\$ 7,597,407</u> |

The accompanying notes to financial statements
are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT
OF NET POSITION
JUNE 30, 2021

| | |
|--|--------------|
| Fund balances—total governmental funds | \$ 7,001,514 |
|--|--------------|

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

| | |
|---|------------|
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. | 31,659,659 |
|---|------------|

| | |
|--|---------|
| Savings from refunding bonds are not available to pay current period expenditures and, therefore, are not reported in the funds. | 294,953 |
|--|---------|

| | |
|--|---------|
| Deferred outflows and inflows of resources related to pensions and OPEB plans are applicable to future periods and, therefore, are not reported in the governmental funds. | 118,829 |
|--|---------|

Some liabilities, including bonds, capital leases, and accrued sick leave, are not due and payable in the current period and, therefore, are not reported in the governmental funds financial statements.

| | | |
|--------------------------|--------------|--|
| Net pension liability | (7,616,074) | |
| Net OPEB liability | (6,013,446) | |
| Bond obligations | (16,722,735) | |
| Capital leases | (824,557) | |
| Accrued interest payable | (113,885) | |
| Accrued sick leave | (293,906) | |
| | (31,584,603) | |

| | |
|---|--------------|
| Net position of governmental activities | \$ 7,490,352 |
|---|--------------|

The accompanying notes to financial statements
are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Debt Service Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|-------------------------------------|----------------------------------|---|---|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes - | | | | | |
| Property | \$ 3,222,349 | \$ - | \$ - | \$ 1,217,070 | \$ 4,439,419 |
| Motor vehicles | 743,440 | - | - | - | 743,440 |
| Utilities | 751,374 | - | - | - | 751,374 |
| Franchise | 264,654 | - | - | - | 264,654 |
| Interest income | 41,755 | - | - | 712 | 42,467 |
| Other local revenues | 146,121 | 34,403 | - | 265,971 | 446,495 |
| Intergovernmental - State | 14,711,980 | 1,613,050 | 150,419 | 1,397,516 | 17,872,965 |
| Intergovernmental - Indirect federal | - | 2,180,835 | - | - | 2,180,835 |
| Intergovernmental - Direct federal | 112,203 | 229,125 | - | - | 341,328 |
| Total revenues | <u>19,993,876</u> | <u>4,057,413</u> | <u>150,419</u> | <u>2,881,269</u> | <u>27,082,977</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction | 10,946,838 | 2,697,173 | - | 352,410 | 13,996,421 |
| Support services: | | | | | |
| Students | 1,263,934 | 209,540 | - | 212 | 1,473,686 |
| Instructional staff | 228,603 | 38,092 | - | - | 266,695 |
| District administration | 487,505 | 230,116 | - | - | 717,621 |
| School administration | 1,248,454 | - | - | - | 1,248,454 |
| Business and other support services | 773,103 | 100,978 | - | - | 874,081 |
| Operation and maintenance of plant | 1,608,526 | 485,615 | - | 155,140 | 2,249,281 |
| Student transportation | 1,387,526 | 29,058 | - | 8,568 | 1,425,152 |
| Other instructional | - | 4,532 | - | - | 4,532 |
| Food service operation | - | 66,308 | - | - | 66,308 |
| Day care operations | - | 26,211 | - | - | 26,211 |
| Community services | 5,004 | 215,485 | - | - | 220,489 |
| Facilities acquisition and construction | - | - | - | 110,771 | 110,771 |
| Debt service | 181,902 | - | 2,609,865 | - | 2,791,767 |
| Total expenditures | <u>18,131,395</u> | <u>4,103,108</u> | <u>2,609,865</u> | <u>627,101</u> | <u>25,471,469</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,862,481</u> | <u>(45,695)</u> | <u>(2,459,446)</u> | <u>2,254,168</u> | <u>1,611,508</u> |
| Other financing sources (uses): | | | | | |
| Sale of assets | 529 | - | - | - | 529 |
| Capital lease proceeds | 100,567 | - | - | - | 100,567 |
| Transfers in | 85,170 | 158,339 | 2,459,446 | 11,352 | 2,714,307 |
| Transfers out | (57,047) | (112,644) | - | (2,459,446) | (2,629,137) |
| Total other financing sources and uses | <u>129,219</u> | <u>45,695</u> | <u>2,459,446</u> | <u>(2,448,094)</u> | <u>186,266</u> |
| Net change in fund balances | 1,991,700 | - | - | (193,926) | 1,797,774 |
| Fund balances, June 30, 2020 | <u>4,549,584</u> | <u>-</u> | <u>2</u> | <u>654,154</u> | <u>5,203,740</u> |
| Fund balances, June 30, 2021 | <u>\$ 6,541,284</u> | <u>\$ -</u> | <u>\$ 2</u> | <u>\$ 460,228</u> | <u>\$ 7,001,514</u> |

The accompanying notes to financial statements
are an integral part of this statement.

**PENDLETON COUNTY 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, 2021**

| | |
|--|-------------|
| Net change in fund balances—total governmental funds | \$1,797,774 |
|--|-------------|

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|----------------------|--------------------|-------------|
| Capital outlay | 387,784 | |
| Depreciation expense | <u>(2,163,270)</u> | (1,775,486) |

Bond and capital lease proceeds, including related premium and discounts, are recognized as revenues in the fund financial statement, but are increases in liabilities in the statement of net position.

| | | |
|------------------------|--|-----------|
| Capital lease proceeds | | (100,567) |
|------------------------|--|-----------|

Generally, expenditures recognized in the fund financial statements are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred for the following:

| | | |
|---|--|----------|
| Long-term portion of accrued sick leave | | (51,085) |
| Interest payable | | 13,118 |
| Amortization of bond discounts and premiums | | (454) |
| Capitalized savings from bond refundings amortization expense | | (53,433) |

Governmental funds report pension contributions as expenditures when paid.

However, in the Statement of Activities, pension expense is the cost of benefits earned, adjusted for member contributions, the recognition of changes in deferred outflows and inflows of resources related to pensions, and investment experience.

| | | |
|---|------------------|-----------|
| KTRS on-behalf pension and OPEB revenue | (7,267,840) | |
| KTRS on-behalf pension and OPEB expense | 7,584,553 | |
| CERS pension and OPEB contributions | (36,899) | |
| Pension and OPEB expense | <u>(637,538)</u> | (357,724) |

Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.

| | |
|--|------------------|
| | <u>2,233,001</u> |
|--|------------------|

| | |
|---|---------------------------|
| Change in net position of governmental activities | <u><u>\$1,705,144</u></u> |
|---|---------------------------|

The accompanying notes to financial statements
are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

| | Food Service Fund | Day Care Fund | Community Education Fund | Total Proprietary Funds |
|---|-------------------------|---------------------|--------------------------------|-------------------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 548,018 | \$ 41,710 | \$ 80 | \$ 589,808 |
| Inventories | 43,938 | - | - | 43,938 |
| Total current assets | <u>591,956</u> | <u>41,710</u> | <u>80</u> | <u>633,746</u> |
| Noncurrent assets: | | | | |
| Capital assets, net of accumulated depreciation | 378,208 | - | - | 378,208 |
| Total noncurrent assets | <u>378,208</u> | <u>-</u> | <u>-</u> | <u>378,208</u> |
| Total assets | <u>970,164</u> | <u>41,710</u> | <u>80</u> | <u>1,011,954</u> |
| Deferred Outflows of Resources | | | | |
| Deferred outflows - pension related | 207,388 | - | - | 207,388 |
| Deferred outflows - OPEB related | 173,372 | - | - | 173,372 |
| Total deferred outflows of resources | <u>380,760</u> | <u>-</u> | <u>-</u> | <u>380,760</u> |
| Total assets and deferred outflows | <u>\$ 1,350,924</u> | <u>\$ 41,710</u> | <u>\$ 80</u> | <u>\$ 1,392,714</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 5,259 | \$ - | \$ - | \$ 5,259 |
| Total current liabilities | <u>5,259</u> | <u>-</u> | <u>-</u> | <u>5,259</u> |
| Noncurrent liabilities: | | | | |
| Net pension liability | 1,231,176 | - | - | 1,231,176 |
| Net OPEB liability | 411,085 | - | - | 411,085 |
| Total liabilities | <u>1,647,520</u> | <u>-</u> | <u>-</u> | <u>1,647,520</u> |
| Deferred Inflows of Resources | | | | |
| Deferred inflows - pension related | 44,657 | - | - | 44,657 |
| Deferred inflows - OPEB related | 90,512 | - | - | 90,512 |
| Total deferred inflows of resources | <u>135,169</u> | <u>-</u> | <u>-</u> | <u>135,169</u> |
| Net Position | | | | |
| Invested in capital assets | 378,208 | - | - | 378,208 |
| Restricted | (809,973) | 41,710 | 80 | (768,183) |
| Total net position | <u>(431,765)</u> | <u>41,710</u> | <u>80</u> | <u>(389,975)</u> |
| Total liabilities and net position | <u>\$ 1,350,924</u> | <u>\$ 41,710</u> | <u>\$ 80</u> | <u>\$ 1,392,714</u> |

The accompanying notes to financial statements
are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

| | Food Service Fund | Day Care Fund | Community Education Fund | Total Proprietary Funds |
|-----------------------------|-------------------------|---------------------|--------------------------------|-------------------------------|
| Operating revenues: | | | | |
| Lunchroom sales | \$ 13,966 | \$ - | \$ - | \$ 13,966 |
| Other operating revenues | - | 43,724 | - | 43,724 |
| Total operating revenues | <u>13,966</u> | <u>43,724</u> | <u>-</u> | <u>57,690</u> |
| Operating expenses: | | | | |
| Salaries and wages | 417,226 | 7,976 | - | 425,202 |
| Employee benefits | 491,626 | 20,158 | - | 511,784 |
| Materials and supplies | 410,102 | 779 | - | 410,881 |
| Depreciation | 31,443 | - | - | 31,443 |
| Other operating expenses | 17,451 | 106 | - | 17,557 |
| Total operating expenses | <u>1,367,848</u> | <u>29,019</u> | <u>-</u> | <u>1,396,867</u> |
| Operating income (loss) | <u>(1,353,882)</u> | <u>14,705</u> | <u>-</u> | <u>(1,339,177)</u> |
| Nonoperating revenues: | | | | |
| Federal grants | 821,481 | - | - | 821,481 |
| Investment income | 3,360 | - | - | 3,360 |
| On-behalf payments | 237,290 | 17,577 | - | 254,867 |
| Donated commodities | 38,395 | - | - | 38,395 |
| State grants | 13,534 | - | - | 13,534 |
| Total nonoperating revenue | <u>1,114,060</u> | <u>17,577</u> | <u>-</u> | <u>1,131,637</u> |
| Transfers | <u>(85,170)</u> | <u>-</u> | <u>-</u> | <u>(85,170)</u> |
| Change in net position | (324,992) | 32,282 | - | (292,710) |
| Net position, June 30, 2020 | <u>(106,773)</u> | <u>9,428</u> | <u>80</u> | <u>(97,265)</u> |
| Net position, June 30, 2021 | <u>\$ (431,765)</u> | <u>\$ 41,710</u> | <u>\$ 80</u> | <u>\$ (389,975)</u> |

The accompanying notes to financial statements
are an integral part of this statement.

**PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

| | Food Service Fund | Day Care Fund | Community Education Fund | Total Proprietary Funds |
|--|-------------------------|---------------------|--------------------------------|-------------------------------|
| Cash flows from operating activities: | | | | |
| Cash received from: | | | | |
| Lunchroom sales and fees charged | \$ 13,966 | \$ 43,724 | \$ - | \$ 57,690 |
| Cash paid to/for: | | | | |
| Payments to suppliers and providers of goods and services | (349,497) | (779) | - | (350,276) |
| Payments to employees | (558,074) | (10,557) | - | (568,631) |
| Other payments | (17,451) | (106) | - | (17,557) |
| Net cash provided by (used for) operating activities | <u>(911,056)</u> | <u>32,282</u> | <u>-</u> | <u>(878,774)</u> |
| Cash flows from noncapital financing activities: | | | | |
| Transfer out | (85,170) | - | - | (85,170) |
| Government grants | 835,015 | - | - | 835,015 |
| Net cash provided by noncapital and related financing activities | <u>749,845</u> | <u>-</u> | <u>-</u> | <u>749,845</u> |
| Cash flows from capital and related financing activities: | | | | |
| Proceeds from sale of assets | - | - | - | - |
| Net cash used for capital and related financing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Cash flows from investing activities: | | | | |
| Interest received on investments | 3,360 | - | - | 3,360 |
| Purchase of capital assets | - | - | - | - |
| Net cash provided by investing activities | <u>3,360</u> | <u>-</u> | <u>-</u> | <u>3,360</u> |
| Net increase (decrease) in cash and cash equivalents | (157,851) | 32,282 | - | (125,569) |
| Cash and cash equivalents, June 30, 2020 | <u>705,869</u> | <u>9,428</u> | <u>80</u> | <u>715,377</u> |
| Cash and cash equivalents, June 30, 2021 | <u>\$ 548,018</u> | <u>\$ 41,710</u> | <u>\$ 80</u> | <u>\$ 589,808</u> |
| Reconciliation of operating loss to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | \$ (1,353,882) | \$ 14,705 | \$ - | \$ (1,339,177) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 31,443 | - | - | 31,443 |
| Donated commodities | 38,395 | - | - | 38,395 |
| On-behalf payments | 237,290 | 17,577 | - | 254,867 |
| Net pension expense | 92,583 | - | - | 92,583 |
| Net OPEB expense | 20,905 | - | - | 20,905 |
| Change in assets and liabilities: | | | | |
| Inventory | 17,071 | - | - | 17,071 |
| Accounts payable | 5,139 | - | - | 5,139 |
| Net cash provided by (used for) operating activities | <u>\$ (911,056)</u> | <u>\$ 32,282</u> | <u>\$ -</u> | <u>\$ (878,774)</u> |
| Non-cash items: | | | | |
| Donated commodities | \$ 38,395 | \$ - | \$ - | \$ 38,395 |
| On-behalf payments | 237,290 | 17,577 | - | 254,867 |

The accompanying notes to financial statements
are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with</u> |
|---|-------------------------|--------------------|---------------------|----------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget</u> |
| Revenues: | | | | |
| Taxes - | | | | |
| Property | \$ 2,899,000 | \$ 2,899,000 | \$ 3,222,349 | \$ 323,349 |
| Motor vehicles | 577,611 | 577,611 | 743,440 | 165,829 |
| Utilities | 760,000 | 760,000 | 751,374 | (8,626) |
| Franchise | 420,106 | 420,106 | 264,654 | (155,452) |
| Interest income | 50,000 | 50,000 | 41,755 | (8,245) |
| Other local revenues | 128,250 | 128,250 | 146,121 | 17,871 |
| Intergovernmental - State | 15,300,986 | 15,300,986 | 14,711,980 | (589,006) |
| Intergovernmental - Direct federal | 50,000 | 50,000 | 112,203 | 62,203 |
| Total revenues | <u>20,185,953</u> | <u>20,185,953</u> | <u>19,993,876</u> | <u>(192,077)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 12,111,816 | 12,281,809 | 10,946,838 | 1,334,971 |
| Support services: | | | | |
| Students | 1,209,522 | 1,290,077 | 1,263,934 | 26,143 |
| Instructional staff | 396,182 | 384,393 | 228,603 | 155,790 |
| District administration | 851,095 | 884,090 | 487,505 | 396,585 |
| School administration | 1,326,522 | 1,360,045 | 1,248,454 | 111,591 |
| Business and other support services | 761,694 | 817,761 | 773,103 | 44,658 |
| Operation and maintenance of plant | 2,700,544 | 3,231,397 | 1,608,526 | 1,622,871 |
| Student transportation | 2,345,399 | 2,393,439 | 1,387,526 | 1,005,913 |
| Community service | - | 5,002 | 5,004 | (2) |
| Debt service | 186,048 | 186,048 | 181,902 | 4,146 |
| Contingency | 1,613,116 | 1,814,932 | - | 1,814,932 |
| Total expenditures | <u>23,501,938</u> | <u>24,648,993</u> | <u>18,131,395</u> | <u>6,517,598</u> |
| Excess (deficiency) of revenues over expenditures | <u>(3,315,985)</u> | <u>(4,463,040)</u> | <u>1,862,481</u> | <u>6,325,521</u> |
| Other financing sources (uses): | | | | |
| Capital lease proceeds | - | - | 100,567 | 100,567 |
| Sale of assets | 1,000 | 1,000 | 529 | (471) |
| Transfers in | 60,000 | 60,000 | 85,170 | 25,170 |
| Transfers out | (42,915) | (42,915) | (57,047) | (14,132) |
| Total other financing sources and uses | <u>18,085</u> | <u>18,085</u> | <u>129,219</u> | <u>111,134</u> |
| Net change in fund balances | <u>(3,297,900)</u> | <u>(4,444,955)</u> | <u>1,991,700</u> | <u>6,436,655</u> |
| Fund balances, June 30, 2020 | <u>3,297,900</u> | <u>4,444,955</u> | <u>4,549,584</u> | <u>104,629</u> |
| Fund balances, June 30, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,541,284</u> | <u>\$ 6,541,284</u> |

The accompanying notes to financial statements
are an integral part of this statement.

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2021

| | Budgeted Amounts | | | Variance with |
|---|-------------------------|------------------|------------------|----------------------|
| | Original | Final | Actual | Final Budget |
| Revenues: | | | | |
| Other local revenues | \$ - | \$ 6,680 | \$ 34,403 | \$ 27,723 |
| Intergovernmental - State | 869,629 | 1,479,593 | 1,613,050 | 133,457 |
| Intergovernmental - Indirect federal | 1,233,718 | 4,234,633 | 2,180,835 | (2,053,798) |
| Intergovernmental - Direct federal | 224,635 | 606,256 | 229,125 | (377,131) |
| Total revenues | <u>2,327,982</u> | <u>6,327,162</u> | <u>4,057,413</u> | <u>(2,269,749)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction | 1,765,410 | 4,247,832 | 2,697,173 | 1,550,659 |
| Support services: | | | | |
| Students | 193,916 | 522,051 | 209,540 | 312,511 |
| Instructional staff | 120,394 | 123,807 | 38,092 | 85,715 |
| District administration | - | 230,116 | 230,116 | - |
| Business and other support services | - | 2,779 | 100,978 | (98,199) |
| Operation and maintenance of plant | 67,233 | 863,059 | 485,615 | 377,444 |
| Student transportation | 37,470 | 148,224 | 29,058 | 119,166 |
| Other instructional | 1,000 | - | 4,532 | (4,532) |
| Food service operation | - | - | 66,308 | (66,308) |
| Day care operations | - | 131,760 | 26,211 | 105,549 |
| Community services | 185,474 | 185,474 | 215,485 | (30,011) |
| Total expenditures | <u>2,370,897</u> | <u>6,455,102</u> | <u>4,103,108</u> | <u>2,351,994</u> |
| Excess (deficiency) of revenues over expenditures | <u>(42,915)</u> | <u>(127,940)</u> | <u>(45,695)</u> | <u>82,245</u> |
| Other financing sources (uses): | | | | |
| Transfers in | 130,990 | 240,584 | 158,339 | (82,245) |
| Transfers out | (88,075) | (112,644) | (112,644) | - |
| Total other financing sources and uses | <u>42,915</u> | <u>127,940</u> | <u>45,695</u> | <u>(82,245)</u> |
| Net change in fund balances | - | - | - | - |
| Fund balances, June 30, 2020 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances, June 30, 2021 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

The accompanying notes to financial statements
are an integral part of this statement.

**PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2021**

(1) REPORTING ENTITY

The Pendleton County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Pendleton County School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial reporting purposes, includes all of the funds and account groups relevant to the operation of the Pendleton County School District. 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 organization are included in the accompanying financial statements. Copies of this organization's financial statements may be obtained from the District's Finance Office at 2525 Hwy 27 North, Falmouth, Kentucky 41040.

Pendleton County Board of Education Finance Corporation - In a prior year, the Board of Education resolved to authorize the establishment of the Pendleton County 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. Copies of component unit reports may be obtained from the District's Finance office.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND DESCRIPTION OF FUNDS

Basis of Presentation

The accounting policies of the Pendleton County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements provide information about the primary government (the District). The statements include a statement of net position and a statement of activities. These statements report the financial activities of the overall government. They also distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. 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, including internally dedicated resources and all taxes, are reported as general revenues, 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 provide information about the District's funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

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 position. Proprietary 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 District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

B. The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

1. The Special Revenue Fund includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
2. The District Activity Fund is a special revenue fund used to account for funds collected at individual schools for operational costs of the school or school district that allows for more flexibility in the expenditure of those funds.
3. The School Activity Fund is a special revenue fund used to account for funds collected at individual schools for activities of student groups and other types of

activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

- 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 the 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.
 - 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.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Fund
The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The Community Education Fund is used to account for fee-based classes. This is listed as a major fund due to the nature of the activity.
- C. The Day Care Fund is used to account for day care activities. This is listed as a major fund due to the nature of the activity.

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 funds also use the accrual basis of accounting.

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

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 resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

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

The measurement focus of governmental 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 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, 2021, to finance the General Fund operations were \$.670 per \$100 valuation for real property, \$.670 per \$100 valuation for business personal property and \$.550 per \$100 valuation for motor vehicles. These rates include \$.192 per \$100 valuation that is committed to the Building Fund.

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 telegraphic communications services, cablevision services, electric power, water, and gas.

In-Kind

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

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

Supplies and materials are charged to expenditures when purchased with the exception of the Proprietary Funds, which records inventory using the accrual basis of accounting. Inventories are stated at the lower of cost or market, on the first-in, first-out basis.

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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars (\$5,000) with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not capitalized.

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:

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

Interfund Balances

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

Budgetary Process

The District is required by state law to adopt annual budgets. Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

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, all 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 Reserves

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;
- Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance-amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint;
- Assigned fund balance-amounts the District intends to use for a specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority;
- Unassigned fund balance-amounts that are available for any purpose; unassigned amounts are reported only in the General Fund.

When restricted, committed, assigned and unassigned resources are available for use, it is the District's policy to use restricted, committed and assigned resources first, then unassigned resources as they are needed.

Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position invested in capital assets, net of related debt 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. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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.

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 account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

Bond Issuance Costs

Debt issuance costs are expensed in the period they are incurred.

Deferred Inflows and Outflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Pension

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the OPEB plan's fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by plans. 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.

Recent Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases* ("GASB 87"), which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB 87 (1) increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract; and (2) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Additionally, under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred

inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the District beginning with its year ending June 30, 2022 and will be applied retroactively by restating financial statements. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"), which seeks to (1) enhance the relevance and comparability of information concerning capital assets and the cost of borrowing for a reporting period, and (2) simplify accounting for interest cost incurred during the period of construction. In particular, GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus, and, thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. GASB 89 will be effective for the District beginning with its year ending June 30, 2022. Management is currently evaluating the impact of this Statement on its financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020* ("GASB 92"). GASB 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. Provisions related to insurance-related activities of public entity risk pools and derivative instruments were effective upon issuance. All other provisions will be effective for the District beginning with its year ending June 30, 2022. Adoption of the provisions required upon issuance did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. GASB 96 will be effective for the District beginning with its year ending June 30, 2023. Management is currently evaluating the impact of this Statement on its financial statements.

(3) 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 basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(4) CASH AND CASH EQUIVALENTS

The funds of the District must be deposited and invested under the terms of a contract. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$7,595,343 and the related bank balances totaled \$7,856,099. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risks are as follows:

- Category 1 Deposits, which are insured or collateralized with securities, held by the District or by its agent in the District's name.
- Category 2 Deposits, which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 Deposits, which are not collateralized or insured.

Based on these three levels of risk, the District's uninsured cash deposits are classified as Category 2.

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

(5) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

| | Balance June 30, 2020 | Additions | Deductions | Balance June 30, 2021 |
|--|--------------------------|-----------------------|---------------------|--------------------------|
| Governmental Activities | | | | |
| Land | \$ 669,766 | \$ - | \$ - | \$ 669,766 |
| Construction in progress | 262,793 | 110,771 | (358,515) | 15,049 |
| Land improvements | 2,800,691 | - | - | 2,800,691 |
| Buildings and improvements | 54,726,613 | 358,515 | - | 55,085,128 |
| Technology equipment | 3,357,063 | - | (526,593) | 2,830,470 |
| General equipment | 1,789,225 | 179,900 | (8,490) | 1,960,635 |
| Vehicles | 4,166,964 | 97,113 | (63,424) | 4,200,653 |
| Totals | <u>67,773,115</u> | <u>746,299</u> | <u>(957,022)</u> | <u>67,562,392</u> |
| Less: accumulated depreciation | | | | |
| Land improvements | 2,083,226 | 127,942 | - | 2,211,168 |
| Buildings and improvements | 24,215,564 | 1,804,341 | - | 26,019,905 |
| Technology equipment | 3,277,286 | 36,903 | (526,593) | 2,787,596 |
| General equipment | 1,619,857 | 36,663 | (8,490) | 1,648,030 |
| Vehicles | 3,142,037 | 157,421 | (63,424) | 3,236,034 |
| Total accumulated depreciation | <u>34,337,970</u> | <u>2,163,270</u> | <u>(598,507)</u> | <u>35,902,733</u> |
| Governmental Activities Capital Assets - Net | <u>\$ 33,435,145</u> | <u>\$ (1,416,971)</u> | <u>\$ (358,515)</u> | <u>\$ 31,659,659</u> |
| Business-Type Activities (Food Service) | | | | |
| Buildings and improvements | \$ 875,390 | \$ - | \$ - | \$ 875,390 |
| Technology equipment | 11,974 | - | - | 11,974 |
| Vehicles | 22,054 | - | - | 22,054 |
| General equipment | 943,470 | - | - | 943,470 |
| | <u>1,852,888</u> | <u>-</u> | <u>-</u> | <u>1,852,888</u> |
| Less: accumulated depreciation (Food Service) | | | | |
| Buildings and improvements | 557,175 | 16,717 | - | 573,892 |

| | | | | |
|--------------------------|------------------|---------------|----------|------------------|
| Technology equipment | 11,974 | - | - | 11,974 |
| Vehicles | 22,054 | - | - | 22,054 |
| General equipment | 852,034 | 14,726 | - | 866,760 |
| | <u>1,443,237</u> | <u>31,443</u> | <u>-</u> | <u>1,474,680</u> |
| Business-Type Activities | | | | |
| Capital Assets - Net | \$ 409,651 | \$ (31,443) | \$ - | \$ 378,208 |

Depreciation expense was allocated to governmental functions as follows:

| | |
|--------------------------------------|---------------------|
| Instruction | \$ 1,857,008 |
| Student support services | 15,478 |
| Instructional staff support services | 2,372 |
| District administration | 2,350 |
| School administration support | 434 |
| Plant operations & maintenance | 93,145 |
| Student transportation | 192,258 |
| Community services | 225 |
| | <u>\$ 2,163,270</u> |

(6) LONG-TERM OBLIGATIONS

The amount shown in the accompanying financial statements as debt obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Pendleton County School District Finance Corporation, with original amounts of issues totaling \$24,855,000.

Bonds

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Pendleton County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities and (2) the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The original amount of present outstanding issues, the issue dates, and interest rates are summarized below:

| ORIGINAL ISSUE | ISSUER | AMOUNT | INTEREST RATES |
|-------------------|---|---------------|----------------|
| Issue of 2013R | Pendleton County School District Finance Corporation | \$ 14,690,000 | 2.00% to 3.75% |
| Issue of 2015R | Pendleton County School District Finance Corporation & KSFCC | 9,475,000 | 2.00% to 2.50% |
| Issue of 2017 | Pendleton County School District Finance Corporation & KSFCC | 690,000 | 3.00% to 4.00% |

The bonds may be called prior to maturity dates at redemption premiums specified in each issue.

In connection with the 2015R and 2017 bond issues, the District entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the

Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2021, for bond debt service, (principal and interest) are as shown below:

| Year | Kentucky School Facilities Construction Commission | | Pendleton County School District | | Total |
|-----------|---|-------------------|----------------------------------|---------------------|----------------------|
| | Principal | Interest | Principal | Interest | |
| 2022 | \$ 114,988 | \$ 34,532 | \$ 1,990,012 | \$ 460,674 | \$ 2,600,206 |
| 2023 | 116,900 | 31,720 | 2,038,100 | 409,562 | 2,596,282 |
| 2024 | 119,072 | 28,646 | 2,090,928 | 354,309 | 2,592,955 |
| 2025 | 121,300 | 25,520 | 2,133,700 | 297,611 | 2,578,131 |
| 2026 | 123,582 | 22,338 | 2,181,418 | 237,482 | 2,564,820 |
| 2027-2031 | 275,921 | 74,348 | 5,169,079 | 339,166 | 5,885,514 |
| 2032-2036 | 210,000 | 34,800 | - | - | 244,800 |
| 2037 | 45,000 | 1,800 | - | - | 46,800 |
| | <u>\$1,126,763</u> | <u>\$ 253,704</u> | <u>\$ 15,603,237</u> | <u>\$ 2,098,804</u> | <u>\$ 19,082,508</u> |

Future minimum debt service on notes payable to KISTA, at June 30, 2021, are as follows:

| Year | Principal | Interest | Total |
|-----------|-------------------|------------------|-------------------|
| 2022 | \$ 159,592 | \$ 19,753 | \$ 179,345 |
| 2023 | 138,214 | 16,083 | 154,297 |
| 2024 | 118,167 | 12,761 | 130,298 |
| 2025 | 101,404 | 9,744 | 111,148 |
| 2026 | 82,779 | 7,193 | 89,972 |
| 2027-2031 | <u>224,401</u> | <u>10,561</u> | <u>234,962</u> |
| | <u>\$ 824,557</u> | <u>\$ 76,095</u> | <u>\$ 900,652</u> |

KSBIT Payable

The Kentucky School Boards Insurance Trust ("KSBIT") notified the District during fiscal year 2013 that their self-insurance pools for worker's compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On May 13, 2014, the court approved the plan of assessment tendered by KSBIT and approved the Loss Portfolio Transfer to Kentucky Employers Mutual Insurance ("KEMI"). As a result, the District's workers' compensation portion of the liability was estimated at \$67,934. The District took the option of paying 25% down by August 31, 2014 and financing the remaining balance over 6 years to be paid in equal annual installments beginning August 31, 2015 with no interest. The final payment was made on August 31, 2020.

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

| Description | Balance at June 30, 2020 | Additions | Reductions | Balance at June 30, 2021 | Due Within One Year |
|---|-----------------------------|-----------|--------------|-----------------------------|------------------------|
| General obligation bonds - \$24,855,000 originally issued with interest rates ranging from 2.00% to 4.00% | \$ 18,795,000 | \$ - | \$ 2,065,000 | \$ 16,730,000 | \$ 2,105,000 |
| Discount on bonds | (7,719) | - | (454) | (7,265) | - |
| KISTA Loans | 883,500 | 100,567 | 159,510 | 824,557 | 159,592 |
| KSBIT Liability | 8,491 | - | 8,491 | - | - |

| | | | | | |
|--|----------------------|-------------------|---------------------|----------------------|---------------------|
| Accrued interest | 127,003 | - | 13,118 | 113,885 | 113,885 |
| Accumulated unpaid sick leave benefits | 242,821 | 51,085 | - | 293,906 | - |
| | <u>\$ 20,049,096</u> | <u>\$ 151,652</u> | <u>\$ 2,245,665</u> | <u>\$ 17,955,083</u> | <u>\$ 2,378,477</u> |

Net Pension Liability

The net pension liability is \$7,616,074 and \$1,231,176 for governmental activities and business-type activities, respectively, at June 30, 2021. See Note (7) for more detailed information.

Net OPEB Liability

The net OPEB liability is \$6,013,446 and \$411,085 for governmental activities and business-type activities, respectively, at June 30, 2021. See Note (8) for more detailed information.

(7) RETIREMENT PLANS

Kentucky Teachers Retirement System

Plan description: Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS 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). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

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

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

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

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members 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. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

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

Contributions: Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.855% of their salaries to the System. University members are required to contribute 10.400% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 8.185% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.865% of salaries of members. For local school district and regional cooperative members 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.

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

At June 30, 2021, the District did not report a liability for its proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|----------------------|
| District's proportionate share of the net Pension liability | \$ - |
| Commonwealth's proportionate share of the Net Pension liability associated with the District | <u>38,123,151</u> |
| | <u>\$ 38,123,151</u> |

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June 30, 2020, the District's proportion was 0.2690%.

For the year ended June 30, 2021, the District recognized pension expense of \$(4,230,094) and revenue of \$(4,230,094) for support provided by the State.

Actuarial Methods and Assumptions: The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions:

| | |
|-----------------------------------|---|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2020 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 24.4 years |
| Asset Valuation Method | 5-year smoothed market value |
| Single Equivalent Interest Rate | 7.50% |
| Municipal Bond Index Rate | 2.19% |
| Inflation | 3.0% |
| Salary Increase | 3.5-7.3%, including inflation |
| Investment Rate of Return | 7.5%, net of pension plan investment expense, including inflation |
| Post-retirement Benefit Increases | 1.50% annually |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025, set forward two years for males and one year for females.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2010 – June 30, 2015 adopted by the Board on November 19, 2016. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.

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 KTRS's investment consultant, are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| U.S. Equity | 40.0% | 4.6% |
| International Equity | 22.0% | 5.6% |
| Fixed Income | 15.0% | 0.0% |
| Other Additional Categories* | 7.0% | 2.5% |
| Real Estate | 7.0% | 4.3% |
| Private Equity | 7.0% | 7.7% |
| Cash | 2.0% | (0.5)% |
| | <u>100.0%</u> | |

** Includes Hedge Funds, High Yield and Non-US Developed Bonds*

Discount Rate: The discount rate used to measure the total pension liability as of the Measurement Date was 7.50%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined contribution (ADC) rates for all future fiscal years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

| | <u>1% Decrease (6.50%)</u> | <u>Current discount rate (7.50%)</u> | <u>1% Increase (8.50%)</u> |
|--|------------------------------------|--|------------------------------------|
| Commonwealth's proportionate share of the Net Pension liability associated with the District | \$ 50,756,000 | \$ 38,123,151 | \$ 30,771,000 |

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

County Employees Retirement System

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

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

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

Contributions: Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2021, employers were required to contribute 24.06% (19.30% - pension, 4.76% insurance) of the member's salary. During the year ending June 30, 2021, the District contributed \$546,571 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2021, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2020. At June 30, 2020, the District's proportion was 0.11535%.

For the year ended June 30, 2021, the District recognized pension expense of approximately \$1,178,000. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 220,622 | \$ - |
| Changes of assumptions | 345,470 | - |
| Net difference between projected and Actual earnings on investments | 221,392 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 27,179 | 289,145 |
| District contributions subsequent to the measurement date | 546,571 | - |
| | <u>\$ 1,361,234</u> | <u>\$ 289,145</u> |

The \$546,571 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, 2022.

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

| <u>Year</u> | |
|-------------|-------------------|
| 2022 | \$ 219,979 |
| 2023 | 125,844 |
| 2024 | 90,778 |
| 2025 | 88,917 |
| | <u>\$ 525,518</u> |

Actuarial Methods and Assumptions: The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions:

| | |
|-------------------------------|--|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2020 |
| Experience Study | July 1, 2013 - June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll |
| Remaining Amortization Period | 24 years, closed |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected market value of assets is recognized |
| Payroll Growth | 2.00% |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 10.30%, varies by service |
| Investment Rate of Return | 6.25%, net of pension plan investment expense, including inflation |

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation.

The mortality table used for active members is PUB-2010 General Mortality Table projected with ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. For healthy retired members and beneficiaries, a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019 is utilized. For disabled members, the mortality table used is the PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

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

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:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Growth | 62.50% | |
| US Equity | 18.75% | 4.50% |

| | | |
|--------------------------------|-----------------------|--------------|
| Non-US Equity | 18.75% | 5.25% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 3.90% |
| Liquidity | 14.50% | |
| Core Bonds | 13.50% | (0.25)% |
| Cash | 1.00% | (0.75)% |
| Diversifying Strategies | 23.00% | |
| Real Estate | 5.00% | 5.30% |
| Opportunistic | 3.00% | 2.25% |
| Real Return | 15.00% | 3.95% |
| Total | <u>100.00%</u> | 3.96% |

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

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

| | 1% Decrease (5.25%) | Current discount rate (6.25%) | 1% Increase (7.25%) |
|---|---------------------------|-------------------------------------|---------------------------|
| District's proportionate share of the net pension liability | \$ 10,911,000 | \$ 8,847,250 | \$ 7,139,000 |

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

Payables to the pension plan: At June 30, 2021, there were no payables to CERS.

(8) OTHER POSTEMPLOYMENT BENEFIT ("OPEB") PLANS

Kentucky Teachers Retirement System OPEB Plans

Teaching-certified employees of the 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.

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 and three quarters percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. The state contributes the net cost of health insurance premiums for members who retired on or after July 1, 2010 who are in the non-Medicare eligible group. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to KTRS Medical Insurance Plan

At June 30, 2021, the District reported a liability of \$3,640,000 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, 2020. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2019. An expected total OPEB liability as of June 30, 2020 was determined using standard roll-forward techniques. 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, 2020, the District's proportion was 0.259794%.

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 | \$ 3,640,000 |
| Commonwealth's proportionate share of the Net OPEB liability associated with the District | <u>2,916,000</u> |
| | <u>\$ 6,556,000</u> |

For the year ended June 30, 2021, the District recognized OPEB expense of \$(70,000) and revenue of \$204,000 for support provided by the State. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ - | \$ 1,552,000 |
| Changes of assumptions | 221,000 | - |

| | | |
|---|-------------------|---------------------|
| Net difference between projected and actual earnings on investments | 118,000 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 298,000 |
| District contributions subsequent to the measurement date | <u>246,464</u> | <u>-</u> |
| | <u>\$ 585,464</u> | <u>\$ 1,850,000</u> |

Of the total amount reported as deferred outflows of resources related to OPEB, \$246,464 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

| <u>Year</u> | |
|-------------|-----------------------|
| 2022 | \$ (307,000) |
| 2023 | (298,000) |
| 2024 | (300,000) |
| 2025 | (277,000) |
| 2026 | (239,000) |
| Thereafter | (90,000) |
| | <u>\$ (1,511,000)</u> |

Actuarial methods and assumptions – The total OPEB liability was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions:

| | |
|---------------------------------|---|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2020 |
| 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 | 7.50% for FY 2020 decreasing to an ultimate rate of 5.00% by FY 2029 |
| Ages 65 and Older | 5.250% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2022 |
| Medicare Part B Premiums | 6.49% for FY 2020 with an ultimate rate of 5.00% by 2031 |
| Municipal Bond Index Rate | 2.20% |
| 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 demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2019, valuation were based on the results of the most recent actuarial experience studies for the system, which covered the five-year period ending June 30, 2015. The remaining actuarial assumptions used in the June 30, 2019, valuation of the health trust were based on a review of recent plan experience done concurrently with the June 30, 2019, valuation. The health care

cost trend rate assumption was updated for the June 30, 2019, valuation and was shown as an assumption change in the total OPEB liability (TOL) roll forward while the change in initial per capita claims costs were included with experience in the TOL roll forward. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.

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> |
|-----------------------------|--------------------------|---|
| Global Equity | 58.0% | 5.4% |
| Fixed Income | 9.0% | 0.0% |
| Real Estate | 6.5% | 4.3% |
| Private Equity | 8.5% | 7.7% |
| Other Additional Categories | 17.0% | 2.5% |
| Cash | 1.0% | (0.5)% |
| Total | <u>100.0%</u> | |

Discount rate: The discount rate used to measure the TOL as of the measurement date was 8%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection's basis was an actuarial valuation performed as of June 30, 2019. In addition to the actuarial methods and assumptions of the June 30, 2019, actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 3.5%.
- The KEHP group retiree health care costs for members retired on or after July 1, 2010, were assumed to be paid by either the state or the retirees themselves.
- As administrative expenses, other than the administrative fee of \$7.44 per member per month (PMPM) paid to KEHP by TRS, were assumed to be paid in all years by the employer as they come due, they were not considered.
- Cash flows occur midyear.
- Future contributions to the Health Insurance Trust were based upon the contribution rates defined in statute and the projected payroll of active employees. Per KRS 161.540(1)(c).3 and 161.550(5), when the health trust achieves a sufficient funded status, as determined by TRS's actuary, the following health trust statutory contributions are to be decreased, suspended or eliminated:
 - Employee contributions
 - Employer contributions
 - State contributions for KEHP premium subsidies payable to retirees who retire after June 30, 2010

To reflect these adjustments, open group projections were used and assumed an equal, pro rata reduction to the current statutory amounts in the years if the health trust is projected to achieve a funded ratio of 100% or more. Here, the current statutory amounts are adjusted to achieve total contributions equal to the

actuarially determined contribution, as determined by the prior year's valuation and in accordance with the health trust's funding policy. As the specific methodology to be used for the adjustments has yet to be determined, there may be differences between the projected results and future experience. This also may include any changes to retiree contributions for KEHP coverage pursuant to KRS 161.675(4)(b).

- In developing the adjustments to the statutory contributions in future years, the following was assumed:
 - Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.
 - A 0% active member growth rate was assumed for the purposes of developing estimates for new entrants (membership dates beyond June 30, 2019).

Based on these assumptions, the Health Insurance Trust's FNP was not projected to be depleted.

The FNP projections are based upon the health trust's financial status on the valuation date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of these tests do not necessarily indicate whether or not the health trust will actually run out of money, the financial condition of the trust, or the trust's ability to make benefit payments in future years.

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 (7.00%) | Current discount rate (8.00%) | 1% Increase (9.00%) |
|--|---------------------------|-------------------------------------|---------------------------|
| District's proportionate share of the net OPEB liability | \$ 4,400,000 | \$ 3,640,000 | \$ 3,006,000 |

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 the net OPEB liability | \$ 2,885,000 | \$ 3,640,000 | \$ 4,571,000 |

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

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.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to KTRS Life Insurance Plan

At June 30, 2021, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

| | |
|---|------------------|
| District's proportionate share of the net OPEB liability | \$ - |
| Commonwealth's proportionate share of the Net OPEB liability associated with the District | <u>88,000</u> |
| | <u>\$ 88,000</u> |

The net OPEB liability was measured as of June 30, 2020, and the total pension liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. An expected total OPEB liability as of June 30, 2020 was determined using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June 30, 2020, the District's proportion was 0.254048%.

For the year ended June 30, 2021, the District recognized OPEB expense of \$-0- and revenue of \$4,246 for support provided by the State.

Actuarial methods and assumptions – The total OPEB liability was determined by applying procedures to the actuarial valuation as of June 30, 2019. The financial reporting actuarial valuation as of June 30, 2020, used the following actuarial methods and assumptions:

| | |
|---------------------------------|--|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2020 |
| Investment rate of return | 7.50%, 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% |
| Municipal Bond Index Rate | 2.19% |
| 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 demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2019, valuation were based on the results of the most recent actuarial experience studies for the system, which covered the five-year period ending June 30, 2015. The

Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.

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>Target Allocation</u> | <u>Expected Geometric Real Rate of Return</u> |
|-----------------------------|------------------------------|---|
| U.S. Equity | 40.0% | 4.6% |
| International Equity | 23.0% | 5.6% |
| Fixed Income | 18.0% | 0.0% |
| Real Estate | 6.0% | 4.3% |
| Private Equity | 5.0% | 7.7% |
| Other Additional Categories | 6.0% | 2.5% |
| Cash | 2.0% | (0.5)% |
| Total | <u>100.0%</u> | |

Discount rate: The discount rate used to measure the total OPEB liability as of the measurement date was 7.5%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection's basis was an actuarial valuation performed as of June 30, 2019. In addition to the actuarial methods and assumptions of the June 30, 2019, actuarial valuation, the following actuarial methods and assumptions were used in the projection of the life insurance cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 3.5%.
- The employer will contribute the actuarially determined contribution (ADC) in accordance with the Life Insurance Trust's funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Active employees do not contribute to the plan.
- Cash flows occur midyear.

Based on these assumptions, the Life Insurance Trust's fiduciary net position was not projected to be depleted. The FNP projections are based upon the Life Insurance Trust's financial status on the valuation date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 74. As such, the FNP projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of these tests do not necessarily indicate whether the Life Insurance Trust actually will run out of money, the financial condition of the trust, or the trust's ability to make benefit payments in future years.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

| | 1% Decrease (6.50%) | Current discount rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-------------------------------------|---------------------------|
| Commonwealth's proportionate share of the net OPEB liability | \$ 128,000 | \$ 88,000 | \$ 56,000 |

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

County Employees Retirement System Insurance Fund

Plan description: The County Employees Retirement System ("CERS") Insurance Fund was established to provide post-employment healthcare benefits to eligible members and dependents. The CERS Insurance Fund is a cost-sharing, multiple employer defined benefit plan administered by the Kentucky Retirement Systems' (KRS) board of trustees.

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

Benefits provided - CERS health insurance benefits are subject to various participation dates to determine eligibility and health insurance contribution rates. For employees who initiated participation in the CERS system prior to July 1, 2003, KRS pays a percentage of the monthly contribution rate for insurance coverage based on the retired member's years of service and type of service. Non-hazardous members receive a contribution subsidy for only the member's health insurance premium.

Percentage of contribution ranges from 0% for less than 4 years of service to 100% for 20 years or more of service. For members who initiated participation in the CERS system after July 1, 2003 until August 31, 2008, members must have 120 months of service in a state-administered retirement system to qualify for participation in the KRS health plans. Members who began participating with KRS on or after September 1, 2008, must have 180 months of service upon retirement to participate in the KRS health plans. Non-hazardous retirees receive \$10 toward the monthly premium for each full year of service.

Contributions: CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2021, CERS allocated 4.76% of the 24.06% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2021, the District contributed \$134,802 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

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

At June 30, 2021, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2019. An expected total pension liability as of June 30, 2020 was determined using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2020. At June 30, 2020, the District's proportion was 0.115316%.

For the year ended June 30, 2021, the District recognized OPEB expense of approximately \$335,000, including an implicit subsidy of \$68,338. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 465,237 | \$ 465,600 |
| Changes of assumptions | 484,344 | 2,945 |
| Net difference between projected and actual earnings on investments | 92,552 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 4,636 | 156,159 |
| District contributions subsequent to the measurement date | 134,802 | - |
| | <u>\$ 1,181,571</u> | <u>\$ 624,704</u> |

Of the total amount reported as deferred outflows of resources related to OPEB, \$134,802 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, 2022.

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

| <u>Year</u> | |
|-------------|-------------------|
| 2022 | \$ 110,721 |
| 2023 | 138,111 |
| 2024 | 85,723 |
| 2025 | 93,941 |
| 2026 | (6,431) |
| | <u>\$ 422,065</u> |

Actuarial Methods and Assumptions - The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-------------------------------|--|
| Valuation Date | June 30, 2019 |
| Measurement Date | June 30, 2020 |
| Experience Study | July 1, 2013 - June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent of Pay |
| Remaining Amortization Period | 24 Years, Closed |
| Payroll Growth Rate | 2.00% |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 10.30%, varies by service |
| Investment Rate of Return | 6.25% |
| Healthcare Trend Rates | |
| Pre-65 | Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years |
| Post-65 | Initial trend starting at 2.90% at January 1, 2022 and |

| | |
|---------------------------------|---|
| | gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years |
| Mortality Pre-retirement | PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 |
| Post-retirement (non- disabled) | System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019 |
| Post-retirement (disabled) | PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010 |

As a result of the 2018 experience study, the salary increase assumptions, retirement rate assumptions, mortality assumptions, withdrawal rates, and rates of disablement were updated for the 2019 actuarial valuation.

The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2019 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The anticipated savings from the repeal of the “Cadillac Tax” and “Health Insurer Fee”, which occurred in December 2019 are reflected in the June 30, 2020 GASB 75 actuarial information. The assumed load on pre-Medicare premiums to reflect the cost of the Cadillac Tax was removed and the Medicare premiums were reduced by 11% to reflect the repeal of the Health Insurer Fee.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020.

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

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:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------------|--------------------------|---|
| Growth | 62.50% | |
| US Equity | 18.75% | 4.50% |
| Non-US Equity | 18.75% | 5.25% |
| Private Equity | 10.00% | 6.65% |
| Specialty Credit/High Yield | 15.00% | 3.90% |
| Liquidity | 14.50% | |
| Core Bonds | 13.50% | (0.25)% |
| Cash | 1.00% | (0.75)% |
| Diversifying Strategies | 23.00% | |

| | | |
|---------------|-----------------------|--------------|
| Real Estate | 5.00% | 5.30% |
| Opportunistic | 3.00% | 2.25% |
| Real Return | <u>15.00%</u> | 3.95% |
| Total | <u>100.00%</u> | 3.96% |

**Long-Term Expected Real Rates of Return may vary by plans depending on the risk tolerance of the plan*

Discount rate - The discount rate used to measure the total OPEB liability was 5.34%. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2020. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.34%, 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 (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

| | <u>1% Decrease (4.34%)</u> | <u>Current discount rate (5.34%)</u> | <u>1% Increase (6.34%)</u> |
|--|------------------------------------|--|------------------------------------|
| District's proportionate share of the net OPEB liability | \$ 3,577,000 | \$ 2,784,531 | \$ 2,133,000 |

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:

| | <u>1% Decrease</u> | <u>Current trend rate</u> | <u>1% Increase</u> |
|--|------------------------|-------------------------------|------------------------|
| District's proportionate share of the net OPEB liability | \$ 2,156,000 | \$ 2,784,531 | \$ 3,547,000 |

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

Payables to the OPEB plan: At June 30, 2021, there were no payables to CERS.

(9) COMMITMENTS AND CONTINGENCIES

The District receives funding from Federal and State government agencies. These funds are to be used for designated purposes only. For Government agency grants, if based on 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.

The District is subject to certain legal proceedings arising from normal business activities. Administrative officials believe that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the accompanying financial statements.

(10) RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky Employer's Mutual Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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.

(11) COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. It is management's opinion that the District is in compliance with the COBRA requirements.

(12) INTERFUND ACTIVITY

The following transfers were made during the year:

| <u>Type</u> | <u>From Fund</u> | <u>To Fund</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------|------------------|-----------------|---------------------|---------------|
| Operating | Special Revenue | Special Revenue | Intra Fund Transfer | \$ 112,644 |
| Operating | General | Special Revenue | Operating | 45,695 |
| Operating | Food Service | General | Indirect Costs | 85,170 |
| Debt Service | Capital Outlay | Debt Service | Debt Service | 49,223 |
| Debt Service | Building | Debt Service | Debt Service | 2,410,223 |
| Capital | General | Construction | Capital | 11,352 |

(13) ON-BEHALF PAYMENTS

For the year ended June 30, 2021, total payments of \$5,626,423 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, debt service, KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance.

On-behalf payments at June 30, 2021 consisted of the following:

| | |
|------------------------------------|--------------|
| Teacher Retirement | \$ 2,759,436 |
| Teacher Retirement – Health & Life | 208,310 |

| | |
|------------------------|----------------------------|
| Health Insurance | 2,354,509 |
| Life Insurance | 3,669 |
| Administrative Fee | 29,820 |
| HRA/Dental/Vision | 138,250 |
| Federal Reimbursement | (100,622) |
| Technology | 82,632 |
| SFCC Debt Service | 150,419 |
| Total on-behalf | <u><u>\$ 5,626,423</u></u> |

(14) FUND DEFICIT

As of June 30, 2021, the Food Service Fund had a negative net position of \$431,765. This deficit resulted from the fund's proportionate share of the net pension and OPEB liabilities recorded in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

(15) ECONOMIC UNCERTAINTIES

As a result of the spread of the COVID-19 Coronavirus, economic uncertainties have arisen which are likely to negatively impact future revenues. Other financial impact could occur, but such potential impact is unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021**

| | Reporting Fiscal Year (Measurement Date) | | | | | | |
|--|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) | 2017 (2016) | 2016 (2015) | 2015 (2014) |
| COUNTY EMPLOYEES RETIREMENT SYSTEM: | | | | | | | |
| District's proportion of the net pension liability | 0.11535% | 0.12153% | 0.12067% | 0.12683% | 0.12653% | 0.12725% | 0.13298% |
| District's proportionate share of the net pension liability | \$ 8,847,250 | \$ 8,546,978 | \$ 7,348,927 | \$ 7,423,457 | \$ 6,229,770 | \$ 5,471,373 | \$ 4,314,000 |
| District's covered payroll | \$ 3,011,140 | \$ 3,067,670 | \$ 3,026,845 | \$ 3,087,002 | \$ 3,044,678 | \$ 3,005,325 | \$ 3,082,933 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 293.817% | 278.615% | 242.792% | 240.475% | 204.612% | 182.056% | 139.932% |
| Plan fiduciary net position as a percentage of the total pension liability | 47.810% | 50.450% | 53.540% | 53.300% | 55.500% | 59.970% | 66.800% |
| KENTUCKY TEACHER'S RETIREMENT SYSTEM: | | | | | | | |
| District's proportion of the net pension liability | 0.2690% | 0.2785% | 0.2944% | 0.2950% | 0.3083% | 0.3235% | 0.3194% |
| District's proportionate share of the net pension liability | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| State's proportionate share of the net pension liability associated with the District | 38,123,151 | 37,997,206 | 38,549,564 | 79,590,461 | 90,944,998 | 75,273,376 | 65,624,544 |
| Total | <u>\$ 38,123,151</u> | <u>\$ 37,997,206</u> | <u>\$ 38,549,564</u> | <u>\$ 79,590,461</u> | <u>\$ 90,944,998</u> | <u>\$ 75,273,376</u> | <u>\$ 65,624,544</u> |
| District's covered payroll | \$ 9,206,647 | \$ 9,343,523 | \$ 9,817,329 | \$ 9,684,430 | \$ 10,018,300 | \$ 10,235,019 | \$ 9,940,433 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% |
| Plan fiduciary net position as a percentage of the total pension liability | 58.300% | 58.800% | 59.300% | 39.830% | 35.220% | 42.490% | 45.590% |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2021**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| COUNTY EMPLOYEES RETIREMENT SYSTEM: | | | | | | | | |
| Contractually required contribution | \$ 546,571 | \$ 581,150 | \$ 497,576 | \$ 438,315 | \$ 430,759 | \$ 378,139 | \$ 383,127 | \$ 423,555 |
| Contributions in relation to the contractually required contribution | <u>546,571</u> | <u>581,150</u> | <u>497,576</u> | <u>438,315</u> | <u>430,759</u> | <u>378,139</u> | <u>383,127</u> | <u>423,555</u> |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - |
| District's covered payroll | \$ 2,831,974 | \$ 3,011,140 | \$ 3,067,670 | \$ 3,026,845 | \$ 3,087,002 | \$ 3,044,678 | \$ 3,005,325 | \$ 3,082,933 |
| District's contribution's as a percentage of its covered payroll | 19.30% | 19.30% | 16.22% | 14.48% | 13.95% | 12.42% | 12.75% | 13.74% |
| KENTUCKY TEACHER'S RETIREMENT SYSTEM: | | | | | | | | |
| Contractually required contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - |
| District's covered payroll | \$ 9,099,191 | \$ 9,206,647 | \$ 9,343,523 | \$ 9,817,329 | \$ 9,684,430 | \$ 10,018,300 | \$ 10,235,019 | \$ 9,940,433 |
| District's contributions as a percentage of its covered payroll | 0.00% | 0.00% | 0.00% | 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 will be displayed as they become available.

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021**

| | Reporting Fiscal Year (Measurement Date) | | | |
|--|---|---------------------|---------------------|----------------------|
| | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) |
| COUNTY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND: | | | | |
| District's proportion of the net OPEB liability | 0.11532% | 0.12153% | 0.12066% | 0.12683% |
| District's proportionate share of the net OPEB liability | \$ 2,784,531 | \$ 2,044,097 | \$ 2,142,330 | \$ 2,549,616 |
| District's covered payroll | \$ 3,011,140 | \$ 3,067,670 | \$ 3,026,845 | \$ 3,087,002 |
| District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 92.474% | 66.634% | 70.778% | 82.592% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 51.7% | 60.4% | 57.6% | 52.4% |
| KENTUCKY TEACHER'S RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN: | | | | |
| District's proportion of the net OPEB liability | 0.25979% | 0.26864% | 0.28354% | 0.28355% |
| District's proportionate share of the net OPEB liability | \$ 3,640,000 | \$ 4,350,000 | \$ 5,284,000 | \$ 5,565,000 |
| State's proportionate share of the net OPEB liability associated with the District | 2,916,000 | 3,513,000 | 4,554,000 | 4,546,000 |
| Total | <u>\$ 6,556,000</u> | <u>\$ 7,863,000</u> | <u>\$ 9,838,000</u> | <u>\$ 10,111,000</u> |
| District's covered payroll | \$ 8,491,599 | \$ 8,626,169 | \$ 9,042,766 | \$ 8,909,594 |
| District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 42.866% | 50.428% | 58.433% | 62.461% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 39.10% | 32.58% | 25.50% | 21.18% |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2021**

| | Reporting Fiscal Year (Measurement Date) | | | |
|--|---|------------------|------------------|------------------|
| | 2021 (2020) | 2020 (2019) | 2019 (2018) | 2018 (2017) |
| KENTUCKY TEACHER'S RETIREMENT SYSTEM - LIFE INSURANCE PLAN: | | | | |
| District's proportion of the net OPEB liability | 0.25405% | 0.26260% | 0.27710% | 0.27712% |
| District's proportionate share of the net OPEB liability | \$ - | \$ - | \$ - | \$ - |
| State's proportionate share of the net OPEB liability associated with the District | 88,000 | 82,000 | 78,000 | 61,000 |
| Total | <u>\$ 88,000</u> | <u>\$ 82,000</u> | <u>\$ 78,000</u> | <u>\$ 61,000</u> |
| District's covered payroll | \$ 8,491,599 | \$ 8,626,169 | \$ 9,042,766 | \$ 8,909,594 |
| District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 0.000% | 0.000% | 0.000% | 0.000% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 71.600% | 73.400% | 75.000% | 79.990% |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2021**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| COUNTY EMPLOYEES RETIREMENT SYSTEM | | | | | |
| INSURANCE FUND: | | | | | |
| Contractually required contribution | \$ 134,802 | \$ 143,330 | \$ 161,359 | \$ 142,235 | \$ 146,057 |
| Contributions in relation to the contractually required contribution | <u>134,802</u> | <u>143,330</u> | <u>161,359</u> | <u>142,235</u> | <u>146,057</u> |
| Contribution deficiency (excess) | - | - | - | - | - |
| District's covered payroll | \$ 2,831,974 | \$ 3,011,140 | \$ 3,067,670 | \$ 3,026,845 | \$ 3,087,002 |
| District's proportionate share of the OPEB liability as a percentage of its covered payroll | 4.76% | 4.76% | 5.26% | 4.70% | 4.73% |
| KENTUCKY TEACHER'S RETIREMENT SYSTEM: | | | | | |
| MEDICAL INSURANCE PLAN: | | | | | |
| Contractually required contribution | \$ 246,464 | \$ 254,751 | \$ 258,787 | \$ 271,284 | \$ 267,388 |
| Contributions in relation to the contractually required contribution | <u>246,464</u> | <u>254,751</u> | <u>258,787</u> | <u>271,284</u> | <u>267,388</u> |
| Contribution deficiency (excess) | - | - | - | - | - |
| District's covered payroll | \$ 8,215,380 | \$ 8,491,599 | \$ 8,626,169 | \$ 9,042,766 | \$ 8,909,594 |
| District's contributions as a percentage of its covered payroll | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF OPEB CONTRIBUTIONS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2021**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|--------------|--------------|--------------|--------------|--------------|
| KENTUCKY TEACHER'S RETIREMENT SYSTEM - LIFE INSURANCE PLAN: | | | | | |
| Contractually required contribution | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | - | - | - | - | - |
| District's covered payroll | \$ 8,215,380 | \$ 8,491,599 | \$ 8,626,169 | \$ 9,042,766 | \$ 8,909,594 |
| District's contributions as a percentage of its covered 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 will be displayed as they become available.

**PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS
FOR THE YEAR ENDED JUNE 30, 2021**

(1) CHANGES OF ASSUMPTIONS

KTRS

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

In the 2016 valuation, rates of withdrawal, retirement, disability, mortality and rates of salary increase 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 year for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with projection scale AA, which was used prior to 2016.

The following change of assumptions were adopted by the Board of Trustees and reflected in the liability measurement as of June 30, 2018:

- Increased the Single Equivalent Interest rate (SEIR) from 4.49% to 7.50%

CERS

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 rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- 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.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-

Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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

KTRS

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

| | |
|-------------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll, closed |
| Remaining Amortization Period | 27.1 years |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 3.0% |
| Salary Increase | 3.5% to 7.3%, including inflation |
| Investment Rate of Return | 7.5%, net of pension plan investment expense, including inflation |

CERS

The following actuarial methods and assumptions were used to determine the actuarially determined contribution rates reported in the most recent year of that schedule:

| | |
|-------------------------------|---|
| Experience Study | July 1, 2013 – June 30, 2018 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level percentage of payroll |
| Remaining Amortization Period | 25 years, closed |
| Payroll growth | 2.00% |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 11.55%, varies by service |
| Investment Rate of Return | 6.25%, net of pension plan investment expense, including inflation |
| Mortality | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |

(3) CHANGES OF BENEFITS

KTRS

There were no changes of benefit terms for KTRS.

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The Total Pension Liability as of June 30, 2019 is determined using these updated benefit provisions.

**PENDLETON COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLANS
FOR THE YEAR ENDED JUNE 30, 2021**

(1) CHANGES OF ASSUMPTIONS

KTRS

Medical Insurance Plan - There were no changes of assumptions.

Life Insurance Plan - There were no changes of assumptions.

CERS Insurance Fund

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

- Decreased the price inflation assumption to 2.30%.
- Decreased the assumed rate of return to 6.25%.
- Decreased the payroll growth assumption to 2.00%.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2019:

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total OPEB Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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

KTRS

Medical Insurance Plan - The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

| | |
|-----------------------|------------------|
| Valuation date | June 30, 2019 |
| Actuarial cost method | Entry Age Normal |

| | |
|--|--|
| Amortization method | Level Percent of Payroll |
| Amortization period | 21 years, Closed |
| Asset valuation method | Five-year smoothed value |
| Inflation | 3.00% |
| Real wage growth | 0.50% |
| Wage inflation | 3.50% |
| Salary increases, including wage inflation | 3.50% - 7.20% |
| Discount rate | 8.00% |
| Health care cost trends | |
| Under 65 | 7.25% for FY 2020 decreasing to an ultimate rate of 5.00% by FY 2029 |
| Ages 65 and older | 5.25% for FY 2020 decreasing to an ultimate rate of 5.00% by FY 2022 |
| Medicare Part B premiums | 6.49% for FY 2020 with an ultimate rate of 5.00% by 2031 |
| 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) |

Life Insurance Plan - The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

| | |
|--|--------------------------|
| Valuation date | June 30, 2017 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent of Payroll |
| Amortization period | 27 years, Closed |
| Asset valuation method | Five-year smoothed value |
| Inflation | 3.00% |
| Real wage growth | 0.50% |
| Wage inflation | 3.50% |
| Salary increases, including wage inflation | 3.50% - 7.45% |
| Discount rate | 7.50% |

CERS Insurance Fund

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2020:

| | |
|-------------------------------|--|
| Experience Study | July 1, 2008 – June 30, 2013 |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent of Pay |
| Remaining Amortization Period | 25 Years, Closed |
| Payroll Growth Rate | 2.00% |
| Asset Valuation Method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Inflation | 2.30% |
| Salary Increase | 3.30% to 11.55%, varies by service |
| Investment Rate of Return | 6.25% |
| Healthcare Trend Rates | |
| Pre-65 | Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years |
| Post-65 | Initial trend starting at 5.00% at and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. |

| | |
|--------------------|--|
| Mortality | RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females) |
| Phase-in Provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS non-hazardous and hazardous |

(3) CHANGES OF BENEFITS

KTRS

Medical Insurance Plan – There were no changes of benefit terms.

Life Insurance Plan – There were no changes of benefit terms.

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2019, is determined using these updated benefit provisions.

SUPPLEMENTARY INFORMATION

**PENDLETON COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2021**

| | District Activity Fund | Student Activity Fund | Construction Fund | SEEK Capital Outlay Fund | FSPK Building Fund | Total Non-Major Governmental Funds |
|--------------------------------------|------------------------------|-----------------------------|----------------------|-----------------------------------|--------------------------|---|
| ASSETS: | | | | | | |
| Cash and cash equivalents | \$ 93,301 | \$ 320,670 | \$ 39,912 | \$ - | \$ - | \$ 453,883 |
| Accounts receivable | - | 8,433 | - | - | - | 8,433 |
| Total assets | <u>\$ 93,301</u> | <u>\$ 329,103</u> | <u>\$ 39,912</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 462,316</u> |
| LIABILITIES AND FUND BALANCE: | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 250 | \$ 1,838 | \$ - | \$ - | \$ - | \$ 2,088 |
| Total liabilities | <u>250</u> | <u>1,838</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,088</u> |
| Fund Balances: | | | | | | |
| Restricted | 93,051 | 327,265 | 39,912 | - | - | 460,228 |
| Total fund balance | <u>93,051</u> | <u>327,265</u> | <u>39,912</u> | <u>-</u> | <u>-</u> | <u>460,228</u> |
| Total liabilities and fund balances | <u>\$ 93,301</u> | <u>\$ 329,103</u> | <u>\$ 39,912</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 462,316</u> |

**PENDLETON COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

| | District Activity Fund | School Activity Fund | Construction Fund | SEEK Capital Outlay Fund | FSPK Building Fund | Total Non-Major Governmental Funds |
|--|------------------------------|----------------------------|----------------------|--------------------------------|--------------------------|---|
| REVENUES: | | | | | | |
| From local sources - | | | | | | |
| Taxes - | | | | | | |
| Property | \$ - | \$ - | \$ - | \$ - | \$ 1,217,070 | \$ 1,217,070 |
| Interest income | - | 712 | - | - | - | 712 |
| Other local revenues | 68,677 | 197,294 | - | - | - | 265,971 |
| Intergovernmental - State | - | - | - | 204,363 | 1,193,153 | 1,397,516 |
| Total revenues | <u>68,677</u> | <u>198,006</u> | <u>-</u> | <u>204,363</u> | <u>2,410,223</u> | <u>2,881,269</u> |
| EXPENDITURES: | | | | | | |
| Current - | | | | | | |
| Instruction | 152,915 | 199,495 | - | - | - | 352,410 |
| Support services: | | | | | | |
| Students | - | 212 | - | - | - | 212 |
| Operation and maintenance of plant | - | - | - | 155,140 | - | 155,140 |
| Student transportation | - | 8,568 | - | - | - | 8,568 |
| Facilities acquisition and construction | - | - | 110,771 | - | - | 110,771 |
| Total expenditures | <u>152,915</u> | <u>208,275</u> | <u>110,771</u> | <u>155,140</u> | <u>-</u> | <u>627,101</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(84,238)</u> | <u>(10,269)</u> | <u>(110,771)</u> | <u>49,223</u> | <u>2,410,223</u> | <u>2,254,168</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Operating transfers in | - | - | 11,352 | - | - | 11,352 |
| Operating transfers out | - | - | - | (49,223) | (2,410,223) | (2,459,446) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>11,352</u> | <u>(49,223)</u> | <u>(2,410,223)</u> | <u>(2,448,094)</u> |
| NET CHANGE IN FUND BALANCE | (84,238) | (10,269) | (99,419) | - | - | (193,926) |
| FUND BALANCE JUNE 30, 2020 | <u>177,289</u> | <u>337,534</u> | <u>139,331</u> | <u>-</u> | <u>-</u> | <u>654,154</u> |
| FUND BALANCE JUNE 30, 2021 | <u>\$ 93,051</u> | <u>\$ 327,265</u> | <u>\$ 39,912</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 460,228</u> |

**PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

| | Cash Balance June 30, 2020 | Receipts | Disbursements | Cash Balance June 30, 2021 | Accounts Receivable (Accounts Payable) | Restricted Fund Balance June 30, 2021 |
|------------------------------|-------------------------------|-------------------|-------------------|-------------------------------|---|---|
| Pendleton County High School | \$ 149,736 | \$ 174,372 | \$ 173,671 | \$ 150,437 | \$ 6,595 | \$ 157,032 |
| Phillip Sharp Middle School | 143,687 | 11,641 | 26,620 | 128,708 | - | 128,708 |
| Northern Elementary | 36,950 | 2,323 | 3,378 | 35,895 | - | 35,895 |
| Southern Elementary | 6,574 | 1,824 | 2,768 | 5,630 | - | 5,630 |
| | <u>\$ 336,947</u> | <u>\$ 190,160</u> | <u>\$ 206,437</u> | <u>\$ 320,670</u> | <u>\$ 6,595</u> | <u>\$ 327,265</u> |

PENDLETON COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
SCHOOL ACTIVITY FUNDS
PENDLETON COUNTY HIGH SCHOOL
FOR THE YEAR ENDED JUNE 30, 2021

| | Cash Balance June 30, 2020 | Receipts | Disburse- ments | Cash Balance June 30, 2021 | Accounts Receivable (Accounts Payable) | Restricted Fund Balance June 30, 2021 |
|----------------------------------|-------------------------------------|-------------------|--------------------|-------------------------------------|---|--|
| General | \$ 7,781 | \$ 1,488 | \$ 262 | \$ 9,007 | \$ (93) | \$ 8,914 |
| No. KY Advisory Comm. | 574 | 200 | 774 | - | - | - |
| Charitable Gaming | 8,635 | - | 8,581 | 54 | - | 54 |
| Concessions | - | 14,304 | 8,378 | 5,926 | - | 5,926 |
| Doug Dawson Scholarship | 2,000 | - | 2,000 | - | - | - |
| Faculty/Gift | 60 | 29 | 89 | - | - | - |
| Guidance | 3,897 | 4,165 | 4,421 | 3,641 | - | 3,641 |
| PBIS/Student | - | 2,393 | 2,393 | - | - | - |
| PBIS/Staff | 179 | 2,437 | 1,223 | 1,393 | - | 1,393 |
| Special Ed | 323 | 45 | - | 368 | - | 368 |
| General - Staff | 1,232 | 466 | 551 | 1,147 | - | 1,147 |
| Start-Up Change | - | 1,100 | 1,100 | - | - | - |
| Athletic Banquets | - | 4,978 | 4,978 | - | - | - |
| Athletic Department | - | 7,046 | 7,046 | - | - | - |
| Athletic Programs | 737 | - | 664 | 73 | - | 73 |
| Athletic Trainer | - | 1,183 | 1,183 | - | - | - |
| Athletic Uniforms | 2 | - | - | 2 | - | 2 |
| Archery | 3,591 | 2,917 | 3,790 | 2,718 | - | 2,718 |
| Baseball | 8,940 | 12,729 | 13,997 | 7,672 | (90) | 7,582 |
| Boys Basketball | 4,090 | 26,369 | 15,209 | 15,250 | 8,183 | 23,433 |
| Girls Basketball | - | 18,945 | 12,752 | 6,193 | - | 6,193 |
| Bowling Team | 49 | 1,046 | 1,095 | - | - | - |
| Cheerleaders | 11 | 7,103 | 3,881 | 3,233 | 200 | 3,433 |
| Cross Country | 279 | 696 | 387 | 588 | - | 588 |
| Football | 12,159 | 7,900 | 9,184 | 10,875 | - | 10,875 |
| Boys Golf | - | 2,162 | 2,162 | - | - | - |
| Girls Golf | 1,407 | 1,696 | 2,833 | 270 | - | 270 |
| Boys Soccer | 1,854 | 4,846 | 4,537 | 2,163 | - | 2,163 |
| Girls Soccer | 4,921 | 4,030 | 5,053 | 3,898 | - | 3,898 |
| Softball | 6,387 | 8,796 | 10,721 | 4,462 | (35) | 4,427 |
| Tennis | 574 | - | 338 | 236 | - | 236 |
| Track | 684 | 331 | 1,015 | - | - | - |
| Volleyball | 1,840 | 3,695 | 2,697 | 2,838 | - | 2,838 |
| E-Sports | - | 1,992 | 1,992 | - | - | - |
| Academic Team | 1,355 | - | 467 | 888 | - | 888 |
| Art Club | 146 | - | - | 146 | - | 146 |
| CATS Club | 200 | - | - | 200 | - | 200 |
| Chess Club | 3 | - | - | 3 | - | 3 |
| DECA | 1,487 | 43 | 1,530 | - | - | - |
| Drama Club | 2,334 | 100 | 50 | 2,384 | - | 2,384 |
| FBLA | 605 | 1,191 | 321 | 1,475 | - | 1,475 |
| FCCLA Club | 3,731 | 3,053 | 1,941 | 4,843 | - | 4,843 |
| FFA | 6,697 | 2,413 | 2,329 | 6,781 | - | 6,781 |
| GT - theatre | 718 | - | 0 | 718 | - | 718 |
| Literary Magazine Club | 1,721 | - | - | 1,721 | - | 1,721 |
| National Honor Society | - | 1,211 | 1,211 | - | - | - |
| NJROTC Activity | 19,253 | 2,123 | 1,461 | 19,915 | - | 19,915 |
| Project Graduation | 6,521 | 10,174 | 16,695 | - | - | - |
| Prom | 1,059 | 4,725 | 4,784 | 1,000 | - | 1,000 |
| Scuba Club | 1,414 | 500 | - | 1,914 | - | 1,914 |
| Senior Council | 6,923 | 7,077 | 6,108 | 7,892 | (1,475) | 6,417 |
| Spanish Club | 4,152 | 3,000 | 4,622 | 2,530 | - | 2,530 |
| STLP | 247 | - | - | 247 | - | 247 |
| Student Council | 4,766 | 1,514 | 2,913 | 3,367 | (95) | 3,272 |
| TSA | 373 | - | - | 373 | - | 373 |
| Yearbook | 13,651 | 3,455 | 5,247 | 11,859 | - | 11,859 |
| Fellowship of Christian Students | 174 | - | - | 174 | - | 174 |
| Less: Inter-fund Transfers | - | (11,294) | (11,294) | - | - | - |
| | 149,736 | 174,372 | 173,671 | 150,437 | 6,595 | 157,032 |
| Effect of accruals | 587 | 7,846 | 1,838 | 6,595 | (6,595) | - |
| | <u>\$ 150,323</u> | <u>\$ 182,218</u> | <u>\$ 175,509</u> | <u>\$ 157,032</u> | <u>\$ -</u> | <u>\$ 157,032</u> |

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Passed Through to Subrecipients | Program or Award Amount | Expenditures |
|--|---------------------------|-------------------------------------|---------------------------------------|-------------------------------|------------------|
| <u>U.S. Department of Education</u> | | | | | |
| Passed through Kentucky Department of Education: | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002-18 | \$ - | \$ 634,459 | \$ 2,940 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002-19 | - | 602,597 | 219,398 |
| Title I Grants to Local Educational Agencies | 84.010 | 3100002-20 | - | 807,613 | 299,501 |
| | | | | | <u>521,839</u> |
| Special Education Cluster (IDEA): | | | | | |
| Special Education Grants to States - IDEA, Part B | 84.027 | 3810002-19 | - | 494,084 | 141,220 |
| Special Education Grants to States - IDEA, Part B | 84.027 | 3810002-20 | - | 412,215 | 304,094 |
| Special Education Grants to States - IDEA, Part B, Preschool | 84.173 | 3800002-19 | - | 43,854 | 7,407 |
| Special Education Grants to States - IDEA, Part B, Preschool | 84.173 | 3800002-20 | - | 43,872 | 13,877 |
| Total Special Education Cluster | | | | | <u>466,598</u> |
| Rural Education | 84.358 | 3140002-19 | - | 43,351 | 33,514 |
| Rural Education | 84.358 | 3140002-20 | - | 43,102 | 10,131 |
| | | | | | <u>43,645</u> |
| Improving Teacher Quality State Grants | 84.367 | 3230002-20 | - | 103,644 | 103,644 |
| | | | | | <u>103,644</u> |
| Vocational Education Basic Grants to States | 84.048 | 3710002-19 | - | 28,380 | 6,933 |
| Vocational Education Basic Grants to States | 84.048 | 3710002-20 | - | 26,675 | 21,821 |
| | | | | | <u>28,754</u> |
| 21st Century Community Learning Centers | 84.287C | 3400002-18 | - | 353,000 | 130,380 |
| 21st Century Community Learning Centers | 84.287C | 3400002-19 | - | 300,000 | 199,258 |
| | | | | | <u>329,638</u> |
| Title IV, Part A | 84.424 | 3420002-18 | - | 36,870 | 2,976 |
| Title IV Safe and Healthy Students | 84.424 | 3420002-19 | - | 38,267 | 7,140 |
| Title IV Safe and Healthy Students | 84.424 | 3420002-20 | - | 38,684 | 30,784 |
| | | | | | <u>40,900</u> |
| Covid-19 - Elementary and Secondary School Emergency Relief Fund | 84.425D | 554GD | - | 2,225,883 | 18,049 * |
| Covid-19 - Elementary and Secondary School Emergency Relief Fund | 84.425D | 4000002-20 | - | 416,803 | 302,706 * |
| Covid-19 - Elementary and Secondary School Emergency Relief Fund | 84.425C | GEER-20 | - | 70,545 | 70,545 * |
| | | | | | <u>391,300</u> |
| Passed through Council on Postsecondary Education: | | | | | |
| GEAR Up State Grants | 84.334S | 614F | - | 17,905 | 4,815 |
| GEAR Up State Grants | 84.334S | 614G | - | 13,105 | 2,517 |
| | | | | | <u>7,332</u> |
| Passed through Northern Kentucky Cooperative for Educational Services: | | | | | |
| Innovative Approaches to Literacy | 84.215G | 610F | - | 121,740 | 91,095 |
| Innovative Approaches to Literacy | 84.215G | 610G | - | 123,183 | 76,285 |
| | | | | | <u>167,380</u> |
| Total U.S. Department of Education | | | | | <u>2,101,030</u> |
| <u>U.S. Department of Treasury</u> | | | | | |
| Passed through Kentucky Department of Education: | | | | | |
| Coronavirus Relief Fund | 21.019 | CARES-20 | - | 16,043 | 13,590 * |
| Coronavirus Relief Fund | 21.019 | CARES-20 | - | 564,607 | 564,607 * |
| Total U.S. Department of Treasury | | | | | <u>578,197</u> |
| <u>U.S. Department of Agriculture</u> | | | | | |
| Passed through Kentucky Department of Education: | | | | | |
| Cash Assistance: | | | | | |
| State Administrative Expense | 10.560 | 7700001-20 | - | - | 5,701 |
| Child Nutrition Cluster: | | | | | |
| National School Lunch Program | 10.555 | 7750002-20 | - | - | 16,146 |
| National School Lunch Program | 10.555 | 7750002-21 | - | - | 932 |
| School Breakfast Program | 10.553 | 7760005-20 | - | - | 10,200 |
| Summer Feeding Program | 10.559 | 7690024-20 | - | - | 4,994 |
| Summer Feeding Program | 10.559 | 7690024-21 | - | - | 68,505 |

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2021**

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Passed Through to Subrecipients | Program or Award Amount | Expenditures |
|---|---------------------------|-------------------------------------|---------------------------------------|-------------------------------|---------------------|
| Summer Feeding Program | 10.559 | 7740023-20 | - | - | 48,664 |
| Summer Feeding Program | 10.559 | 7740023-21 | - | - | 666,339 |
| | | | | | <u>815,780</u> |
| Non-cash Assistance: | | | | | |
| Food Donation | 10.555 | 057502-02 | - | - | 38,395 |
| Total Child Nutrition Cluster | | | | | <u>854,175</u> |
| Total U.S. Department of Agriculture | | | | | <u>859,876</u> |
| <u>U.S. Department of Defense</u> | | | | | |
| Direct: | | | | | |
| Navy ROTC | 12.630 | 504G | - | 76,755 | 76,755 |
| Total U.S. Department of Defense | | | | | <u>76,755</u> |
| <u>U.S. Department of Justice</u> | | | | | |
| Direct: | | | | | |
| Community Policing Grants | 16.710 | 450G | - | 255,075 | 53,104 |
| Total U.S. Department of Justice | | | | | <u>53,104</u> |
| <u>U.S. Department of Health & Human Services</u> | | | | | |
| Direct: | | | | | |
| Drug Free Community Support | 93.276 | 1H79SP021421-01 | - | 250,000 | 93,747 |
| Pass-through State Department for Community Based Services: | | | | | |
| CARES - Child Care Development Fund | 93.575 | 658F | - | 39,950 | 20,693 |
| CARES - Child Care Development Fund | 93.575 | 672G | - | 131,760 | 5,519 |
| | | | | | <u>26,212</u> |
| Total U.S. Department of Health & Human Services | | | | | <u>119,959</u> |
| Total expenditures of Federal awards | | | | | <u>\$ 3,788,921</u> |

* Denotes major program.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Pendleton County School District under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the Pendleton County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State and Local Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2021, commodities on hand are included in the total inventory of \$43,938.


NOTE D - INDIRECT COST RATE

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



**Kelley Galloway
Smith Goolsby, PSC**

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Pendleton County School District
Falmouth, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County School District (the "District") as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 11, 2021.

Internal Control Over Financial Reporting

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

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

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

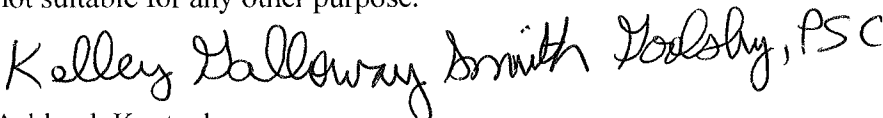
Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 11, 2021.

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.

Handwritten signature of Kelley Hallaway Smith Godshy, PSC.

Ashland, Kentucky
November 11, 2021

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Pendleton County School District
Falmouth, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Pendleton County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. Pendleton County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
November 11, 2021

**PENDLETON COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

(A) SUMMARY OF AUDIT RESULTS

Type of report the auditor issued on whether
the financial statements audited were prepared
in accordance with GAAP:

Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies)
identified? _____ yes x none reported

Noncompliance material to the financial
statements noted? _____ yes x no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes x no

Significant deficiency(ies)
identified? _____ yes x none reported

Type of audit auditor's report issued on
compliance for major federal programs:

Unmodified

Any audit findings disclosed that are
required to be reported in accordance
with 2 CFR 200.516(a)? _____ yes x no

Identification of major federal programs:

COVID-19 - Elementary and Secondary School Emergency Relief Fund (84.425C and 84.425D)

Coronavirus Relief Fund (21.019)

Dollar threshold to distinguish between Type A
and Type B Programs:

\$ 750,000

The District qualified as a low risk auditee? x yes _____ no

(B) FINANCIAL STATEMENT FINDINGS

None noted in the current year.

(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings in the current year.

PENDLETON COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2021

There were no findings in the prior year.



**Kelley Galloway
Smith Goolsby, PSC**

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Kentucky State Committee for School District Audits
Members of the Board of Education
Pendleton County School District
Falmouth, Kentucky

In planning and performing our audit of the financial statements of Pendleton County School District (the "District") as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comment and suggestion regarding these matters. This letter does not affect our report dated November 11, 2021, on the financial statements of the District.

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

Kelley Galloway Smith Goolsby, PSC

Ashland, Kentucky
November 11, 2021

PENDLETON COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINT
FOR THE YEAR ENDED JUNE 30, 2021

TICKET SALES RECONCILIATION:

Condition: We noted two instances at Pendleton County High School in which the ticket taker did not sign the ticket sales reconciliation form after collecting tickets for an event.

Criteria for Condition: The *Redbook*, updated effective August 1, 2019, requires the person in charge of sales, the ticket taker and the school treasurer to sign the requisition and report of ticket sales for all gate receipt events.

Cause of Condition: Unknown.

Effect of Condition: Noncompliance with *Redbook* requirements.

Recommendation for Correction: We recommend that the District implement procedures to ensure that all ticket sales include all required signatures as required by the *Redbook*.

Management Response: The site manager assigned to various events where tickets are used will obtain all necessary signatures, including the ticket taker's signature.

Status of Prior Year Management Points

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