

**MCCREARY COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2020**

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October 31, 2020

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
McCreary County School District
Stearns, Kentucky

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 McCreary County School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise McCreary County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of the district's proportionate share of net pension liabilities, and the schedules of the district's proportionate share of net other post-employment benefits on Pages 4 through 10, 56 through 59, and 62 through 64 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 McCreary County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2020, on our consideration of McCreary 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 McCreary County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering McCreary County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**MCCREARY COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

This discussion and analysis of McCreary County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$5.7 million. This reflects a decrease in cash from 2019 of \$0.9 million. The 2018-2019 fiscal year bond proceeds for the roof projects at McCreary Central High School and Pine Knot Elementary School Building #1 resulted in an influx in cash with the timing of the projects. This type of transaction did not occur in the 2019-2020 fiscal year, therefore, reducing the cash balance.
- The General Fund had an increase in fund balance of \$479 thousand for the year. The construction fund had a decrease in fund balance of approximately \$638 thousand for the year. This was a result of the closure of the roof projects at PKES Building #1 and MCHS.
- The Food Service Fund ended the school year with an increase in cash of \$513 thousand. This is the result of an awarded extension of the mobile summer feeding program to facilitate virtual learning and to provide assistance during COVID-19 stay at home orders. This program along with other feeding programs will be monitored closely throughout the duration of the pandemic.

USING THIS ANNUAL REPORT

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.

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

The statement of net position presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, 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. The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11 - 12 of this report.

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

The basic governmental fund financial statements can be found on pages 13 -21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position generally serves over times as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by approximately \$2.5 million as of June 30, 2020.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is 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 capital assets are inherently non-cash flow generating and cannot be used to liquidate these liabilities. The resources needed to repay this debt must be provided from other sources,

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

**Net Position for the periods ending June 30, 2020 and 2019
(Table 1)**

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Current and Other Assets	\$ 5,985,759	\$ 7,637,539	911,119	290,031	6,896,878	7,927,570
Capital Assets	<u>32,118,299</u>	<u>33,161,779</u>	<u>262,487</u>	<u>270,905</u>	<u>32,380,786</u>	<u>33,432,684</u>
Total Assets	<u>38,104,058</u>	<u>40,799,318</u>	<u>1,173,606</u>	<u>560,936</u>	<u>39,277,664</u>	<u>41,360,254</u>
Deferred Outflows	<u>4,391,884</u>	<u>4,058,851</u>	<u>167,333</u>	<u>154,880</u>	<u>4,559,217</u>	<u>4,213,731</u>
Current Liabilities	2,814,367	4,160,080	29,546	11,475	2,843,913	4,171,555
Non-Current Liabilities	<u>39,794,947</u>	<u>41,538,620</u>	<u>646,627</u>	<u>583,768</u>	<u>40,441,574</u>	<u>42,122,388</u>
Total Liabilities	<u>42,609,314</u>	<u>45,698,700</u>	<u>676,173</u>	<u>595,243</u>	<u>43,285,487</u>	<u>46,293,943</u>
Deferred Inflows	<u>2,371,176</u>	<u>2,059,417</u>	<u>71,007</u>	<u>66,388</u>	<u>2,442,183</u>	<u>2,125,805</u>
Net Position						
Investment in capital assets (net of debt)	9,263,731	8,258,381	262,487	270,905	9,526,218	8,529,286
Restricted	434,002	1,088,772	331,272	(216,750)	765,274	872,052
Unrestricted	<u>(12,182,281)</u>	<u>(12,247,101)</u>	<u>-</u>	<u>-</u>	<u>(12,182,281)</u>	<u>(12,247,101)</u>
Total Net Position	<u><u>(2,484,548)</u></u>	<u><u>(2,899,948)</u></u>	<u><u>593,759</u></u>	<u><u>54,155</u></u>	<u><u>(1,890,789)</u></u>	<u><u>(2,845,763)</u></u>

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2020, were \$35.8 million.
- General fund budgeted expenditures to actual varied significantly in benefits. This variance is caused by the state on-behalf payments of \$6,510,617 that are excluded from the budget.

**Summary of Changes in Net Position for the periods ending June 30, 2020 and 2019
(Table 2)**

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
REVENUES:	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for Services	1,984	-	52,017	59,544	54,001	59,544
Operating grants and contributions	5,371,191	5,111,910	3,537,215	2,345,620	8,908,406	7,457,530
Capital grants and contributions	406,086	186,302	-	-	406,086	186,302
General revenues:						
Property taxes	1,737,092	1,876,762	-	-	1,737,092	1,876,762
Motor vehicle taxes	364,886	338,356	-	-	364,886	338,356
Utility taxes	914,466	767,908	-	-	914,466	767,908
Other taxes	82,304	83,171	-	-	82,304	83,171
Investment earnings	155,102	176,888	5,838	3,841	160,940	180,729
State and formal grants	22,798,683	23,444,264	-	-	22,798,683	23,444,264
Gain (loss) on asset disposal	(5,979)	2,599	-	(3,115)	(5,979)	(516)
Miscellaneous	540,038	391,581	-	-	540,038	391,581
Total Revenues	32,365,853	32,379,741	3,595,070	2,405,890	35,960,923	34,785,631
EXPENSES:						
Program Activities:						
Instruction	18,478,738	19,972,538	-	-	18,478,738	19,972,538
Student Support	2,103,310	1,771,790	-	-	2,103,310	1,771,790
Instructional staff support	581,363	590,752	-	-	581,363	590,752
District administrative support	1,139,787	804,289	-	-	1,139,787	804,289
School administrative support	1,603,428	1,537,368	-	-	1,603,428	1,537,368
Business support	1,004,648	1,030,793	-	-	1,004,648	1,030,793
Plant operation and maintenance	3,345,244	3,036,840	-	-	3,345,244	3,036,840
Student transportation	2,599,072	1,784,946	-	-	2,599,072	1,784,946
Facilities acquisition	-	33,560	-	-	-	33,560
Community service activities	301,581	361,564	-	-	301,581	361,564
Interest cost	793,282	689,570	-	-	793,282	689,570
Food Service	-	-	2,919,120	2,283,217	2,919,120	2,283,217
Miscellaneous	-	-	136,376	116,440	136,376	116,440
Total Expenses	31,950,453	31,614,010	3,055,496	2,399,657	35,005,949	34,013,667
Change in Net Position	415,400	765,731	539,574	6,233	954,974	771,964

Governmental Activities

Instruction comprises 58% of governmental program expenditures. Support services expense are 38% of governmental expenditures. Interest and other are 4% of governmental expenditures.

The Statement of Activities shows the cost of program services and the offsetting revenues for those services, including charges for services and grant revenue. Table 3 shows for governmental activities, the total cost of services by category. That is, it identifies the cost of these services supported by tax revenue as well as restricted and unrestricted State entitlements.

**Cost of Governmental Activities
(Table 3)**

	Total Cost of Services	
	2020	2019
Instruction	18,478,738	19,972,538
Support Services	12,376,852	10,556,778
Other	301,581	395,124
Interest Costs	793,282	689,570
Total Expenses	31,950,453	31,614,010

Business-Type Activities

The business-type activities are made up entirely of the food service operation. This program had total revenue of \$3,595,070 and expenses of \$3,055,496 for fiscal year 2020. Of the revenues, \$52,017 was charges for services and \$3,537,215 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$34.4 million and expenditures and other financing uses of \$34.6 million.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense. It is the District's practice to exclude state on-behalf payments from the budget.

Capital Assets

As of 06/30/2020, the School District had \$32.3 million invested in property, plant, and equipment, net of accumulated depreciation. Of this total, \$32.1 million were in governmental activities. Table 4 shows fiscal year 2020 and 2019 balances.

**Capital Assets at June 30, 2020 and 2019
Net of Depreciation
(Table 4)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Land	744,437	744,437	-	-	744,437	744,437
Buildings and improvements	29,872,833	29,328,432	13,416	16,702	29,886,249	29,345,134
Technology	1,682	16,260	-	-	1,682	16,260
Vehicles	1,295,728	1,537,617	-	-	1,295,728	1,537,617
General equipment	203,619	251,892	249,070	254,203	452,689	506,095
Total	32,118,299	31,878,638	262,486	270,905	32,380,785	32,149,543
Construction in progress	-	1,283,141	-	-	-	1,283,141
Total	32,118,299	33,161,779	262,486	270,905	32,380,785	33,432,684

**Changes in Capital Assets for the periods ended June 30, 2020 and 2019
(Table 5)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2020	2019	2020	2019	2020	2019
Beginning Balance	33,161,779	33,035,088	270,905	227,534	33,432,684	33,262,622
Additions	909,491	2,356,673	23,124	81,860	932,615	2,438,533
Retirements	(5,979)	(8,573)	-	(3,116)	(5,979)	(11,689)
Depreciation	(1,946,992)	(2,221,409)	(31,543)	(35,373)	(1,978,535)	(2,256,782)
Ending Balance	32,118,299	33,161,779	262,486	270,905	32,380,785	33,432,684

Debt

At June 30, 2020, the School District had \$26,746,362 in bonds outstanding (including interest); of this amount \$17,990,617 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$2,531,006 is due within one year.

District Challenges for the Future

The McCreary County School District continues to be financially sound, however, the current state and national financial climate requires the District to remain prudent. The District is required to provide financial support for unfunded mandates imposed by the state and federal government, along with the state administered employee pension plans that continue to be underfunded. This has placed a large possible future liability on all Kentucky School Districts.

On January 30, 2020, a novel strain of coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization. The future operations and results of the District could be affected, the extent of which could depend on future developments and state and federal assistance. The District will continue to monitor and follow the mandates and guidelines provided by the state and federal government throughout the entirety of the pandemic.

McCreary County Schools will continue to use careful planning and monitoring of finances to provide a quality education for students and a secure financial future for the school district.

Future Budgetary Implications

In Kentucky, the public schools' fiscal year is July 1 – June 30. Other entities may operate on a different fiscal calendar but their programs are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District has adopted a policy for their contingency to be a minimum of 5%. The district budget for 2020 – 2021 was set for greater than the minimum district policy of five percent.

Contacting the School District's Financial Management

This financial report is designed to provide all stakeholders with a general overview of the School District's finances and to show the School District's accountability for the funding it receives. If you have any questions or need additional information, please contact the McCreary County Schools Department of Finance, 120 Raider Way, Stearns, Kentucky, 42647, (606) 376-2591.

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2020

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	5,028,909	708,466	5,737,375
Accounts Receivable:			
Taxes - Current	106,152		106,152
Taxes - Delinquent	20,607		20,607
Accounts	51,698	141,920	193,618
Intergovernmental - State	216,704		216,704
Intergovernmental - Federal	561,689		561,689
Inventories for Consumption		60,733	60,733
Total Current Assets	5,985,759	911,119	6,896,878
Noncurrent Assets - Note F			
Land	744,437		744,437
Buildings & Improvements	60,147,332	23,000	60,170,332
Furniture & Equipment	5,780,419	798,117	6,578,536
Less: Accumulated Depreciation	(34,553,889)	(558,630)	(35,112,519)
Total Noncurrent Assets	32,118,299	262,487	32,380,786
TOTAL ASSETS	38,104,058	1,173,606	39,277,664
Deferred Outflows Related to Pensions	2,350,159	117,215	2,467,374
Deferred Outflows Related to Other Post Employment Benefits	1,520,483	50,118	1,570,601
Deferred Outflows Related to Advanced Bond Refundings	521,242		521,242
TOTAL DEFERRED OUTFLOWS	4,391,884	167,333	4,559,217
TOTAL ASSETS AND DEFERRED OUTFLOWS	42,495,942	1,340,939	43,836,881
LIABILITIES:			
Current Liabilities:			
Accounts Payable	102,068	29,546	131,614
Accrued Salaries & Sick Leave - Note A	95,392		95,392
Advances from Grantors	326,380		326,380
Unearned Receivables	608		608
KSBIT Assessment - Note R	36,850		36,850
Bond Obligations - Note D	1,950,000		1,950,000
Capital Lease Obligation - Note E	172,236		172,236
Accrued Interest Payable	130,833		130,833
Total Current Liabilities	2,814,367	29,546	2,843,913
Noncurrent Liabilities:			
Bond Obligations - Note D	19,694,508		19,694,508
Capital Lease Obligation - Note E	1,037,824		1,037,824
KSBIT Assessment - Note R	393,436		393,436
Net Pension Liability	10,498,875	521,554	11,020,429
Net Other Post Employment Benefits Liability	7,761,794	125,073	7,886,867
Accrued Sick Leave - Note A	408,510		408,510
Total Noncurrent Liabilities	39,794,947	646,627	40,441,574
TOTAL LIABILITIES	42,609,314	676,173	43,285,487
Deferred Inflows Related to Other Post Employment Benefits	1,889,072	46,875	1,935,947
Deferred Inflows Related to Pensions	482,104	24,132	506,236
TOTAL DEFERRED INFLOWS	2,371,176	71,007	2,442,183
TOTAL LIABILITIES AND DEFERRED INFLOWS	44,980,490	747,180	45,727,670
NET POSITION:			
Net Investment in Capital Assets	9,263,731	262,487	9,526,218
Restricted for:			
Capital Projects	363,422		363,422
SFCC Escrow	15,583		15,583
Student Activities	54,997		54,997
Food Service		331,272	331,272
Unrestricted	(12,182,281)		(12,182,281)
TOTAL NET POSITION	(2,484,548)	593,759	(1,890,789)
TOTAL LIABILITIES AND NET POSITION	42,495,942	1,340,939	43,836,881

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES
GOVERNMENTAL ACTIVITIES:						
Instructional	18,478,738	1,984	4,809,337		(13,667,417)	(13,667,417)
Support Services:						
Student Support Services	2,103,310		84,293		(2,019,017)	(2,019,017)
Staff Support Services	581,363		124,254		(457,109)	(457,109)
District Administration	1,139,787				(1,139,787)	(1,139,787)
School Administration	1,603,428				(1,603,428)	(1,603,428)
Business Support Services	1,004,648				(1,004,648)	(1,004,648)
Plant Operation & Maintenance	3,345,244		10,730		(3,334,514)	(3,334,514)
Student Transportation	2,599,072		18,485		(2,580,587)	(2,580,587)
Community Service Operations	301,581		324,092		22,511	22,511
Interest on Long-Term Debt	793,282			406,086	(387,196)	(387,196)
TOTAL GOVERNMENTAL ACTIVITIES	31,950,453	1,984	5,371,191	406,086	(26,171,192)	(26,171,192)
BUSINESS-TYPE ACTIVITIES:						
Food Service	2,919,120	52,017	3,537,215		670,112	670,112
TOTAL BUSINESS-TYPE ACTIVITIES	2,919,120	52,017	3,537,215	0	670,112	670,112
TOTAL SCHOOL DISTRICT	34,869,573	54,001	8,908,406	406,086	(26,171,192)	(25,501,080)
GENERAL REVENUES:						
Taxes:						
Property					1,737,092	1,737,092
Motor Vehicle					364,886	364,886
Utility					914,466	914,466
Other					82,304	82,304
State Aid - Formula Grants					22,798,683	22,798,683
Investment Earnings					155,102	5,838
Miscellaneous					403,662	403,662
Funds Transfer (Expense)					136,376	(136,376)
Gain(Loss) Sale of Assets					(5,979)	(5,979)
TOTAL GENERAL REVENUES & TRANSFERS					26,586,592	(130,538)
CHANGE IN NET POSITION					415,400	539,574
NET POSITION - BEGINNING					(2,899,948)	(2,845,763)
NET POSITION - ENDING					(2,484,548)	(1,890,789)

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

McCREARY COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	4,579,345		378,376	71,188	5,028,909
Accounts Receivable:					
Taxes - Current	106,152				106,152
Taxes - Delinquent	20,607				20,607
Accounts	51,698				51,698
Interfund Receivable - Note O	440,493				440,493
Intergovernmental - State		216,704			216,704
Intergovernmental - Federal		561,689			561,689
TOTAL ASSETS	<u>5,198,295</u>	<u>778,393</u>	<u>378,376</u>	<u>71,188</u>	<u>6,426,252</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	75,594	11,520	14,954		102,068
Accrued Salaries & Benefits	17,843				17,843
Interfund Payable - Note O		440,493			440,493
Unearned Revenue				608	608
Advances from Grantors		326,380			326,380
Total Liabilities	<u>93,437</u>	<u>778,393</u>	<u>14,954</u>	<u>608</u>	<u>887,392</u>
Fund Balance:					
Restricted for:					
Student Activities				54,997	54,997
Capital Projects			363,422		363,422
SFCC Escrow				15,583	15,583
Committed For:					
Accrued Sick Leave	77,549				77,549
Assigned for:					
Purchase Obligations	665,164				665,164
Unassigned	4,362,145				4,362,145
Total Fund Balance	<u>5,104,858</u>	<u>0</u>	<u>363,422</u>	<u>70,580</u>	<u>5,538,860</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>5,198,295</u>	<u>778,393</u>	<u>378,376</u>	<u>71,188</u>	<u>6,426,252</u>

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

McCREARY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

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

TOTAL GOVERNMENTAL FUND BALANCE		5,538,860
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	66,672,188	
Accumulated Depreciation	<u>(34,553,889)</u>	32,118,299
Deferred Outflows Related to Bond Refundings are not current assets and therefore are not reported as assets in governmental funds.		521,242
Deferred Outflows Related to Pensions are not current assets and therefore are not reported as assets in governmental funds.		2,350,159
Deferred Outflows Related to Other Post Employment Benefits are not current assets and therefore are not reported as assets in governmental funds.		1,520,483
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(21,945,000)	
Unamortized Bond Premium	(22,494)	
Unamortized Bond Discounts	322,986	
Capital Lease Obligation	(1,210,060)	
Accrued Interest on Bonds	(130,833)	
KSBIT Assessment	(430,286)	
Net Pension Liability	(10,498,875)	
Net Other Post Employment Benefits Liability	(7,761,794)	
Accrued Sick Leave	<u>(486,059)</u>	(42,162,415)
Deferred Inflows Related to Other Post Employment Benefits are not current liabilities and therefore are not reported as liabilities in governmental funds.		(1,889,072)
Deferred Inflows Related to Pensions are not current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(482,104)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>(2,484,548)</u></u>

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	1,470,307			266,785	1,737,092
Motor Vehicle	364,886				364,886
Utility	914,466				914,466
Other	82,304				82,304
Earnings on Investments	148,043		6,025	1,034	155,102
Intergovernmental - State	21,229,946	1,759,155		1,974,823	24,963,924
Intergovernmental - Federal	432,701	3,179,335			3,612,036
Other Sources	370,955	20,515		14,176	405,646
TOTAL REVENUES	25,013,608	4,959,005	6,025	2,256,818	32,235,456
EXPENDITURES:					
Instructional	13,002,828	4,475,289		3,747	17,481,864
Support Services:					
Student Support Services	1,878,295	78,438			1,956,733
Staff Support Services	445,185	115,624			560,809
District Administration	1,096,755				1,096,755
School Administration	1,528,363				1,528,363
Business Support Services	964,031				964,031
Plant Operation & Maintenance	2,688,279	9,985			2,698,264
Student Transportation	2,311,899	17,201			2,329,100
Community Service Operations		301,581			301,581
Facilities Acquisition & Construction			869,157		869,157
Debt Service:					
Principal				2,105,852	2,105,852
Interest				669,370	669,370
TOTAL EXPENDITURES	23,915,635	4,998,118	869,157	2,778,969	32,561,879
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	1,097,973	(39,113)	(863,132)	(522,151)	(326,423)
OTHER FINANCING SOURCES(USES):					
Operating Transfers In - Note N	136,376	39,113	224,856	1,758,753	2,159,098
Operating Transfers Out - Note N	(755,280)			(1,267,442)	(2,022,722)
TOTAL OTHER FINANCING SOURCES	(618,904)	39,113	224,856	491,311	136,376
NET CHANGE IN FUND BALANCES	479,069	0	(638,276)	(30,840)	(190,047)
FUND BALANCES - BEGINNING	4,625,789	0	1,001,698	101,420	5,728,907
FUND BALANCES - ENDING	5,104,858	0	363,422	70,580	5,538,860

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

McCREARY 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, 2020

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

NET CHANGES - GOVERNMENTAL FUNDS		(190,047)
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(1,946,992)	
Capital Outlays	<u>909,490</u>	
		(1,037,502)
<p>Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		2,105,852
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Amortization -Deferred Outflows from Advanced Bond Refundings	(63,036)	
Amortization - Bond Premiums	7,498	
Amortization - Bond Discounts	(28,608)	
District Pension Contributions	836,985	
Cost of Benefits Earned Net of Employee Contributions	(1,858,585)	
Accrued Interest Payable	(39,766)	
District Other Post Employment Benefits Contributions	582,253	
Cost of Benefits Earned Net of Employee Contributions - OPEB	151,090	
Accrued Sick Leave	<u>(44,755)</u>	
		(456,924)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Loss - Sale of Assets		<u>(5,979)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>415,400</u></u>

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020

	FOOD SERVICE
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	708,466
Accounts Receivables	141,920
Inventories for Consumption	60,733
Total Current Assets	911,119
Noncurrent Assets:	
Buildings & Building Improvements	23,000
Furniture & Equipment	798,117
Less: Accumulated Depreciation	(558,630)
Total Noncurrent Assets	262,487
TOTAL ASSETS	1,173,606
Deferred Outflows Related to Other Post Employment Benefits	50,118
Deferred Outflows Related to Pensions	117,215
TOTAL ASSETS AND DEFERRED OUTFLOWS	1,340,939
LIABILITIES:	
Current Liabilities:	
Account Payable	29,546
Total Current Liabilities	29,546
Noncurrent Liabilities:	
Net Other Post Employment Benefits Liability	125,073
Net Pension Liability	521,554
Total Noncurrent Liabilities	646,627
TOTAL LIABILITIES	676,173
Deferred Inflows Related to Other Post Employment Benefits	46,875
Deferred Inflows Related to Pensions	24,132
TOTAL LIABILITIES AND DEFERRED INFLOWS	747,180
Net Position:	
Net Investment in Capital Assets	262,487
Restricted	331,272
Total Net Position	593,759
TOTAL LIABILITIES AND NET POSITION	1,340,939

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	FOOD SERVICE
OPERATING REVENUES:	
Lunchroom Sales	24,186
Other Operating Revenues	27,831
TOTAL OPERATING REVENUES	52,017
OPERATING EXPENSES:	
Salaries & Benefits	1,420,506
Contract Services	45,467
Materials & Supplies	1,407,936
Depreciation - Note F	31,543
Other Operating Expenses	13,668
TOTAL OPERATING EXPENSES	2,919,120
OPERATING INCOME(LOSS)	(2,867,103)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	3,067,566
State Grants	371,761
Donated Commodities	97,888
Interest Income	5,838
Transfer Out to General Fund	(136,376)
TOTAL NONOPERATING REVENUE	3,406,677
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	539,574
CAPITAL CONTRIBUTIONS	0
CHANGE IN NET POSITION	539,574
NET POSITION - BEGINNING	54,185
TOTAL NET POSITION - ENDING	593,759

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	24,186
Other Activities	27,831
Cash Paid to/for:	
Employees	(1,011,693)
Supplies	(1,265,590)
Other Activities	(59,135)
Net Cash Used by Operating Activities	(2,284,401)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer out to General Fund	(136,376)
Federal Grants	2,933,613
State Grants	17,972
Net Cash Provided by Non-Capital and Related Financing Activities	2,815,209
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
	0
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Fixed Assets	(23,124)
Receipt of Interest Income	5,838
Net Cash Provided (Used) by Investing Activities	(17,286)
Net Increase (Decrease) in Cash and Cash Equivalents	513,522
Balances, Beginning of Year	194,944
Balances, End of Year	708,466
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(2,867,103)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	31,543
State On-Behalf Payments	353,789
Donated Commodities	97,888
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Deferred Outflows	(12,453)
Deferred Inflows	4,619
Net Pension Liability	69,696
Net Other Post Employment Benefits	(6,837)
Inventory	26,386
Accounts Payable	18,071
Net Cash Used by Operating Activities	(2,284,401)
Schedule of Non-Cash Transactions:	
Donated Commodities	97,888
State On-Behalf Payments	353,789

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2020

	AGENCY FUND	SCHOLARSHIP FUND
ASSETS:		
Cash and Cash Equivalents	227,210	84,143
TOTAL ASSETS	227,210	84,143
LIABILITIES:		
Accounts Payable		11,728
Due to Student Groups	227,210	
TOTAL LIABILITIES	227,210	11,728
NET POSITION HELD IN TRUST	0	72,415

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
ADDITIONS:	
Earnings on Investements	83
DEDUCTIONS:	
Loss in Investments	
Benefits Paid	<u>11,728</u>
Changes in Net Position	(11,645)
NET POSITION HELD IN TRUST - BEGINNING OF YEAR	<u>84,060</u>
NET POSITION HELD IN TRUST - END OF YEAR	<u><u>72,415</u></u>

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

McCreary County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the McCreary 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.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource is required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2020, to finance the General Fund operations were \$0.404 per \$100 valuation for real property, \$0.412 per \$100 valuation for business personal property, and \$0.467 per \$100 valuation for motor vehicles.

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

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

Budgetary Process

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

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

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

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

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

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

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	77,549	Long-Term Sick Leave Commitment

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

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

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

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interfund Activity

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

Pensions

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

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

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

Postemployment Benefits Other Than Pensions

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

County Employees Retirement System - For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System of the State of Kentucky (CERS) and

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

additions to/deductions from CERS’s fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

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

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$6,048,728. Of the total cash balance, \$334,143 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 maturity of 90 days or less.

Cash and cash equivalents at June 30, 2020, consisted of the following:

	Bank Balance	Book Balance
United Cumberland Bank	8,561,304	5,964,585
Hamburg Financial Group	<u>84,143</u>	<u>84,143</u>
Total	<u>8,645,447</u>	<u>6,048,728</u>
Breakdown per financial statements:		
Governmental Funds		5,028,909
Proprietary Funds		<u>708,466</u>
Cash per Statement of Net Position		5,737,375
Fiduciary Funds		84,143
Agency Funds		<u>227,210</u>
Total Cash		<u>6,048,728</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the McCreary County School District Finance Corporation in the original amount aggregating \$28,790,000.

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

2012 Refunding	6,780,000	1.000% - 2.500%
2015	955,000	2.250% - 3.500%
2016 Refunding	1,510,000	2.000% - 3.000%
2016 Energy	9,045,000	2.000% - 3.000%
2016 Refunding	8,360,000	2.000% - 3.000%
2019	2,140,000	3.000% - 3.500%

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

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2020, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2020-21	1,950,000	581,006	1,434,762	1,096,244
2021-22	2,015,000	539,469	1,454,714	1,099,755
2022-23	2,080,000	494,287	1,475,561	1,098,726
2023-24	1,425,000	447,675	1,212,948	659,727
2024-25	1,475,000	415,887	1,235,698	655,189
2025-26	1,535,000	381,956	1,259,501	657,455
2026-27	1,595,000	344,075	1,284,383	654,692
2027-28	1,665,000	298,994	1,310,392	653,602
2028-29	765,000	251,094	796,929	219,165
2029-30	815,000	227,894	825,351	217,543
2030-31	870,000	203,106	855,064	218,042
2031-32	930,000	176,731	886,127	220,604
2032-33	990,000	148,469	918,605	219,864
2033-34	1,055,000	118,469	952,561	220,908
2034-35	1,120,000	86,181	988,070	218,111
2035-36	1,180,000	52,119	1,011,968	220,151
2036-37	155,000	16,800	29,328	142,472
2037-38	160,000	11,375	29,327	142,048
2038-39	165,000	5,775	29,328	141,447
	<u>21,945,000</u>	<u>4,801,362</u>	<u>17,990,617</u>	<u>8,755,745</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	23,840,000	0	1,895,000	21,945,000	1,950,000
Add: Bond Premium	29,992	0	7,498	22,494	7,498
Less: Bond Discount	<u>(351,594)</u>	<u>0</u>	<u>(28,608)</u>	<u>(322,986)</u>	<u>(28,608)</u>
Net Revenue Bonds Payable	23,518,398	0	1,873,890	21,644,508	1,928,890
Capital Lease Obligations	1,385,000	0	174,940	1,210,060	172,236
KSBIT Assessment	466,197	0	35,911	430,286	36,850
Net Pension Liability	9,085,681	1,413,194	0	10,498,875	0
Net OPEB Liability	8,802,421	0	1,040,627	7,761,794	0
Accrued Sick Leave	<u>441,304</u>	<u>50,603</u>	<u>5,397</u>	<u>486,510</u>	<u>77,549</u>
Total Governmental					
Activities:	<u>43,699,001</u>	<u>1,463,797</u>	<u>3,130,765</u>	<u>42,032,033</u>	<u>2,215,525</u>
Proprietary Activities:					
Net Pension Liability	451,858	69,696	0	521,554	0
Net OPEB Liability	<u>131,910</u>	<u>0</u>	<u>6,837</u>	<u>125,073</u>	<u>0</u>
Total Long-Term					
Liabilities:	<u>44,282,769</u>	<u>1,533,493</u>	<u>3,137,602</u>	<u>44,678,660</u>	<u>2,215,525</u>

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2029. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2020.

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

<u>Classes of Property</u>	<u>Book Value as of June 30, 2020</u>
Buses	1,735,517
Accumulated Amortization	<u>(511,205)</u>
	<u>1,224,312</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2020:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2021	204,727
2022	199,401
2023	199,387
2024	194,862
2025	188,033
2026-2029	<u>360,875</u>
Net minimum lease payments	1,347,285
Amount representing interest	<u>(137,225)</u>
Present value of net minimum lease payments	<u>1,210,060</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Interest rates on capitalized leases vary from 1.000% to 3.000%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	744,437			744,437
Construction	1,283,141	(1,283,141)		-
Depreciable Assets:				
Buildings & Building Improvements	57,995,033	2,152,299		60,147,332
Technology Equipment	143,618			143,618
Vehicles	4,845,660			4,845,660
General Equipment	756,808	40,333	6,000	791,141
TOTAL AT HISTORICAL COST	65,768,697	909,491	6,000	66,672,188
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	28,666,601	1,607,898		30,274,499
Technology Equipment	127,358	14,578		141,936
Vehicles	3,308,043	241,889		3,549,932
General Equipment	504,916	82,627	21	587,522
TOTAL ACCUMULATED DEPRECIATION	32,606,918	1,946,992	21	34,553,889
GOVERNMENTAL ACTIVITIES CAPITAL NET	33,161,779	(1,037,501)	(5,979)	32,118,299
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Buildings & Building Improvements	23,000			23,000
General Equipment	774,993	23,124		798,117
TOTALS AT HISTORICAL COST	797,993	23,124	-	821,117
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	6,298	3,286		9,584
General Equipment	520,789	28,257		549,046
TOTAL ACCUMULATED DEPRECIATION	527,087	31,543	-	558,630
PROPRIETARY ACTIVITIES CAPITAL NET	270,906	(8,419)	-	262,487
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,074,877
Student Support Services				54,715
District Administration				18,835
School Administration				2,464
Plant Operation & Maintenance				572,327
Student Transportation				223,774
TOTAL				1,946,992

NOTE G – RETIREMENT PLANS

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

General information about the Teachers’ Retirement System of the State of Kentucky (“TRS”)

Plan description—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers’ Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. TRS issues a publicly available financial report that can be obtained at http://www.TRS.ky.gov/05_publications/index.htm.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

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

Medical Insurance Plan

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

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

Funding policy—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

At June 30, 2020, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 11,020,429
Commonwealth's proportional share of the TRS net pension liability associated with the District	<u>45,930,244</u>
	<u>\$ 56,950,673</u>

The net pension liability for each plan was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2019, the District's proportion was 0.156695% percent.

For the year ended June 30, 2020, the District recognized pension expense of \$1,908,969 related to CERS and \$3,456,510 related to TRS. The District also recognized revenue of \$3,456,510 for TRS support provided by the Commonwealth. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 281,385	\$ 46,564
Changes of assumptions	1,115,393	-
Net difference between projected and actual earnings on pension plan investments	211,549	389,203
Changes in proportion and differences between District contributions and proportionate share of contributions	22,062	70,469
District contributions subsequent to the measurement date	<u>836,985</u>	<u>-</u>
Total	<u>\$ 2,467,374</u>	<u>\$ 506,236</u>

\$836,985 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

<u>Year ended June 30:</u>	
2021	732,664
2022	263,819
2023	115,065
2024	12,605
2025	-

Actuarial assumptions—The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers' Retirement System (TRS)

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	25.4 years
Asset Valuation Method	5-year smoothed market
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Projected salary increases	3.5-7.3%, includes inflation
Cost of living adjustments	1.50% annually
Inflation rate	3.0-3.5%

County Employees' Retirement System (CERS)

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008-June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, closed
Remaining Amortization Period	26 years
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets if recognized
Payroll Growth Rate	2.0%
Investment rate of return	6.25%, net of pension plan investment expenses, including inflation
Projected salary increases	3.3 to 11.5% average, includes inflation
Inflation rate	2.30%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2015.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40.00%	4.20%
International Equity	22.00%	5.20%
Fixed Income	15.00%	1.20%
Additional Categories	7.00%	3.20%
Real Estate	7.00%	3.80%
Private Equity	7.00%	6.3%
Cash	2.0%	.9%
Total	100.0%	

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
U.S. Equity	18.75%	4.30%
Non-U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.0%	4.10%
Total	100.0%	

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

For TRS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	13,783,431	11,020,429	8,717,494
TRS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	0	0	0

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

NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Teachers’ Retirement System of Kentucky

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

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

Medical Insurance Plan

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

At June 30, 2020, the McCreary County District reported a liability of \$5,252,000 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, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District’s proportion was .1795 percent, compared to .1774 percent at June 30, 2018.

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	\$ 5,252,000
State’s proportionate share of the net OPEB liability associated with the District	<u>4,241,000</u>
Total	<u>\$ 9,493,000</u>

For the year ended June 30, 2020, the District recognized OPEB expense of \$103,519 and revenue of \$256,501 for support provided by the State. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 703,180
Changes of assumptions	12,171	-
Net difference between projected and actual earnings on pension plan investments	77,455	-
Changes in proportion and differences between District contributions and proportionate share of contributions	35,408	236,791
District contributions subsequent to the measurement date	<u>385,528</u>	<u>-</u>
Total	<u>510,562</u>	<u>939,971</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$385,528 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2021	\$ (160,996)
2022	(160,996)
2023	(154,910)
2024	(156,016)
2025	(118,949)
Thereafter	(63,070)

Actuarial assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.5% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.5% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation.

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

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	6.5%	3.8%
Private Equity	8.5%	6.3%
Additional Categories	17.0%	3.2%
Cash	1.0%	0.9%
Total	<u>100.0%</u>	

Discount rate - The discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
TRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	6,222,000	5,252,000	4,440,000

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:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of net OPEB liability	4,275,000	5,252,000	6,453,000

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.

At June 30, 2020, the Kentucky School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s proportionate share of the net OPEB liability	-0-
State’s proportionate share of the net OPEB liability associated with the District	<u>99,000</u>
Total	<u>\$ 99,000</u>

Actuarial assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.5-7.45%, including inflation
Inflation rate	3.5%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.50%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB plan investment expense, including inflation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

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

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

<u>Asset Class*</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity	40.0%	4.2%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Additional Categories	6.0%	3.2%
Cash	2.0%	0.9%
Total	<u>100.0%</u>	

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

County Employees' Retirement System of Kentucky

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

The state reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the CERS Medical Insurance. The following information is about the CERS plans:

Medical Insurance Plan

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions – In order to fund the post-retirement healthcare benefit, four and seventy-six one hundred percent (4.76%) of the gross annual payroll of members is contributed for the year ended June 30, 2020 for CERS Non-Hazardous, which is the portion of the plan applicable to the District, and this portion is paid 100% paid by employer contributions. One percent (1.00%) is contributed by employees hired on or after September 1, 2008.

At June 30, 2020, the McCreary County District reported a liability of \$2,634,867 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, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District’s proportion was .156655 percent, compared to .156596 percent at June 30, 2018.

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	\$ 2,634,867
State’s proportionate share of the net OPEB liability associated with the District	<u>-0-</u>
Total	<u>\$ 2,634,867</u>

For the year ended June 30, 2020, the District recognized OPEB expense of \$223,273. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 795,000
Changes of assumptions	779,681	5,214
Net difference between projected and actual earnings on pension plan investments	17,356	134,385
Changes in proportion and differences between District contributions and proportionate share of contributions	-	61,377
District contributions subsequent to the measurement date	<u>263,002</u>	<u>-</u>
Total	<u>1,060,039</u>	<u>995,976</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$263,002 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2021	\$ (33,861)
2022	(33,861)
2023	3,348
2024	(67,898)
2025	(57,105)
Thereafter	(9,562)

Actuarial assumptions – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008-June 30 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	26 Years, Closed
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	6.25%
Projected salary increases	3.05% to 11.55%, varies by service
Inflation rate	2.30%
Payroll Growth Rate	2.00%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Ages 65 and Older	Initial trend starting at 5.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table Projected with Scale BB to 2013 (Set-back for one year for females) For Disabled members, the RP-2000 Combined Disability Mortality Table projected with Scale BB to 2013(set back four years for males) is used for period after disability retirement.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Growth	62.50%	
U.S. Equity	18.75%	4.30%
Non-U.S. Equity	18.75%	4.80%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	2.60%
Liquidity	14.50%	
Core Bonds	13.50%	1.35%
Cash	1.00%	0.20%
Diversifying Strategies	23.00%	
Real Estate	5.00%	4.85%
Opportunistic	3.00%	2.97%
Real Return	15.0%	4.10%
Total	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 5.68%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68%, 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 (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.68%	5.68%	6.68%
District's proportionate share of net OPEB liability	3,529,637	2,634,867	1,897,635

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:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Systems' net pension liability	1,959,564	2,634,867	3,453,751

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

NOTE I – CONTINGENCIES

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

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

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

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.

NOTE L – DEFICIT OPERATING BALANCES

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

Special Revenue Fund	39,113
Construction Fund	863,132
Debt Service Fund	1,801,056

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE M – COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	39,113
Operating	General	Construction	Construction	224,856
Operating	Capital Outlay	Debt Service	Debt Service	245,153
Operating	Building	Debt Service	Debt Service	1,022,289
Operating	General	Debt Service	Debt Service	<u>491,311</u>
		Subtotal Governmental Funds Transferred		2,022,722
Operating	Food Service	General Fund	Indirect Costs	<u>136,376</u>
		Total Transferred Funds		2,159,098

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$440,493

The interfund payables/receivables represent temporary financing that will be repaid within one year.

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 31, 2020. There are no material subsequent events to disclose.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2020, \$7,838,571 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$3,456,510
Teachers Retirement System (GASB 75)	256,501
Health Insurance	3,184,716
Life Insurance	5,258
Administrative Fee	43,466
HRA/Dental/Vision	128,975
Federal Reimbursement	(309,934)
Technology	98,913
SFCC Debt Service Payments	<u>974,166</u>
Total	<u>\$7,838,571</u>

NOTE R – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2020, McCreary County School District's remaining assessment is valued at \$430,286. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2021	36,850	14,854	51,704
2022	37,972	13,731	51,703
2023	39,129	12,575	51,704
2024	40,346	11,357	51,703
2025	41,654	10,050	51,704
2026-2030	<u>234,335</u>	<u>24,183</u>	<u>258,518</u>
Total	<u>430,286</u>	<u>86,750</u>	<u>517,036</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE S – COMMITMENTS UNDER NON-CAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provided for the minimum future rental payments as of June 30, 2020 as follows:

Year ended June 30:	
2021	94,781
2022	47,391
2023	-
2024	-
Total	<u>142,172</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	2,945,500	2,945,500	2,831,963	(113,537)
Other Local Sources	100,000	100,000	148,043	48,043
State Sources	20,960,933	20,960,933	21,229,946	269,013
Federal Sources	378,000	378,000	432,701	54,701
Other Sources	902,123	902,123	507,331	(394,792)
TOTAL REVENUES	25,286,556	25,286,556	25,149,984	(136,572)
EXPENDITURES:				
Instructional	14,793,597	14,793,597	13,002,828	1,790,769
Student Support Services	1,404,227	1,404,227	1,878,295	(474,068)
Staff Support Services	707,957	707,957	445,185	262,772
District Administration	1,011,050	1,011,050	1,096,755	(85,705)
School Administration	1,622,014	1,622,014	1,528,363	93,651
Business Support Services	878,708	878,708	964,031	(85,323)
Plant Operation & Maintenance	3,331,366	3,331,366	2,688,279	643,087
Student Transportation	2,586,432	2,586,432	2,311,899	274,533
Community Service Operations	1,561	1,561	0	1,561
Other	636,787	636,787	755,280	(118,493)
TOTAL EXPENDITURES	26,973,699	26,973,699	24,670,915	2,302,784
NET CHANGE IN FUND BALANCE	(1,687,143)	(1,687,143)	479,069	2,166,212
FUND BALANCES - BEGINNING	4,687,132	4,687,132	4,625,789	(61,343)
FUND BALANCES - ENDING	2,999,989	2,999,989	5,104,858	2,104,869

On-behalf payments totaling \$7,838,571 are not budgeted by the McCreary County School District.

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
REVENUES:				
Other Local Sources	1,000	1,000	20,515	19,515
State Sources	1,533,491	1,533,491	1,759,155	225,664
Federal Sources	3,294,267	3,294,267	3,179,335	(114,932)
Other Sources	<u>0</u>	<u>0</u>	<u>39,113</u>	<u>39,113</u>
TOTAL REVENUES	<u>4,828,758</u>	<u>4,828,758</u>	<u>4,998,118</u>	<u>169,360</u>
EXPENDITURES:				
Instructional	5,701,640	5,701,640	4,475,289	1,226,351
Student Support Services			78,438	(78,438)
Staff Support Services	104,463	104,463	115,624	(11,161)
Plant Operation & Maintenance	10,422	10,422	9,985	437
Student Transportation			17,201	(17,201)
Community Service Operations	974,274	974,274	301,581	672,693
Other				
TOTAL EXPENDITURES	<u>6,790,799</u>	<u>6,790,799</u>	<u>4,998,118</u>	<u>1,792,681</u>
NET CHANGE IN FUND BALANCE	(1,962,041)	(1,962,041)	0	1,962,041
FUND BALANCES - BEGINNING	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES - ENDING	<u>(1,962,041)</u>	<u>(1,962,041)</u>	<u>0</u>	<u>1,962,041</u>

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

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	-		-	-	-
State of Kentucky's share of the net pension liability associated with the district	<u>85,470,424</u>	<u>90,438,632</u>	<u>110,610,655</u>	<u>98,779,239</u>	<u>44,911,880</u>	<u>45,930,244</u>
TOTAL	<u>\$ 85,470,424</u>	<u>\$ 90,438,632</u>	<u>\$ 110,610,655</u>	<u>98,779,239</u>	<u>44,911,880</u>	<u>45,930,244</u>
District's covered-employee payroll	\$ 13,040,421	13,243,226	13,122,922	\$ 12,997,731	\$ 12,298,016	\$ 12,850,945
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	42.49%	35.22%	39.80%	59.30%	58.80%

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

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of net pension liability	0.159510%	0.156500%	0.166010%	0.160080%	0.156602%	0.156695%
District's proportionate share of the net pension liability	\$ 5,175,000	6,728,821	7,883,865	9,369,916	9,537,539	11,020,429
State of Kentucky's share of the net pension liability associated with the district	\$ -	-	-	-	-	-
TOTAL	<u><u>5,175,000</u></u>	<u><u>6,728,821</u></u>	<u><u>7,883,865</u></u>	<u><u>9,369,916</u></u>	<u><u>9,537,539</u></u>	<u><u>11,020,429</u></u>
District's covered-employee payroll	\$ 3,668,536	3,649,689	3,913,204	3,911,282	4,068,148	4,336,709
District's proportionate share of the net pension liability as a percentage of its covered-payroll	141.06%	184.37%	201.47%	239.56%	234.44%	254.12%
Plan fiduciary net position as a percentage of the total pension liability	66.800%	59.97%	59.00%	53.30%	53.54%	50.45%

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

McCREARY COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 13,243,226	\$ 13,122,922	\$ 12,997,731	\$ 12,378,326	\$ 12,298,016	\$ 12,850,945
Contributions as a percentage of Covered employee payroll	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 are not displayed.

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

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contributions (actuarially determined)	\$ 465,323	\$ 486,020	\$ 545,624	\$ 562,319	\$ 659,854	\$ 836,985
Contributions in relation to the actuarially determined contributions	<u>465,323</u>	<u>486,020</u>	<u>545,624</u>	<u>562,319</u>	<u>659,854</u>	<u>836,985</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,649,589	\$ 3,913,204	\$ 3,911,282	\$ 3,883,420	\$ 4,068,148	\$ 4,336,709
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%	19.30%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of net OPEB liability	0.160080%	0.156596%	0.156655%
District's proportionate share of the net OPEB liability	3,218,135	2,780,331	2,634,867
State of Kentucky's share of the net OPEB liability associated with the district	-	-	-
TOTAL	<u>3,218,135</u>	<u>2,780,331</u>	<u>2,634,867</u>
District's covered-employee payroll	3,911,282	4,068,148	4,336,709
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	82.28%	68.34%	60.75%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%	60.44%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of net OPEB liability	0.1946%	0.1774%	0.1795%
District's proportionate share of the net OPEB liability	6,940,000	6,154,000	5,252,000
State of Kentucky's share of the net OPEB liability associated with the district	<u>5,669,000</u>	<u>5,303,000</u>	<u>4,241,000</u>
TOTAL	<u><u>12,609,000</u></u>	<u><u>11,457,000</u></u>	<u><u>9,493,000</u></u>
District's covered-employee payroll	\$ 12,378,326	\$ 12,298,016	\$ 12,850,945
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	53.39%	50.04%	40.87%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%	32.60%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>
District's proportion of net OPEB liability	0.0000%	0.0000%	0.0000%
District's proportionate share of the net OPEB liability	-	-	-
State of Kentucky's share of the net OPEB liability associated with the district	<u>76,000</u>	<u>91,000</u>	<u>99,000</u>
TOTAL	<u>76,000</u>	<u>91,000</u>	<u>99,000</u>
District's covered-employee payroll	\$ 12,378,326	\$ 12,298,016	\$ 12,850,945
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%	73.40%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contributions (actuarially determined)	\$ 182,521	\$ 213,985	\$ 206,427
Contributions in relation to the actuarially determined contributions	<u>182,521</u>	<u>213,985</u>	<u>206,427</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,883,420	\$ 4,068,148	\$ 4,068,148
Contributions as a percentage of Covered employee payroll	4.70%	5.26%	5.26%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contributions (actuarially determined)	\$ 371,350	\$ 368,940	\$ 385,528
Contributions in relation to the actuarially determined contributions	<u>371,350</u>	<u>368,940</u>	<u>385,528</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,378,326	\$ 12,298,016	\$ 12,850,945
Contributions as a percentage of Covered employee payroll	3.00%	3.00%	3.00%

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

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,378,326	\$ 12,298,016	\$ 12,850,945
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%

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

MCCREARY COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2020

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

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

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

In the 2019 valuation the salary increase was reduced to 3.5-7.3% from 4.0-8.2%

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

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

Actuarial Cost Method	Entry age
Amortization Period	Level percentage of payroll, closed
Remaining amortization period	25.4 years
Asset valuation method	5-year smoothed market
Inflation	3.0-3.5 percent
Salary Increase	3.5 to 7.3 percent, including inflation
Ultimate Investment rate of return	7.50 percent, net of pension plan investment Expense, including inflation

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for TRS pension.

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2020

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2015

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

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

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

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

Payroll growth assumption was reduced from 4.5% to 4%

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females)

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

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

2016

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

2017

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

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

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

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

2018

There were no changes in assumptions.

2019

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

MCCREARY COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2020

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The projected salary increase was changed to 3.3-11.5% from 3.05%

The asset valuation method was changed to 20% of the difference between the market value assets and the expected actuarial value of assets if recognized from 5-year smoothed market.

The payroll growth rate was changed to 2.0% from 4.0%.

The investment rate of return was change to 6.25% from 7.5%

The inflation rate was changed to 2.3% from 3.25%

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

The actuarially determined contribution rates in the schedule of contribution are determined on a biennial basis beginning with the fiscal years ended 2016 and 2017, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	26 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	3.25 percent
Salary Increase	3.3-11.5 percent average, includes inflation
Investment Rate of Return	6.25 percent, net of pension plan investment expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS pension.

MCCREARY COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2020

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2017

There were no changes in assumptions.

2018

There were no changes in assumptions.

2019

There were no changes in assumptions.

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

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

Valuation date	June 30, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	23 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	3.5% - 7.20%
Discount rate	8.00%
Health care cost trends	
Under 65	7.5% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and older	5.5% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B premiums	2.63% for FY 2019 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).

NOTE C – CHANGES OF BENEFITS

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

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2020

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2017

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

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

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

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

2018

There were no changes in assumptions.

2019

The investment rate of return was changed to 6.25% from 7.0%

The projected salary increases changed to 3.05-11.55% from 4.0%

The inflation rate changed to 2.3% from 3.25%

The payroll growth rate changed to 2.0% from 4.0%

MCCREARY COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2020

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

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

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

Valuation Date	June 30, 2017
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	26 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	2.3 percent
Salary Increase	2.0 percent, average
Investment Rate of Return	6.25 %
Healthcare cost trend rates	
Under 65	Initial trend starting at 7.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years
Ages 65 and Older	Initial trend starting at 5.0% and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back for one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set-back four years for males) is used for the period after disability retirement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS OPEB.

**OTHER SUPPLEMENTARY
INFORMATION**

McCREARY COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2020

	CAPITAL OUTLAY FUND	BUILDING FUND	DISTRICT ACTIVITY FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents		15,583	55,605		71,188
TOTAL ASSETS	<u>0</u>	<u>15,583</u>	<u>55,605</u>	<u>0</u>	<u>71,188</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Unearned Revenue			608		608
Accounts Payable					0
Total Liabilities	<u>0</u>	<u>0</u>	<u>608</u>	<u>0</u>	<u>608</u>
Fund Balances:					
Restricted for:					
Student Activities			54,997		54,997
SFCC Escrow		15,583			15,583
Total Fund Balances	<u>0</u>	<u>15,583</u>	<u>54,997</u>	<u>0</u>	<u>70,580</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>0</u>	<u>15,583</u>	<u>55,605</u>	<u>0</u>	<u>71,188</u>

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

McCREARY COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES AND EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2020

	CAPITAL OUTLAY FUND	BUILDING FUND	DISTRICT ACTIVITY FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Property Taxes		266,785			266,785
Intergovernmental - State	245,153	755,504		974,166	1,974,823
Earnings on Investments			1,034		1,034
Other Sources			14,176		14,176
TOTAL REVENUES	<u>245,153</u>	<u>1,022,289</u>	<u>15,210</u>	<u>974,166</u>	<u>2,256,818</u>
Instructional			3,747		3,747
Debt Service:					
Principal				2,105,852	2,105,852
Interest				669,370	669,370
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>3,747</u>	<u>2,775,222</u>	<u>2,778,969</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	245,153	1,022,289	11,463	(1,801,056)	(522,151)
OTHER FINANCING SOURCES(USES):					
Operating Transfers In				1,758,753	1,758,753
Operating Transfers Out	(245,153)	(1,022,289)			(1,267,442)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(245,153)</u>	<u>(1,022,289)</u>	<u>0</u>	<u>1,758,753</u>	<u>491,311</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>0</u>	<u>11,463</u>	<u>(42,303)</u>	<u>(30,840)</u>
FUND BALANCES - BEGINNING	<u>0</u>	<u>15,583</u>	<u>43,534</u>	<u>42,303</u>	<u>101,420</u>
FUND BALANCES - ENDING	<u><u>0</u></u>	<u><u>15,583</u></u>	<u><u>54,997</u></u>	<u><u>0</u></u>	<u><u>70,580</u></u>

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

McCREARY COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2020

	FUND BALANCE JULY 1, 2019	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2020
McCreary Central High School	104,072	245,356	228,440	120,988
McCreary County Middle School	34,479	53,409	42,772	45,116
Pine Knot Intermediate	25,980	89,335	84,957	30,358
Whiteley City Elementary	25,406	36,455	32,133	29,728
McCreary Co. Bd. of Education Concessions	673	311	775	209
McCreary Co. Bus Garage	420	756	365	811
Total Activity Funds (Due to Student Groups)	<u>191,030</u>	<u>425,622</u>	<u>389,442</u>	<u>227,210</u>

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

McCREARY COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	CASH			CASH	ACCOUNTS	ACCOUNTS	FUND
	BALANCE	RECEIPTS	DISBURSEMENTS	BALANCE	RECEIVABLE	PAYABLE	BALANCE
	JULY 1, 2019			JUNE 30, 2020	JUNE 30, 2020	JUNE 30, 2020	JUNE 30, 2020
General	6,808	5,913	5,322	7,399	0	0	7,399
Ticket & Concession Funds	0	4,200	4,200	0	0	0	0
Media Arts	0	280	0	280	0	0	280
Attendance Incentives	371	75	371	75	0	0	75
Raider Community Service	125	470	0	595	0	0	595
Adopt B	100	14	0	114	0	0	114
Parking	225	1,900	2,075	50	0	0	50
Work Key / Advocay Group	10	0	10	0	0	0	0
Science Club	1,150	240	127	1,263	0	0	1,263
Drama	939	929	1,175	693	0	0	693
Raiders Poet's Club	0	105	0	105	0	0	105
First Priority Club	0	150	0	150	0	0	150
Raiders Honor Club	190	0	0	190	0	0	190
Student Vending	3,760	7,195	7,407	3,548	0	0	3,548
Faculty Fund	1,269	6,056	6,448	877	0	0	877
Pep Club	135	1,135	753	517	0	0	517
Raiders Crusaders	2,089	13,532	8,270	7,351	0	0	7,351
Raider Designs	0	250	250	0	0	0	0
Engineering Club	642	3,385	2,467	1,560	0	0	1,560
Cross Country	124	2,945	3,068	1	0	0	1
Baseball	5,119	2,170	3,381	3,908	0	0	3,908
Baseball Concessions	0	445	445	0	0	0	0
Boys Basketball	12,114	16,651	16,445	12,320	0	0	12,320
Boys Basketball Concessions	0	7,534	7,534	0	0	0	0
Football	664	11,621	10,362	1,923	0	0	1,923
Football Concessions	0	7,728	7,728	0	0	0	0
Girls Basketball	7,425	13,273	6,854	13,844	0	0	13,844
Girls Basketball Concessions	0	4,098	4,098	0	0	0	0
Wrestling	1,911	7,333	9,056	188	0	0	188
Golf	2,140	1,755	3,086	809	0	0	809
Archery	2,482	9,297	6,024	5,755	0	0	5,755
Cheerleaders	44	6,195	5,291	948	0	0	948
Track	79	0	79	0	0	0	0
Volleyball	11,349	11,368	10,352	12,365	0	0	12,365
Volleyball Concessions	0	3,842	1,812	2,030	0	0	2,030
Girls Softball	1,165	1,240	791	1,614	0	0	1,614
FFA Greenhouse	6,822	9,355	7,540	8,637	0	0	8,637
Tennis	410	0	0	410	0	0	410
Academic Team	72	0	0	72	0	0	72

United	79	0	79	0	0	0	0
DECA	0	2,821	2,216	605	0	0	605
DECA Store	0	664	184	480	0	1	480
Senior Letterman Jackets	10	1,225	538	697	0	0	697
FFA	0	12,595	9,443	3,152	0	0	3,152
HOSA	821	15,320	13,499	2,642	0	0	2,642
Math Club	27	7,490	3,673	3,844	0	0	3,844
National Honor Society	303	323	626	0	0	0	0
Spanish Club	2,236	249	854	1,631	0	0	1,631
SR Beta	1,014	18,759	14,029	5,744	0	0	5,744
Student Government	50	530	336	244	0	0	244
Peer-Tutoring	1,586	34	578	1,042	0	0	1,042
Youth Service Center	1,224	229	836	617	0	0	617
Auto Mechanics	771	1,798	2,139	430	0	0	430
Soccer	1,107	4,240	2,523	2,824	0	0	2,824
Soccer Concessions	0	584	584	0	0	0	0
Band	91	676	767	0	0	0	0
Carpentry	14	285	-	299	0	0	299
Chorus	1,160	1,648	2,305	503	0	0	503
ROTC	3,851	10,671	11,291	3,231	0	0	3,231
Skills USA	170	1,320	424	1,066	0	0	1,066
JR Class	6,893	2,951	9,443	401	0	0	401
Raider Spirit	223	0	200	23	0	0	23
Raider Adventurers	2,549	11,844	14,295	98	0	0	98
SR Class	1,664	4,575	6,239	0	0	0	0
Freshman Class	401	0	401	0	0	0	0
Sophomore Class	775	0	775	0	0	0	0
Yearbook	6,933	2,815	7,924	1,824	0	0	1,824
Arby's Classic Tournament	0	5,315	5,315	0	0	0	0
Counseling	387	0	387	0	0	0	0
Total All Funds	<u>104,072</u>	<u>271,640</u>	<u>254,724</u>	<u>120,988</u>	<u>0</u>	<u>0</u>	<u>120,988</u>
Interfund Transfers		(26,284)	(26,284)				0
Total	<u><u>104,072</u></u>	<u><u>245,356</u></u>	<u><u>228,440</u></u>	<u><u>120,988</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>120,988</u></u>

McCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

<u>FEDERAL GRANTOR/ PASS-THROUGH</u> <u>GRANTOR/ PROGRAM TITLE</u>	<u>CFDA</u> <u>NUMBER</u>	PASS <u>THROUGH</u> <u>NUMBER</u> <u>(if applicable)</u>	<u>MUNIS</u> <u>PROJECT</u> <u>NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310D	74,019
Title I - Parent Involvement	84.010	3100002	310DM	1,323
Title I - Grants to Local Educational Agencies	84.010	3100002	310E	77,877
Title I - Grants to Local Educational Agencies	84.010	3100002	310F	1,573,912
Title I Grants to Local Educational Agencies Total				1,727,131 *
Supporting Effective Instruction State Grants	84.367	3230002	401E	10,333
Supporting Effective Instruction State Grants	84.367	3230002	401F	177,799
Title II - Part A Total				188,132
Perkins Voc.	84.048	3710006	348E	5,076
Perkins Voc.	84.048	3710006	348F	47,407
Perkins Voc. Total				52,483
Title IV - Rural and Low Income Schools	84.358	3140002	350E	41,060
Title IV - Rural and Low Income Schools	84.358	3140002	350F	6,125
Title IV - Rural and Low Income Schools Total				47,185
Title IV, Part A-Student Support and Academic Enrichment	84.424	342002	552DS	15,472
Title IV, Part A-Student Support and Academic Enrichment	84.424	342002	552DT	12,097
Title IV, Part A-Student Support and Academic Enrichment	84.424	342002	552EB	695
Title IV, Part A-Student Support and Academic Enrichment	84.424	342002	552ES	2,008
Title IV, Part A-Student Support and Academic Enrichment	84.424	342002	552EW	27,896
Title IV, Part A-Student Support and Academic Enrichment	84.424	342002	552DW	12,500
Title IV Total				70,668
IDEA - Special Education - Grants to State	84.027	3810002	337D	101,419
IDEA - Special Education - Grants to State	84.027	3810002	337E	194,974
IDEA - Special Education - Grants to State	84.027	3810002	337F	553,149
IDEA - Special Education - Preschool Grants	84.173	3800002	343F	50,900
Special Education Cluster				900,442
Passed Through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379EA	379EA	320
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379EC	379EC	23,910
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379ER	379ER	2,027
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379ES	379ES	6,530

Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379FA	379FA	3,323
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379FB	379FB	7,796
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379FC	379FC	33,218
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379FR	379FR	17,249
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	379FS	379FS	70,743
Gaining Early Awareness and Readiness for Undergraduate Programs Total				<u>165,116</u>
Total U.S. Department of Education				<u>3,151,157</u>
<u>Workforce Development Cabinet</u>				
Adult Education - Basic Grants To States	84.002	371F	371F	19,236
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
National School Lunchroom	10.555	7750002-19	7750002-19	302,996
National School Lunchroom	10.555	7750002-20	7750002-20	791,445
School Breakfast Program	10.553	7760005-19	7760005-19	140,997
School Breakfast Program	10.553	7760005-20	7760005-20	355,678
Summer Food Service Program	10.559	7690024-19	7690024-19	1,501
Summer Food Service Program	10.559	7690024-20	7690024-20	98,694
Summer Food Service Program	10.559	7740023-19	7740023-19	14,273
Summer Food Service Program	10.559	7740023-20	7740023-20	961,754
Child Nutrition Cluster				<u>2,667,338</u>
State Administrative Expense Funds	10.582	7720012-19	7720012-19	5,094
Child & Adult Care Food Program	10.558	7790021-19	7790021-19	24,798
Child & Adult Care Food Program	10.558	7790021-20	7790021-20	220,511
Child & Adult Care Food Program	10.558	7800016-19	7800016-19	1,727
Child & Adult Care Food Program	10.558	7800016-20	7800016-20	15,358
Child & Adult Care Food Program Total				<u>262,394</u>
Pass-Through State Department of Agriculture				
Food Distribution	10-560	7700001-19	057502-10	<u>97,888</u>
Total U.S. Department of Agriculture				<u>3,032,714</u>
Total Federal Financial Assistance				<u><u>6,203,107</u></u>

* Tested as major program

MCCREARY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the McCreary County School District under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of McCreary County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of McCreary County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – DE MINIMIS COST RATE

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

MCCREARY COUNTY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – Part A, Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MCCREARY COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2020

2019-001

Criteria:

A fixed asset purchase was approved and made by a non-employee contracted consultant as a result of management override of controls.

Condition:

A 2020 sport utility vehicle purchase was approved and made by a non-employee contracted consultant at the then Superintendent's direction after the Director of Finance refused to approve and make the purchase due to lack of board approval.

Cause:

The management override of controls occurred when the Superintendent directed a non-employee contracted consultant to approve and make the purchase after the Director of Finance refused to initiate the transaction due to lack of board approval.

Context:

A sample of disbursement transactions were selected and tested for proper approval. It was noted that the purchase order for a 2020 Chevrolet Tahoe was prepared and approved by the same person. Upon investigation, it was determined that the person that prepared and approved the purchase was not an employee of the district, but was an independent consultant, and thus had no authority to commit district funds. It was further noted that the Director of Finance had refused to approve the purchase until there was board approval. The then Superintendent directed the non-employee to initiate and make the purchase.

Effect:

A sport utility vehicle at a cost of \$36,929 was purchased with non-federal, general funds without proper approval by the board or by any authorized employee at the district.

Recommendation:

All major purchases should be approved by the board prior to preparation of the purchase order and initiation of the transaction. Further, should a purchase be initiated by someone without approval, then the delivery of the good or services should be refused.

Management Response:

All major purchases shall be approved by the board prior to preparation of the purchase order and initiation of the transaction. The employee authorizing the transaction is no longer with the district and purchasing power was taken away from the contract employee upon appointment of a new superintendent. The contractor has since been named a part time employee but has no purchasing authority. If this should happen again delivery of goods shall be refused and the proper personnel shall be notified.

Current Status:

All major purchases were properly approved by the board prior to initiation of the purchasing process.

2019-002

Criteria:

Non-employee contracted consultants were paid through payroll rather than through the accounts payable system.

Condition:

Non-employee contracted consultants were paid through the payroll system rather than through the accounts payable system.

Cause:

The non-employee contracted consultants were set up in the MUNIS payroll system as employees by a non-employee contract consultant in the finance department that had unlimited access to MUNIS.

Context:

A sample of payroll transactions were selected for testing. While testing the sample, it was noted that one of the persons selected was not an employee of the district. Upon review of the person's contract, it was discovered that the contract explicitly stated that the person was an outside contractor, responsible for all taxes, etc., and was not an employee of the district. Further investigation showed that two other outside contracted personnel had also been set up and paid through payroll rather than through accounts payable. The non-employee contracted consultants and the corresponding payroll taxes were all paid with non-federal, general funds.

Effect:

The district paid employer taxes totaling \$7,311 on personnel that were not employees. The contract specifically stated that all taxes, etc. are the responsibility of the contracted personnel.

Recommendation:

In order for personnel to be placed into the MUNIS payroll system as employees, the District should have an approved position in place. The Superintendent should approve the hiring of the individual and extend an employment contract offer. Then the Director of Finance should approve the person for entry into the MUNIS payroll system.

Management Response:

Access to entering data into MUNIS has been taken away from all contract employees. The then contract employees have since been hired as part time employees with part time employment contracts extended to them by the superintendent and accepted by the employees. The process for entering employees into the MUNIS payroll system has been updated to include the Director of Finance in the coding of employees. Currently the Director of Finance is working on position numbers for each approved position to prevent this from happening in the future. Since the former superintendent resigned the Director of Finance, Payroll Specialist, Human Resource Specialist, and Office Manager have access to enter employees into the MUNIS payroll system.

Current Status:

Access to the payroll portion of MUNIS has been restricted to prevent unauthorized persons from accessing the payroll system. All former contract employees have since been hired as part time employees with part time employment contracts extended to them by the superintendent and accepted by the employees

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October 31, 2020

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

Members of the Board of Education
McCreary County School District
Stearns, 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 *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise McCreary County School District's basic financial statements, and have issued our report thereon dated October 31, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered McCreary County School District's internal control over financial reporting (internal control) as a basis for designing 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 McCreary County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the McCreary County School District's internal control.

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

We noted certain matters that we reported to management of McCreary County School District in a separate letter dated October 31, 2020.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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October 31, 2020

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

Members of the Board of Education
McCreary County School District
Stearns, Kentucky

Report on Compliance for Each Major Federal Program

We have audited McCreary 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 McCreary County School District's major federal programs for the year ended June 30, 2020. McCreary 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 McCreary 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 *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Those standards 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 McCreary 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 McCreary County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, McCreary County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of McCreary 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 McCreary County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McCreary 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Sincerely,

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October 31, 2020

MANAGEMENT LETTER

Members of the Board of Education
McCreary County School District
Stearns, Kentucky

In planning and performing our audit of the financial statements of McCreary County School District for the year ended June 30, 2020, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year District Recommendation:

2019-1 Prior Year Recommendations

During the 2019 audit, two instances were noted of charges occurring prior to the issuance of a purchase order. We recommend that prior to any charge being made a purchase order be issued and approved.

Current Year Status & Recommendation

During the 2020 audit, one instance was noted of charges occurring prior to the issuance of a purchase order. We recommend that prior to any charge being made a purchase order be issued and approved.

Management Response

We will stress the requirement of prior purchase approval to all school employees.

Prior Year Recommendations – School Activity Funds:

2018-3 – Prior Year Recommendation

During the 2018 audit, instances were noted at McCreary Central High School of charges being made prior to the issuance of a purchase order. It was recommended that prior to a charge being made a purchase order should be issued.

During the 2019 audit, one instance was noted at McCreary Central High School and one instance at McCreary County Middle School of charges occurring prior to the issuance of a purchase order. We recommend that prior to any charge being made a purchase order be issued. This is in line with the district-wide policy.

Current Year Status & Recommendation

No instances were noted during the 2020 audit.

2019-2 Prior Year Recommendations

During current year testing, four instances were noted at McCreary Central High School, three instances at McCreary County Middle School, three instances at Pine Knot Elementary, and one instance was at Whitley City Elementary of multiple receipt forms being completed incorrectly. The form was either completed by the teacher/sponsor for individuals 3rd grade and above or there was no detailed support of the total amount that was being reported on the form. We recommend that individuals 6th grade and above (applicable years 2020 forward) sign their own name and amount of funds remitted. We also recommend that a detailed record of individuals and amounts be recorded on the multiple receipt form. This serves as a proof and a reconciliation for the bookkeeper when reviewing.

Current Year Status & Recommendation

No instances were noted during the 2020 audit.

2019-3 Prior Year Recommendations

During the 2019 audit, one instance was noted at Pine Knot Elementary, one instance at McCreary County Middle School, and one instance at McCreary Central High School of the multiple receipt form detail not equaling the deposit made. The multiple receipt was signed by the school bookkeeper indicating the amounts agreed. We recommend that the bookkeeper recompute the detailed proof to ensure that amounts reported agree to the funds turned in.

Current Year Status & Recommendation

During the 2020 audit, five instances was noted at McCreary Central High School of the multiple receipt form detail not equaling the deposit made. The multiple receipt was signed by the school bookkeeper indicating the amounts agreed. We recommend that the bookkeeper recompute the detailed proof to ensure that amounts reported agree to the funds turned in.

Management Response

We will reiterate the importance of this form and the processes that go along with completing it correctly to all school staff.

Current Year District Recommendations:

2020-1 Current Year Recommendation:

For all salary employees paid from a federally funded program, it is required that wages allocated is substantiated by time and attendance records, a semi-annual certification or a direct supervisor confirming, in writing, the employee's total service time in each program over a specific period of time. During the 2020 audit, two instances were noted of certifications of a teachers' service time in a federal program; however, the certifications did not state the specific period of time the service was completed. (Ex. July 2019 – December 2019). We recommend that when completing time certifications, the months covered and fiscal year be present.

Management Response

We will create a uniform time certification form for all staff in the District. This will help eliminate outdated / non-compliant forms that currently exist.

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

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

Sincerely,

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October 31, 2020

Members of the Board of Education
McCreary County School District
Stearns, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of McCreary County School District for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 3, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by McCreary County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by McCreary County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2020.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 56 and 57, or on the schedules of the district's proportionate share of net pension liabilities and other post-employment benefit plans on pages 58-59 and 62-64, or on the schedules of contributions to the County Employees Retirement System and Teachers Retirement System pension plans or the County Employees Retirement System and Teachers Retirement System other post-employment benefit plans on pages 60-61 and 65-67, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants