

**MERCER COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2021**

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October 29, 2021

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Mercer County School District
Harrodsburg, 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 Mercer County School District as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Mercer 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 Mercer County School District as of June 30, 2021, 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, 54 through 57, and 60 through 62 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 Mercer 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 29, 2021, on our consideration of Mercer 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 Mercer 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 Mercer County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

MERCER COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2021

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

FINANCIAL HIGHLIGHTS

- The General Fund's beginning fund balance was \$3,869,875. The ending fund balance was \$5,174,846. General fund revenues showed a decrease of \$611,996 and expenditures showed a decrease of \$1,373,937 as compared with the prior year. The General Fund transferred \$51,685 to the Special Revenue Fund for the technology grant match and \$276 to the building fund for debt payments. The General Fund received \$189,868 from the Building Fund to offset General Fund debt payments and \$74,641 from the Food Service Fund for Indirect Costs.
- The District had \$38.6 million in revenue and \$33.9 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Bond payments for fiscal year 2021 totaled \$2.44 million in principal payments and \$879,486 in interest payments.
- The District's total net position increased \$2,732,848 to \$9,517,846. Current assets increased by \$2,549,396, non-current assets decreased by \$1,088,200 and total liabilities decreased \$1,088,200 as compared to the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 13 - 19 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 district-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 53 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$9,517,846 as of June 30, 2021.

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

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

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

A comparison of June 30, 2021 and June 30, 2020 government wide net position is as follows:

	Governmental Activities		Business - Type Activities		Total Primary Government	
	2021	2020	2021	2020	2021	2020
Current and Other Assets	6,505,936	4,989,901	1,880,460	847,099	8,386,396	5,837,000
Capital Assets	49,310,232	50,553,154	268,490	113,768	49,578,722	50,666,922
Total Assets	55,816,168	55,553,154	2,148,950	960,867	57,965,118	56,503,922
Deferred Outflows	4,410,365	4,212,268	390,811	369,691	4,801,176	4,581,959
Total Assets and Deferred Outflows	60,226,533	59,755,323	2,539,761	1,330,558	62,766,294	61,085,881
Current Liabilities	3,738,556	3,491,512	1,247	2,378	3,739,803	3,493,890
Non-Current Liabilities	45,666,800	47,270,191	1,548,721	1,358,560	47,215,521	48,628,751
Total Liabilities	49,405,356	50,761,703	1,549,968	1,360,938	50,955,324	52,122,641
Deferred Inflows	2,189,738	2,039,599	103,386	138,643	2,293,124	2,178,242
Total Liabilities and Deferred Inflows	51,595,094	52,801,302	1,653,354	1,499,581	53,248,448	54,300,883
Net Position						
Net Investment in Capital Assets	19,118,409	18,234,349	268,490	113,768	19,386,899	18,348,117
Restricted	820,526	610,984	617,917	(282,791)	1,438,443	328,193
Unrestricted	(11,307,496)	(11,891,312)	0	0	(11,307,496)	(11,891,312)
Total Net Position	\$8,631,439	\$6,954,021	\$886,407	(\$169,023)	\$9,517,846	\$6,784,998

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2021 and June 30, 2020.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
REVENUES						
Program revenues						
Charges for services	1,600	0	16,041	46,165	17,641	46,165
Operating grants and contributions	5,072,943	3,228,995	3,036,570	1,975,614	8,109,513	5,204,609
Capital grants	246,120	56,875	0	0	0	56,875
General revenues						
Property taxes	8,862,276	8,775,980	0	0	8,862,276	8,775,980
Motor vehicle taxes	890,537	766,284	0	0	890,537	766,284
Utility Taxes	1,456,063	1,545,581	0	0	1,456,063	1,545,581
Other taxes	100,476	52,809	0	0	100,476	52,809
Investment earnings	40,772	40,383	6,878	2,351	47,650	42,734
State and formula grants	18,439,111	18,744,109	0	0	18,439,111	18,744,109
Miscellaneous	414,181	1,011,569	0	0	414,181	1,011,569
Fund Transfer	74,641	0	(74,641)	0	0	0
Gain (Loss) on Sale of Assets	17,604	0	0	0	17,604	0
Total Revenues	35,616,324	34,222,585	2,984,848	2,024,130	38,601,172	36,246,715
EXPENSES						
Program Activities						
Instructional	22,105,743	21,486,836	0	0	22,105,743	21,486,836
Student support	1,044,400	1,062,075	0	0	1,044,400	1,062,075
Instructional staff Support	1,159,705	1,147,170	0	0	1,159,705	1,147,170
District administrative support	1,018,155	1,062,977	0	0	1,018,155	1,062,977
School administrative support	2,188,978	2,116,872	0	0	2,188,978	2,116,872
Business support	755,551	738,738	0	0	755,551	738,738
Plant operations and maintenance	2,209,759	2,293,271	0	0	2,209,759	2,293,271
Student transportation	2,095,571	2,213,797	0	0	2,095,571	2,213,797
Community service activities	289,510	262,812	0	0	289,510	262,812
Other	59,897	56,976	0	0	59,897	56,976
Interest costs	1,011,637	1,040,562	0	0	1,011,637	1,040,562
Business-type Activities						
Food service			1,929,418	1,723,843	1,929,418	1,723,843
Total Expenses	33,938,906	33,482,086	1,929,418	1,723,843	35,868,324	35,205,929
Change in Net Position	1,677,418	740,499	1,055,430	300,287	2,732,848	1,040,786

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2021 and 2020 were \$7,570,284 and \$7,604,629 respectively.

Governmental Activities

For the governmental program expenses, instructional expenses comprise 65% of total expenses, support services equate to 31%, and interest and other expenses make up the remaining 4% of the total.

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

	Governmental Activities Total Cost of Services		Governmental Activities Net Cost of Services	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Instructional	22,105,743	21,486,836	17,750,619	18,838,770
Support Services	10,532,016	10,691,876	10,097,670	10,366,373
Other	289,510	262,812	4,437	7,386
Interest Costs	1,011,637	1,040,562	765,517	983,687
Total Expenses	33,938,906	33,482,086	28,618,243	30,196,216

Business-Type Activities

The business type activities consist of the food service program. This program had total revenues of \$3,059,489 and expenses of \$2,004,059 for fiscal year 2021. These revenues were made up of \$16,041 in lunchroom sales, \$3,036,570 federal and state operating grants and donated commodities, and \$6,878 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 11. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2021 was \$35,524,079 and expenditures were \$34,853,476.

General Fund Budgetary Highlights

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

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$19,769,850 with actual revenue being \$27,517,585. Budgeted expenditures were \$23,629,850 compared to actual expenditures of \$26,212,614. These actuals include the state on-behalf payments in the amount of \$7,288,931, which were not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2020-2021 with a contingency above 2%. The District has also adopted a budget for 2021-2022 with a contingency above 2%.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees had no contribution change for FY 2021 at 24.06%. The Kentucky Teachers Retirement had no contribution change at 3% on all employees and no contribution change on the federal grants matching at 16.105%. The Board's obligation for contribution to the Kentucky Retirement System for classified employees has an increase for FY 2022 from 24.06% to 26.95%. The Kentucky Teachers Retirement has no contribution change at 3% on all employees and no contribution change on the federal grants matching at 16.105%.

The SEEK base funding had no change at \$4,000 per pupil in FY 2020-2021. The General Fund will be closely monitored to support District staffing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2021 fiscal year, the District had invested \$49,578,722 in a broad range of capital assets, including equipment, buses, buildings, and land net of accumulated depreciation. This amount represents a net decrease of \$1,088,200. Depreciation expense for the year was \$2,445,666 and capital additions were \$1,357,466.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2021 and 2020.

	Governmental		Business - Type		Total Primary Government	
	Activities (Net of Depreciation)		Activities (Net of Depreciation)		(Net of Depreciation)	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land	1,467,246	1,467,246	0	0	1,467,246	1,467,246
Buildings and Improvements	44,500,653	46,397,885	0	0	44,500,653	46,397,885
Technology	1,247,330	639,571	0	0	1,247,330	639,571
Vehicles	1,686,291	1,620,055	0	0	1,686,291	1,620,055
General Equipment	408,712	428,397	268,490	113,768	677,202	542,165
Total	49,310,232	50,553,154	268,490	113,768	49,578,722	50,666,922

The table below shows the changes in capital assets for fiscal years ended June 30, 2021 and 2020.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Beginning Balance	50,553,154	47,156,486	113,768	74,530	50,666,922	47,231,016
Additions	1,185,890	5,538,150	171,576	49,049	1,357,466	5,587,199
Retirements	0	0	0	0	0	0
Depreciation	(2,428,812)	(2,141,482)	(16,854)	(9,811)	(2,445,666)	(2,151,293)
Ending Balance	49,310,232	50,553,154	268,490	113,768	49,578,722	50,666,922

Long-Term Debt

At year-end the District had \$28,320,000 in bonds outstanding and \$1,827,799 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2021 was \$2,670,200. There were no new construction bonds entered into during fiscal year 2021. The District entered into capital lease agreements for \$567,335 to purchase buses and copiers. A total of \$2,784,213 is due within one year for principal payment on bonds and capital leases.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

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

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	5,100,727	1,742,545	6,843,272
Cash - Restricted - Note C	184,330		184,330
Accounts Receivable:			
Taxes - Current	437,103		437,103
Taxes - Delinquent	16,292		16,292
Accounts	45,154	2,000	47,154
Intergovernmental - State	8,953		8,953
Intergovernmental - Federal	713,377	118,506	831,883
Inventories for Consumption		17,409	17,409
Total Current Assets	6,505,936	1,880,460	8,386,396
Noncurrent Assets - Note F			
Land	1,467,246		1,467,246
Buildings & Improvements	75,564,429		75,564,429
Furniture & Equipment	9,496,426	408,694	9,905,120
Less: Accumulated Depreciation	(37,217,869)	(140,204)	(37,358,073)
Total Noncurrent Assets	49,310,232	268,490	49,578,722
TOTAL ASSETS	55,816,168	2,148,950	57,965,118
Deferred Outflows Related to Pensions	1,681,549	212,203	1,893,752
Deferred Outflows Related to Other Post Employment Benefits	2,184,471	178,608	2,363,079
Deferred Outflows Related to Advanced Bond Refundings	544,345		544,345
TOTAL DEFERRED OUTFLOWS	4,410,365	390,811	4,801,176
TOTAL ASSETS AND DEFERRED OUTFLOWS	60,226,533	2,539,761	62,766,294
LIABILITIES:			
Current Liabilities:			
Accounts Payable	36,579	1,247	37,826
Accrued Salaries & Payroll Liabilities	8,665		8,665
Accrued Sick Leave - Note A	181,185		181,185
Advances from Grantors	468,465		468,465
Bond Obligations - Note D	2,490,000		2,490,000
Capital Lease Obligation - Note E	294,213		294,213
Accrued Interest Payable	259,449		259,449
Total Current Liabilities	3,738,556	1,247	3,739,803
Noncurrent Liabilities:			
Bond Obligations - Note D	25,874,024		25,874,024
Capital Lease Obligation - Note E	1,533,586		1,533,586
Net Pension Liability	9,386,164	1,179,530	10,565,694
Net Other Post Employment Benefits Liability	8,226,859	369,191	8,596,050
Accrued Sick Leave - Note A	646,167		646,167
Total Noncurrent Liabilities	45,666,800	1,548,721	47,215,521
TOTAL LIABILITIES	49,405,356	1,549,968	50,955,324
Deferred Inflows Related to Pensions	231,801	29,452	261,253
Deferred Inflows Related to Other Post Employment Benefits	1,957,937	73,934	2,031,871
TOTAL DEFERRED INFLOWS	2,189,738	103,386	2,293,124
TOTAL LIABILITIES AND DEFERRED INFLOWS	51,595,094	1,653,354	53,248,448
NET POSITION:			
Net Investment in Capital Assets	19,118,409	268,490	19,386,899
Restricted for:			
Capital Projects	71,765		71,765
School Activities	515,156		515,156
Student Activities	47,546		47,546
SFCC Escrow	1,729		1,729
Debt Service	184,330		184,330
Food Service		617,917	617,917
Unrestricted	(11,307,496)		(11,307,496)
TOTAL NET POSITION	8,631,439	886,407	9,517,846
TOTAL LIABILITIES AND NET POSITION	60,226,533	2,539,761	62,766,294

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

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

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	22,105,743	1,600	4,353,524		(17,750,619)		(17,750,619)
Support Services:							
Student Support Services	1,044,400		6,997		(1,037,403)		(1,037,403)
Staff Support Services	1,159,705		248,347		(911,358)		(911,358)
District Administration	1,018,155				(1,018,155)		(1,018,155)
School Administration	2,188,978				(2,188,978)		(2,188,978)
Business Support Services	755,551				(755,551)		(755,551)
Plant Operation & Maintenance	2,209,759		123,449		(2,086,310)		(2,086,310)
Student Transportation	2,095,571				(2,095,571)		(2,095,571)
Food Service Operations	59,897		55,553		(4,344)		(4,344)
Community Service Operations	289,510		285,073		(4,437)		(4,437)
Interest on Long-Term Debt	1,011,637			246,120	(765,517)		(765,517)
TOTAL GOVERNMENTAL ACTIVITIES	33,938,906	1,600	5,072,943	246,120	(28,618,243)		(28,618,243)
BUSINESS-TYPE ACTIVITIES:							
Food Service	1,929,418	16,041	3,036,570			1,123,193	1,123,193
TOTAL BUSINESS-TYPE ACTIVITIES	1,929,418	16,041	3,036,570	0	0	1,123,193	1,123,193
TOTAL SCHOOL DISTRICT	35,868,324	17,641	8,109,513	246,120	(28,618,243)	1,123,193	(27,495,050)
GENERAL REVENUES:							
Taxes:							
Property					8,862,276		8,862,276
Motor Vehicle					890,537		890,537
Utility					1,456,063		1,456,063
Other					100,476		100,476
State Aid - Formula Grants					18,439,111		18,439,111
Investment Earnings					40,772	6,878	47,650
Fund Transfer (Expense)					74,641	(74,641)	0
Miscellaneous					414,181		414,181
Gain (Loss) on Sale of Assets					17,604		17,604
TOTAL GENERAL REVENUES					30,295,661	(67,763)	30,227,898
CHANGE IN NET POSITION					1,677,418	1,055,430	2,732,848
NET POSITION - BEGINNING					6,954,021	(169,023)	6,784,998
NET POSITION - ENDING					8,631,439	886,407	9,517,846

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

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

	GENERAL FUND	SPECIAL REVENUE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:				
Cash & Cash Equivalents	4,462,253	0	638,474	5,100,727
Cash - Restricted	184,330			184,330
Accounts Receivable:				
Taxes - Current	437,103			437,103
Taxes - Delinquent	16,292			16,292
Accounts	44,834		320	45,154
Interfund Receivable	253,865			
Intergovernmental - State		8,953		8,953
Intergovernmental - Federal		713,377		713,377
TOTAL ASSETS	<u>5,398,677</u>	<u>722,330</u>	<u>638,794</u>	<u>6,505,936</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	33,981		2,598	36,579
Interfund Payable		253,865		
Accrued Salaries & Sick Leave	189,850			189,850
Advances from Grantors		468,465		468,465
Total Liabilities	<u>223,831</u>	<u>722,330</u>	<u>2,598</u>	<u>948,759</u>
Fund Balance:				
Restricted for:				
Capital Projects			71,765	71,765
School Activities			515,156	515,156
Student Activities			47,546	47,546
SFCC Escrow			1,729	1,729
Debt Service	184,330			184,330
Committed For:				
Site Based Carryforward	145,923			145,923
Accrued Sick Leave	500,244			500,244
Unassigned	4,344,349			4,344,349
Total Fund Balance	<u>5,174,846</u>	<u>0</u>	<u>636,196</u>	<u>5,811,042</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>5,398,677</u>	<u>722,330</u>	<u>638,794</u>	<u>6,759,801</u>

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

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

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

TOTAL GOVERNMENTAL FUND BALANCE		5,811,042
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	86,528,101	
Accumulated Depreciation	<u>(37,217,869)</u>	49,310,232
Deferred Outflows Related to Bond Refundings are not current assets and therefore are not reported as assets in governmental funds.		
		544,345
Deferred Outflows Related to Pensions are not current assets and therefore are not reported as assets in governmental funds.		
		1,681,549
Deferred Outflows Related to Other Post Employment Benefits are not current assets and therefore are not reported as assets in governmental funds.		
		2,184,471
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	(28,320,000)	
Unamortized Bond Premiums	(197,236)	
Unamortized Bond Discounts	153,212	
Capital Lease Obligation	(1,827,799)	
Accrued Interest on Bonds	(259,449)	
Net Pension Liability	(9,386,164)	
Net Other Post Employment Benefits Liability	(8,226,859)	
Accrued Sick Leave	<u>(646,167)</u>	(48,710,462)
Deferred Inflows Related to Other Post Employment Benefits are not current liabilities and therefore are not reported as liabilities in governmental funds.		
		(231,801)
Deferred Inflows Related to Pensions are not current liabilities and therefore are not reported as liabilities in governmental funds.		
		<u>(1,957,937)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>8,631,439</u></u>

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

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

	GENERAL	SPECIAL REVENUE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:				
Taxes:				
Property	6,697,920		2,164,356	8,862,276
Motor Vehicle	890,537			890,537
Utility	1,456,063			1,456,063
Other	100,476			100,476
Earnings on Investments	39,357	578	837	40,772
Intergovernmental - State	17,340,943	1,947,732	1,344,288	20,632,963
Intergovernmental - Federal		3,125,211		3,125,211
Other Sources	142,841	26,694	246,246	415,781
TOTAL REVENUES	26,668,137	5,100,215	3,755,727	35,524,079
EXPENDITURES:				
Instructional	16,037,628	4,421,284	220,593	20,679,505
Support Services:				
Student Support Services	953,688	7,106		960,794
Staff Support Services	930,913	252,212	844	1,183,969
District Administration	1,000,726			1,000,726
School Administration	2,091,205			2,091,205
Business Support Services	789,134			789,134
Plant Operation & Maintenance	1,983,443	125,370		2,108,813
Student Transportation	2,102,191			2,102,191
Food Service Operation	3,479	56,418		59,897
Community Service Operations		289,510		289,510
Debt Service:				
Principal	230,200		2,440,000	2,670,200
Interest	38,046		879,486	917,532
TOTAL EXPENDITURES	26,160,653	5,151,900	3,540,923	34,853,476
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	507,484	(51,685)	214,804	670,603
OTHER FINANCING SOURCES(USES):				
Capital Lease Financing	567,335			567,335
Proceeds from Sale of Assets	17,604			
Operating Transfers In - Note N	264,509	51,685	3,134,154	3,450,348
Operating Transfers Out - Note N	(51,961)		(3,323,746)	(3,375,707)
TOTAL OTHER FINANCING SOURCES	797,487	51,685	(189,592)	659,580
NET CHANGE IN FUND BALANCES	1,304,971	0	25,212	1,330,183
FUND BALANCES - BEGINNING	3,869,875	0	610,984	4,480,859
FUND BALANCES - ENDING	5,174,846	0	636,196	5,811,042

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

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

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

NET CHANGES - GOVERNMENTAL FUNDS		1,330,183
<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	(2,428,812)	
Capital Outlays	<u>1,185,890</u>	(1,242,922)
<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	2,670,200	
Capital Lease Proceeds	<u>(567,335)</u>	2,102,865
<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	(128,422)	
Amortization - Bond Premiums	32,872	
Amortization - Bond Discounts	(8,755)	
District Pension Contributions	588,645	
Cost of Benefits Earned Net of Employee Contributions	(1,490,293)	
District Other Post Employment Benefits Contributions	549,390	
Cost of Benefits Earned Net of Employee Contributions - OPEB	(90,355)	
Accrued Interest Payable	10,199	
KSBIT Assessment	42,622	
Accrued Sick Leave	<u>(18,611)</u>	(512,708)
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>1,677,418</u></u>

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

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

	ENTERPRISE FUND
	FOOD SERVICE
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	1,742,545
Accounts Receivables	120,506
Inventories for Consumption	17,409
Total Current Assets	1,880,460
Noncurrent Assets:	
Furniture & Equipment	408,694
Less: Accumulated Depreciation	(140,204)
Total Noncurrent Assets	268,490
TOTAL ASSETS	2,148,950
Deferred Outflows Related to Pensions	212,203
Deferred Outflows Related to Other Post Employment Benefits	178,608
TOTAL ASSETS AND DEFERRED OUTFLOWS	2,539,761
LIABILITIES:	
Current Liabilities:	
Account Payable	1,247
Total Current Liabilities	1,247
Noncurrent Liabilities:	
Net Pension Liability	1,179,530
Net Other Post Employment Benefits Liability	369,191
Total Noncurrent Liabilities	1,548,721
TOTAL LIABILITIES	1,549,968
Deferred Inflows Related to Pensions	29,452
Deferred Inflows Related to Other Post Employment Benefits	73,934
TOTAL LIABILITIES AND DEFERRED INFLOWS	1,653,354
Net Position:	
Net Investment in Capital Assets	268,490
Restricted	617,917
Total Net Position	886,407
TOTAL LIABILITIES AND NET POSITION	2,539,761

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

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

	ENTERPRISE FUND
	FOOD SERVICE
OPERATING REVENUES:	
Lunchroom Sales	16,041
Other Operating Revenues	0
TOTAL OPERATING REVENUES	16,041
OPERATING EXPENSES:	
Salaries & Benefits	826,617
Contract Services	51,534
Materials & Supplies	1,025,419
Depreciation - Note F	16,854
Other Operating Expenses	8,994
TOTAL OPERATING EXPENSES	1,929,418
OPERATING INCOME(LOSS)	(1,913,377)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	2,827,756
State Grants	111,190
Donated Commodities	97,624
Interest Income	6,878
Transfer Out to General Fund	(74,641)
TOTAL NONOPERATING REVENUE	2,968,807
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	1,055,430
CAPITAL CONTRIBUTIONS	0
CHANGE IN NET POSITION	1,055,430
TOTAL NET POSITION - BEGINNING	(169,023)
TOTAL NET POSITION - ENDING	886,407

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

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

	FOOD SERVICE
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from:	
Lunchroom Sales	16,041
Other Activities	
Cash Paid to/for:	
Employees	(596,654)
Supplies	(893,321)
Other Activities	(60,527)
	(1,534,461)
Net Cash Used by Operating Activities	(1,534,461)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer Out to General Fund	(74,641)
Federal Grants	2,915,314
State Grants	15,011
	2,855,684
Net Cash Provided by Non-Capital and Related Financing Activities	2,855,684
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	(171,576)
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of Interest Income	6,878
	1,156,525
Net Increase (Decrease) in Cash and Cash Equivalents	1,156,525
Balances, Beginning of Year	586,020
	1,742,545
	1,742,545
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	(1,913,377)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	16,854
State On-Behalf Payments	96,179
Donated Commodities	97,624
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:	
Deferred Outflows	(21,120)
Deferred Inflows	(35,257)
Net Pension Liability	81,809
Net Other Post Employment Benefits	108,352
Inventory	35,606
Accounts Payable	(1,131)
	(1,534,461)
Net Cash Used by Operating Activities	(1,534,461)
Schedule of Non-Cash Transactions:	
Donated Commodities	97,624
State On-Behalf Payments	96,179

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

MERCER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Mercer 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 Mercer 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 Mercer 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:

Mercer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Mercer 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.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

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

III. Fiduciary Fund Type (Private Purpose Trust Funds)

- A. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.

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, 2021, to finance the General Fund operations were \$0.701 per \$100 valuation for real property, \$0.720 per \$100 valuation for business personal property, and \$0.491 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Capital Assets

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

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

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

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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).

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.

Restricted Assets (Restricted Cash)

Certain debt proceeds of the District are classified as restricted assets (restricted cash) because of their use by applicable capital lease covenants.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and 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.

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	500,244	Long-Term Sick Leave Commitment
General Fund	145,923	Site Based Carryforward

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Major Special Revenue Fund

Special Revenue

Revenue Source

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 \$7,027,602. Of the total cash balance, \$434,330 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, 2021, consisted of the following:

	Bank Balance	Book Balance
Farmers Bank	7,469,437	6,843,272
Huntington National Bank	<u>184,330</u>	<u>184,330</u>
Total	<u>7,653,767</u>	<u>7,027,602</u>
Breakdown per financial statements:		
Governmental Funds-Unrestricted		5,100,727
Governmental Funds-Restricted		184,330
Proprietary Funds		<u>1,742,545</u>
Total Cash		<u>7,027,602</u>

RESTRICTED CASH:

Certain of the District's cash are restricted for the following purposes:

Restricted Cash and cash equivalents:

General Fund:

KISTA lease proceeds	<u>184,330</u>
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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 Mercer County School District Finance Corporation in the original amount aggregating \$39,625,000.

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

2010 Refunding	1,785,000	0.50% - 2.60%
2012 Refunding	1,885,000	0.75% - 2.125%
2013 Refunding	1,845,000	1.05% - 2.00%
2013	2,400,000	2.00% - 4.00%
2014 Refunding	4,115,000	1.75% - 3.50%
2015	645,000	3.15%
2016 Refunding	18,195,000	2.00% - 3.00%
2020 Energy	8,070,000	3.00% - 3.75%
2020	685,000	3.25% - 3.50%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 Mercer 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.

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, 2021, 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>
2021-22	2,490,000	828,559	184,362	3,134,197
2022-23	2,540,000	777,053	183,550	3,133,503
2023-24	2,605,000	722,978	187,023	3,140,955
2024-25	2,660,000	669,239	184,159	3,145,080
2025-26	2,745,000	591,944	183,186	3,153,758
2026-27	2,820,000	515,062	182,211	3,152,851
2027-28	1,505,000	415,754	116,928	1,803,826
2028-29	1,555,000	366,608	120,879	1,800,728
2029-30	1,615,000	313,791	119,654	1,809,137
2030-31	1,670,000	258,513	114,537	1,813,975
2031-32	805,000	216,479	106,192	915,287
2032-33	850,000	188,298	109,968	928,330
2033-34	890,000	157,313	96,665	950,647
2034-35	670,000	129,978	47,525	752,453
2035-36	700,000	106,668	46,125	760,543
2036-37	700,000	82,163	49,725	732,438
2037-38	735,000	56,025	48,150	742,875
2038-39	765,000	28,575	46,576	747,000
	<u>28,320,000</u>	<u>6,425,000</u>	<u>2,127,415</u>	<u>32,617,585</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	30,760,000	0	(2,440,000)	28,320,000	2,490,000
Add: Bond Premium	230,108	0	(32,872)	197,236	0
Less: Bond Discount	(161,967)	0	8,755	(153,212)	0
Net Revenue Bonds Payable	30,828,141	0	(2,464,117)	28,364,024	2,490,000
Capital Lease Obligations	1,490,664	567,335	(230,200)	1,827,799	294,213
KSBIT Assessment	42,622	0	(42,622)	0	0
Net Pension Liability	8,730,959	655,205	0	9,386,164	0
Net OPEB Liability	8,263,071	0	(36,212)	8,226,859	0
Accrued Sick Leave	766,278	231,542	(170,468)	827,352	181,185
Total Governmental Activities:	50,121,735	1,454,082	(2,943,619)	48,632,198	2,965,398
Proprietary Activities					
Net Pension Liability	1,097,721	81,809	0	1,179,530	0
Net OPEB Liability	260,839	108,352	0	369,191	0
Total Proprietary Activities:	1,358,560	190,161	0	1,548,721	0
Long-Term Liabilities	51,480,295	1,644,243	(2,943,619)	50,180,919	2,965,398

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses and copiers under capital leases expiring in various years through 2030. 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 2021.

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

<u>Classes of Property</u>	<u>Book Value as of June 30, 2021</u>
Buses	2,244,752
Office Equipment	138,311
Accumulated Amortization	(664,781)
	<u>1,718,282</u>

NOTES TO FINANCIALS STATEMENTS (CONTINUED)

The following is a schedule by years of the future payments under capital leases as of June 30, 2021:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2022	333,446
2023	327,802
2024	246,005
2025	238,348
2026	233,671
2027-2031	<u>611,150</u>
Net minimum lease payments	1,990,422
Amount representing interest	<u>(162,623)</u>
Present value of net minimum lease payments	<u>1,827,799</u>

Interest rates on capitalized leases vary from 2.00% to 4.77%. 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. The capital copier leases provide for the copiers to revert to the District at the end of the respective lease.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

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

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	1,467,246			1,467,246
Depreciable Assets:				
Buildings & Building Improvements	75,564,429			75,564,429
Technology Equipment	856,859	797,268		1,654,127
Vehicles	5,570,459	348,022	(174,772)	5,743,709
General Equipment	2,086,275	40,600	(28,285)	2,098,590
TOTAL AT HISTORICAL COST	85,545,268	1,185,890	(203,057)	86,528,101
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	29,166,544	1,897,232		31,063,776
Technology Equipment	217,288	189,509		406,797
Vehicles	3,950,404	281,786	(174,772)	4,057,418
General Equipment	1,657,878	60,285	(28,285)	1,689,878
TOTAL ACCUMULATED DEPRECIATION	34,992,114	2,428,812	(203,057)	37,217,869
GOVERNMENTAL ACTIVITIES CAPITAL NET	50,553,154	(1,242,922)	-	49,310,232
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
General Equipment	237,118	171,576		408,694
TOTALS AT HISTORICAL COST	237,118	171,576	-	408,694
LESS ACCUMULATED DEPRECIATION FOR:				
General Equipment	123,350	16,854		140,204
TOTAL ACCUMULATED DEPRECIATION	123,350	16,854	-	140,204
PROPRIETARY ACTIVITIES CAPITAL NET	113,768	154,722	-	268,490
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				2,022,047
Student Support Services				37,305
District Administration				1,320
School Administration				228
Business Support Services				636
Plant Operation & Maintenance				92,777
Student Transportation				274,499
TOTAL				2,428,812

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). University members contribute 10.4% of salary to the retirement system. Non-university employees are required to contribute 12.855% of their salaries to the System. Member contributions are picked up by the employer.

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, 2021, 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:

District's proportionate share of the CERS net pension liability	\$ 10,565,694
Commonwealth's proportional share of the TRS net pension liability associated with the District	<u>54,999,484</u>
	<u>\$ 65,565,178</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The net pension liability for each plan was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of 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, 2020, the District's proportion was 0.137755% percent.

For the year ended June 30, 2021, the District recognized pension expense of \$1,676,372 related to CERS and \$3,980,978 related to TRS. The District also recognized revenue of \$3,980,978 for TRS support provided by the Commonwealth. At June 30, 2021, 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	\$ 263,475	\$ -
Changes of assumptions	412,573	-
Net difference between projected and actual earnings on pension plan investments	457,987	193,594
Changes in proportion and differences between District contributions and proportionate share of contributions	97,574	67,659
District contributions subsequent to the measurement date	<u>662,143</u>	<u>-</u>
Total	<u>\$ 1,893,752</u>	<u>\$ 261,253</u>

\$662,143 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2022	470,116
2023	270,565
2024	123,488
2025	106,187
2026	-

Actuarial assumptions—The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Teachers' Retirement System (TRS)

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2019
Investment rate of return	7.50%, net of pension plan investment expenses, including inflation
Municipal Bond Index Rate	
Prior Measurement Date	3.50%
Measurement Date	2.19%
Projected salary increases	3.5-7.3%, includes inflation
Post-retirement benefit increases	1.50% annually
Inflation rate	3.0%
Single Equivalent Interest Rate, net of pension plan investment expense, including inflation	
Prior Measurement Date	7.50%
Measurement Date	7.50%

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

County Employees' Retirement System (CERS)

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2018
Experience Study	July 1, 2013-June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 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%
Projected salary increases	3.3 to 11.55%, varies by service
Inflation rate	2.30%

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 BB to 2025, set forward two years for males and one year for females. The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for July 1, 2010 – June 30, 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 in a report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018”. 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%	4.60%
International Equity	22.00%	5.60%
Fixed Income	15.00%	0.0%
Additional Categories	7.00%	2.5%
Real Estate	7.00%	4.3%
Private Equity	7.00%	7.7%
Cash	2.0%	-0.5%
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%	4.25%
Non-U.S. Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.3%
Opportunistic	3.00%	2.25%
Real Return	15.0%	3.95%
Total	100.0%	3.96%

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 2.19% 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	13,029,800	10,565,694	8,525,321
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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three 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, 2021, the Mercer County District reported a liability of \$5,270,000 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, 2021, the District's proportion was .2088 percent, compared to .2109 percent at June 30, 2020.

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	\$ 5,270,000
State's proportionate share of the net OPEB liability associated with the District	<u>4,222,000</u>
Total	<u>\$11,160,000</u>

For the year ended June 30, 2021, the District recognized OPEB expense of \$76,927 and revenue of \$301,580 for support provided by the State. At June 30, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,247,544
Changes of assumptions	177,666	-
Net difference between projected and actual earnings on pension plan investments	95,495	-
Changes in proportion and differences between District contributions and proportionate share of contributions	76,618	118,259
District contributions subsequent to the measurement date	<u>404,211</u>	<u>-</u>
Total	<u><u>753,990</u></u>	<u><u>1,365,803</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$404,211 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, 2021. 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	\$	(209,687)
2022		(202,650)
2023		(203,760)
2024		(179,331)
2025		(156,568)
Thereafter		(63,849)

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

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 2020 decreasing to an ultimate rate of 5.00% by FY 2029
Ages 65 and Older	5.25% for FY 2020 decreasing to an ultimate rate of 5.00% by FY 2022
Medicare Part B Premiums	6.49% for FY 2020 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	2.19%
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, 2020 valuation were based on a review of recent plan experience done concurrently with the June 30, 2020 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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Global Equity	58.00%	5.40%
Fixed Income	9.00%	0.00%
Real Estate	6.50%	4.30%
Private Equity	8.50%	7.70%
Other Additional Categories	17.00%	2.50%
Cash (LIBOR)	1.00%	-0.50%
	100.00%	

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

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

	1% Decrease	Current Discount Rate	1% Increase
TRS	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	6,370,000	5,270,000	4,352,000

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	4,177,000	5,270,000	6,617,000

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, 2021, 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>128,000</u>
Total	<u>\$ 128,000</u>

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

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	2.19%
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, 2020 valuation were based on a review of recent plan experience done concurrently with the June 30, 2020 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:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Global Equity	40.00%	4.60%
International Equity	23.00%	5.60%
Fixed Income	18.00%	0.00%
Real Estate	6.00%	4.30%
Private Equity	5.00%	7.70%
Other Additional Categories	6.00%	2.50%
Cash (LIBOR)	2.00%	-0.50%
	100.00%	

**As the Life Insurance investment policy is to change, the above table reflects the pension allocation and returns that achieve the targeted 8.00% long-term rate of return.*

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 Mercer 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, 2021 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, 2021, the Mercer County District reported a liability of \$3,326,050 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2020, 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, 2021, the District’s proportion was .137742 percent, compared to .1339713 percent at June 30, 2020.

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

District’s proportionate share of the net OPEB liability	\$ 3,326,050
State’s proportionate share of the net OPEB liability associated with the District	<u>-0-</u>
Total	<u>\$ 3,326,050</u>

For the year ended June 30, 2021, the District recognized OPEB expense of \$354,340. At June 30, 2021, 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	\$ 555,713	\$ 556,147
Changes of assumptions	578,536	3,518
Net difference between projected and actual earnings on pension plan investments	178,418	67,868
Changes in proportion and differences between District contributions and proportionate share of contributions	51,490	38,535
District contributions subsequent to the measurement date	<u>244,932</u>	<u>-</u>
Total	<u>1,609,089</u>	<u>666,068</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$163,306 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year and implicit subsidy of \$81,626 totaling \$244,932 will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. 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:	
2022	\$ 185,680
2023	218,396
2024	155,706
2025	144,517
2026	(6,210)

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

Valuation Date	June 30, 2018
Experience Study	July 1, 2008-June 30 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	25 Years, Closed
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%	4.50%
Non-U.S. Equity	18.75%	5.25%
Private Equity	10.00%	6.65%
Specialty Credit/High Yield	15.00%	3.90%
Liquidity	14.50%	
Core Bonds	13.50%	-0.25%
Cash	1.00%	-0.75%
Diversifying Strategies	23.00%	
Real Estate	5.00%	5.30%
Opportunistic	3.00%	2.25%
Real Return	15.0%	3.95%
Total	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 5.34%. 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 5.34%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.34%) or 1-percentage-point higher (6.34%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.34%	5.34%	6.34%
District's proportionate share of net OPEB liability	4,272,998	3,326,050	2,548,291

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	2,575,194	3,326,050	4,237,232

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 Ohio Casualty 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 District had no funds with a deficit fund balance at June 30, 2021. Additionally, 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	51,685
Student Activity Fund	6,481
Debt Service Fund	3,133,878

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	51,685
Operating	Capital Outlay	Debt Service	Debt Service	246,120
Operating	Building Fund	General Fund	Debt Service	189,868
Operating	Food Service	General Fund	Indirect Costs	74,641
Operating	General Fund	Building Fund	Operations	276
Operating	Building Fund	Debt Service	Debt Service	<u>2,887,758</u>
Total Governmental Funds Transferred In				3,450,348
Operating	Food Service	General Fund	Indirect Costs	<u>(74,641)</u>
Proprietary Funds Transferred				(74,641)
Total Transferred Funds				<u>3,375,707</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$253,865

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 29, 2021, the date the financials were available for release. There are no material subsequent events to disclose.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE Q – ON-BEHALF PAYMENT

For the year ended June 30, 2021, \$7,570,284 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 recorded as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$3,980,978
Teachers Retirement system (GASB 75)	301,580
Health Insurance	2,900,693
Life Insurance	4,764
Administrative Fee	38,648
HRA/Dental/Vision	182,613
Federal Reimbursement	(128,086)
Technology	103,920
SFCC Debt Service Payments	<u>185,174</u>
Total	<u>\$7,570,284</u>

REQUIRED SUPPLEMENTARY
INFORMATION

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	8,490,350	8,490,350	9,144,996	654,646
Other Local Sources	30,000	30,000	39,357	9,357
State Sources	10,624,500	10,624,500	17,340,943	6,716,443
Other Sources	625,000	625,000	992,289	367,289
TOTAL REVENUES	19,769,850	19,769,850	27,517,585	7,747,735
EXPENDITURES:				
Instructional	12,337,355	12,337,355	16,037,628	(3,700,273)
Student Support Services	683,264	683,264	953,688	(270,424)
Staff Support Services	634,881	634,881	930,913	(296,032)
District Administration	1,086,807	1,086,807	1,000,726	86,081
School Administration	1,394,026	1,394,026	2,091,205	(697,179)
Business Support Services	531,477	531,477	789,134	(257,657)
Plant Operation & Maintenance	2,447,612	2,447,612	1,983,443	464,169
Student Transportation	2,277,579	2,277,579	2,102,191	175,388
Food Service Operations	3,973	3,973	3,479	494
Other	2,232,876	2,232,876	320,207	1,912,669
TOTAL EXPENDITURES	23,629,850	23,629,850	26,212,614	(2,582,764)
NET CHANGE IN FUND BALANCE	(3,860,000)	(3,860,000)	1,304,971	5,164,971
FUND BALANCES - BEGINNING	3,860,000	3,860,000	3,869,875	9,875
FUND BALANCES - ENDING	0	0	5,174,846	5,174,846

On-behalf payments totaling \$7,288,931 are not budgeted by the Mercer County School District.

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

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	0	0	27,272	27,272
State Sources	1,859,715	1,859,715	1,947,732	88,017
Federal Sources	1,821,369	1,821,369	3,125,211	1,303,842
Other Sources	51,685	51,685	51,685	0
TOTAL REVENUES	3,732,769	3,732,769	5,151,900	1,419,131
EXPENDITURES:				
Instructional	3,092,898	3,092,898	4,421,284	(1,328,386)
Student Support Services	8,296	8,296	7,106	1,190
Staff Support Services	280,774	280,774	252,212	28,562
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	0	0	0	0
Plant Operation & Maintenance	83,836	83,836	125,370	(41,534)
Student Transportation	0	0	0	0
Food Service Operation	0	0	56,418	(56,418)
Central Office	0	0	0	0
Community Service Operations	266,965	266,965	289,510	(22,545)
Facility Acquisition & Construction	0	0	0	0
Other	0	0	0	0
TOTAL EXPENDITURES	3,732,769	3,732,769	5,151,900	(1,419,131)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

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

MERCER 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

	2015	2016	2017	2018	2019	2020	2021
District's proportion of net pension liability	0.00%	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	\$ 84,345,557	94,826,480	117,587,135	108,715,095	51,890,013	53,776,505	54,999,484
TOTAL	<u>84,345,557</u>	<u>94,826,480</u>	<u>117,587,135</u>	<u>108,715,095</u>	<u>51,890,013</u>	<u>53,776,505</u>	<u>54,999,484</u>
District's covered-employee payroll	\$ 12,829,760	12,915,230	13,073,489	13,233,907	13,220,586	13,303,729	13,473,699
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%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%	39.80%	59.30%	58.80%	58.27%

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

MERCER 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>	<u>2021</u>
District's proportion of net pension liability	0.142144%	0.142016%	0.136863%	0.133499%	0.136748%	0.139750%	0.137755%
District's proportionate share of the net pension liability	\$ 4,612,000	6,106,021	6,738,586	7,814,107	8,328,370	9,828,680	10,565,694
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-	-	-	-
TOTAL	<u>\$ 4,612,000</u>	<u>6,106,021</u>	<u>6,738,586</u>	<u>7,814,107</u>	<u>8,328,370</u>	<u>9,828,680</u>	<u>10,565,694</u>
District's covered-employee payroll	\$ 3,341,312	3,307,880	3,277,894	3,411,902	3,554,169	3,548,411	3,430,795
District's proportionate share of the net pension liability as a percentage of its covered-payroll	138.03%	184.59%	205.58%	229.02%	234.33%	276.99%	307.97%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	63.46%	55.50%	53.30%	53.54%	50.45%	47.81%

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

MERCER 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>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,829,760	\$ 12,915,230	\$ 13,073,489	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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

MERCER 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>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ 426,017	\$ 410,839	\$ 457,266	\$ 494,043	\$ 576,487	\$ 684,843	\$ 662,143
Contributions in relation to the actuarially determined contributions	<u>426,017</u>	<u>410,839</u>	<u>457,266</u>	<u>494,043</u>	<u>576,487</u>	<u>684,843</u>	<u>662,143</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,341,312	\$ 3,307,880	\$ 3,277,894	\$ 3,411,902	\$ 3,554,169	\$ 3,548,411	\$ 3,430,795
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%	19.30%	19.30%

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

MERCER 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>	<u>2021</u>
District's proportion of net OPEB liability	0.133499%	0.136744%	0.139713%	0.137742%
District's proportionate share of the net OPEB liability	2,683,787	2,427,863	2,349,910	3,326,050
State of Kentucky's share of the net OPEB liability associated with the district	-	-	-	-
TOTAL	<u><u>2,683,787</u></u>	<u><u>2,427,863</u></u>	<u><u>2,349,910</u></u>	<u><u>3,326,050</u></u>
District's covered-employee payroll	3,411,902	3,554,169	3,548,411	3,430,795
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	78.66%	68.31%	66.22%	96.95%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%	60.44%	51.67%

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

MERCER 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>	<u>2021</u>
District's proportion of net OPEB liability	0.2134%	0.2055%	0.2109%	0.2088%
District's proportionate share of the net OPEB liability	7,608,000	7,131,000	6,174,000	5,270,000
State of Kentucky's share of the net OPEB liability associated with the district	<u>6,215,000</u>	<u>6,146,000</u>	<u>4,986,000</u>	<u>4,222,000</u>
TOTAL	<u><u>13,823,000</u></u>	<u><u>13,277,000</u></u>	<u><u>11,160,000</u></u>	<u><u>9,492,000</u></u>
District's covered-employee payroll	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	57.49%	53.94%	46.41%	39.11%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%	32.60%	39.05%

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

MERCER 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>	<u>2021</u>
District's proportion of net OPEB liability	0.0000%	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>83,000</u>	<u>105,000</u>	<u>116,000</u>	<u>128,000</u>
TOTAL	<u><u>83,000</u></u>	<u><u>105,000</u></u>	<u><u>116,000</u></u>	<u><u>128,000</u></u>
District's covered-employee payroll	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%	73.40%	71.57%

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

MERCER 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>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ 160,359	\$ 186,949	\$ 168,904	\$ 163,306
Contributions in relation to the actuarially determined contributions	<u>160,359</u>	<u>186,949</u>	<u>168,904</u>	<u>163,306</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,411,902	\$ 3,554,169	\$ 3,548,111	\$ 3,430,795
Contributions as a percentage of Covered employee payroll	4.70%	5.26%	4.76%	4.76%

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

MERCER 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>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ 366,655	\$ 396,618	\$ 399,112	\$ 404,211
Contributions in relation to the actuarially determined contributions	<u>366,655</u>	<u>396,618</u>	<u>399,112</u>	<u>404,211</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,221,840	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699
Contributions as a percentage of Covered employee payroll	3.00%	3.00%	3.00%	3.00%

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

MERCER 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>	<u>2021</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%

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

MERCER 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, 2021

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

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 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 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	27.4 years
Asset valuation method	5-year smoothed market
Inflation	3.0 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.

MERCER 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, 2021

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:

MERCER 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, 2021

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%.

2020

There were no changes of assumptions for the year ended June 30, 2020.

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, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary Increase	3.30-11.55 percent, varies by service
Investment Rate of Return	6.25 percent

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.

MERCER 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, 2021

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.

2020

Health Care Cost Trend Rates were updated for the June 30, 2019 valuation.

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, 2020:

Valuation date	June 30, 2019
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	21 years, Closed
Asset valuation method	Five-year smoothed value
Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases, including wage inflation	3.5% - 7.20%
Discount rate	8.00%
Health care cost trends	
KEHP group	7..25% at June 30, 2020, decreasing to an ultimate rate of 5% by June 30, 2029
Ages 65 and older	5.25% at June 30, 2020, decreasing to an ultimate rate of 5% by June 30, 2022
Medicare Part B premiums	6.4% at June 30, 2020 with an ultimate rate of 5% by June 30, 2031
KEHP group claims	The current KEHP premium 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 (June 30, 2018) – 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.

MERCER 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, 2021

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%.

2020

There were no changes in assumptions.

MERCER 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, 2021

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 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, 2020:

Valuation Date	June 30, 2018
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	25 years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30%-11.55%, varies by service
Investment Rate of Return	6.25 %
Healthcare cost trend rates	
Pre - 65	Initial trend starting at 7.0% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The 2019 premiums were known at the time of valuation and were incorporated into the liability measurement.
Ages 65 and Older	Initial trend starting at 5.0% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years. The 2019 premiums were known at the time of valuation and were incorporated into the liability measurement.
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.

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

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

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	STUDENT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:							
Cash & Cash Equivalents	510	1,219	71,765		517,434	47,546	638,474
Accounts Receivable					320		320
TOTAL ASSETS	510	1,219	71,765	0	517,754	47,546	638,794
LIABILITIES AND FUND BALANCES:							
Liabilities:							
Accounts Payable					2,598		2,598
Total Liabilities	0	0	0	0	2,598	0	2,598
Fund Balances:							
Restricted for:							
Capital Projects			71,765				71,765
SFCC Escrow	510	1,219					1,729
School Activities					515,156		515,156
Student Activities						47,546	47,546
Total Fund Balances	510	1,219	71,765	0	515,156	47,546	636,196
TOTAL LIABILITIES AND FUND BALANCES	510	1,219	71,765	0	517,754	47,546	638,794

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

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

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	STUDENT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:							
Taxes		2,164,356					2,164,356
Intergovernmental - State	246,120	912,994		185,174			1,344,288
Earnings on Investments			403	434			837
Other Sources					228,579	17,667	246,246
TOTAL REVENUES	246,120	3,077,350	403	185,608	228,579	17,667	3,755,727
EXPENDITURES:							
Instructional					196,445	24,148	220,593
Staff Support Services					844		844
Debt Service:							
Principal				2,440,000			2,440,000
Interest				879,486			879,486
TOTAL EXPENDITURES	0	0	0	3,319,486	197,289	24,148	3,540,923
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	246,120	3,077,350	403	(3,133,878)	31,290	(6,481)	214,804
OTHER FINANCING SOURCES(USES):							
Operating Transfers In		276		3,133,878			3,134,154
Operating Transfers Out	(246,120)	(3,077,626)					(3,323,746)
TOTAL OTHER FINANCING SOURCES (USES)	(246,120)	(3,077,350)	0	3,133,878	0	0	(189,592)
NET CHANGE IN FUND BALANCES	0	0	403	0	31,290	(6,481)	25,212
FUND BALANCES - BEGINNING	510	1,219	71,362	0	483,866	54,027	610,984
FUND BALANCES - ENDING	510	1,219	71,765	0	515,156	47,546	636,196

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

MERCER COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 STUDENT ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2021

	<u>BALANCE</u> <u>JULY 1, 2020</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>BALANCE</u> <u>JUNE 30, 2021</u>
Mercer County Senior High School	33,581	12,508	18,837	27,252
King Middle School	12,690	2,820	5,312	10,198
Mercer Central	493	622	-	1,115
Mercer County Intermediate School	6,757	1,437	-	8,194
Mercer County Elementary School	506	281	-	787
Total Activity Funds (Due to Student Groups)	<u>54,027</u>	<u>17,668</u>	<u>24,149</u>	<u>47,546</u>

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

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2021

	BALANCE JULY 1, 2020	RECEIPTS	DISBURSEMENTS	BALANCE JUNE 30, 2020	TRANSFER OUT TO DAF	FUND BALANCE JUNE 30, 2021
Titan School Store	152	0	0	152		152
Student Vending	1,199	0	0	1,199		1,199
Pep Club	819	0	0	819		819
Weights	299	393	311	381		381
THIRST	24	0	0	24		24
Beta Club	952	2,660	2,423	1,189		1,189
Beta Scholarship	620	0	0	620		620
Chess Club	597	0	0	597		597
MCHS Book Club	634	0	0	634		634
KYA/KUNA	249	1,035	1,240	44		44
FCA Club	968	0	0	968		968
Republican Club	111	0	0	111		111
Unity Club	206	0	0	206		206
FFA Club	16,365	1,734	5,261	12,838		12,838
FCCLA CLUB	1,702	600	291	2,011		2,011
Engineering Club	674	0	0	674		674
FEA Club	130	0	0	130		130
Natinal Honor Society	940	981	1,141	780		780
Spanish Club	1,232	0	0	1,232		1,232
Student Council	417	0	0	417		417
Key Club	66	0	0	66		66
Film	121	0	0	121		121
Envirothon Team	75	0	0	75		75
Project Graduation	5,029	5,105	8,170	1,964		1,964
Total All Funds	33,581	12,508	18,837	27,252	0	27,252
Interfund Transfers						0
Total	33,581	12,508	18,837	27,252	0	27,252

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

<u>FEDERAL GRANTOR/PASS-THROUGH</u> <u>GRANTOR/PROGRAM TITLE</u>	<u>CFDA</u> <u>NUMBER</u>	<u>PASS</u> <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	310F	25,728
Title I - Grants to Local Educational Agencies	84.010	3100002	310G	664,617
Title I - Parent Involvement	84.010	3100002	310EM	3,456
Title I Grants to Local Educational Agencies Total				693,801
Title I, Neglected and Delinquent Children and Youth	84.013	313G	313G	19,000
Title II Supporting Effective Instruction State Grants	84.367	3230002	401E	994
Title II Supporting Effective Instruction State Grants	84.367	3230002	401F	33,185
Title II Supporting Effective Instruction State Grants	84.367	3230002	401G	98,181
Title II Supporting Effective Instruction State Grants				132,360
Perkins Voc.	84.048	3710006	348EA	970
Perkins Voc.	84.048	3710006	348F	7,752
Perkins Voc.	84.048	3710006	348FA	1,290
Perkins Voc.	84.048	3710006	348G	28,075
Perkins Voc. Total				38,087
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552ET	2,550
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552FS	18,217
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552FT	2,200
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552GW	8,389
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552FW	14,366
Title IV, Part A - Student Support and Academic Enrichment Total				45,722
IDEA - Special Education - Grants to State	84.027	3810002	337F	13,830
IDEA - Special Education - Grants to State	84.027	3810002	337G	662,828
IDEA - Special Education - Preschool Grants	84.027	3810002	343F	3,040
IDEA - Special Education - Preschool Grants	84.173	3800002	343G	53,554
Special Education Cluster				733,252

COVID-19 - Governor's Emergency Education Relief Fund	84.425C	GEER-20	633F	84,206
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4000002	613F	485,535
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4000002	613FD	3,347
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4000002	554G	195,941
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4000002	554GD	503,905
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4000002	554GS	20,134
COVID-19 Education Stabilization Fund Total				<u>1,293,068</u> *
Passed Through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	614G	614G	12,547
Total U.S. Department of Education				<u>2,967,837</u>
<u>U S Department of the Treasury</u>				
Passed-Through Kentucky Department of Education				
COVID-19 Coronavirus Relief Program	21.019	CARES-20	17GG	599,532
COVID-19 Last Mile Internet	21.019	CARES-20	663G	22,479
COVID-19 Coronavirus Relief Program Total				<u>622,011</u> *
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
Summer Meal Program	10.559	7690024-20	7690024-20	81,261
Summer Meal Program	10.559	7690024-21	7690024-21	189,754
Summer Meal Program	10.559	7740023-20	7740023-20	583,813
Summer Meal Program	10.559	7740023-21	7740023-21	1,973,163
Child Nutrition Cluster				<u>2,827,991</u>
Child & Adult Care Food Program	10.558	7790021-21	7790021-21	511
State Administrative Expenses for Child Nutrition	10.560	7700001-20	7700001-20	1,254
Pass-Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	<u>97,624</u>
Total U.S. Department of Agriculture				<u>2,927,380</u>
Total Federal Financial Assistance				<u><u>6,517,228</u></u>

* Tested as major program

MERCER COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021

NOTE A – BASIS OF PRESENTATION

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

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

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>
84.425C/84.425D 21.019	COVID-19 Education Stabilization Fund COVID-19 Coronavirus Relief Fund

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.

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2021

There were no prior year audit findings.

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Stephanie A. Abell, CPA

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October 29, 2021

**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
Mercer County School District
Harrodsburg, 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 Mercer County School District, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements, and have issued our report thereon dated October 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mercer 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 Mercer County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer 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 Mercer 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 Mercer County School District in a separate letter dated October 27, 2021.

Purpose of this Report

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

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October 29, 2021

**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
Mercer County School District
Harrodsburg, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Mercer 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 Mercer County School District's major federal programs for the year ended June 30, 2021. Mercer 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 Mercer 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 Mercer 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 Mercer County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Mercer 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, 2021.

Report on Internal Control Over Compliance

Management of Mercer 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 Mercer 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 Mercer 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,

White and Company, P.S.C.

Certified Public Accountants

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October 29, 2021

MANAGEMENT LETTER

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

In planning and performing our audit of the financial statements of Mercer County School District for the year ended June 30, 2021, 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 Recommendations – School Activity Funds:

2020-1 Current Year Recommendation:

During the current year audit, there was one instance noted where the Mercer County Senior High School received a reimbursement and it was documented. However, this receipt was documented with a Donation Acknowledgement Form, which was the incorrect form. We recommend the use of proper receipt forms set forth by Redbook guidelines prior to the receipt documentation being brought to the District.

Current Year Status:

No such instances were found.

Current Year Recommendations – School Activity Funds:

2021-1 Current Year Recommendation:

During the current year audit, there were a couple of invoices found as being paid by ACI for which the District was charged sales tax. We recommend that the District not authorize payment for invoices by check or ACI until the sales tax is removed.

Management Response:

We will not authorize payment for invoices that include sales tax.

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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Members of the Board of Education
Mercer County School District
Harrodsburg, 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 Mercer County School District for the year ended June 30, 2021. 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 29, 2021. 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 polices used by Mercer 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 2021. We noted no transactions entered into by Mercer 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.

The financial statement disclosures are neutral, consistent, and clear.

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 29, 2021.

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 Mercer 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 Mercer 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 54 and 55, or on the schedules of the district's proportionate share of net pension liabilities and other post-employment benefit plans on pages 56-78 and 60-62, 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 58-59 and 63-65, 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 Mercer 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