

**PENDLETON COUNTY SCHOOL DISTRICT**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2023**

**TOGETHER WITH INDEPENDENT AUDITOR'S REPORTS**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Audit of the Financial Statements

#### *Opinions*

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 Pendleton County School District (the "District"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information on pages 6 through 9 and the Schedule of Proportionate Share of the Net Pension and OPEB Liability and Schedule of Pension and OPEB Contributions on pages 52 through 64 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

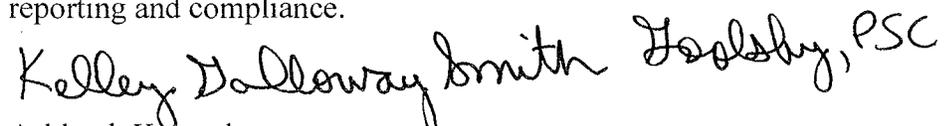
### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying other supplemental schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental schedules 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 supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

  
Ashland, Kentucky  
November 13, 2023

**PENDLETON COUNTY SCHOOL DISTRICT  
FALMOUTH, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)  
FOR THE YEAR ENDED JUNE 30, 2023**

As management of the Pendleton County School District ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for all funds of the District was approximately \$8,807,854 and the ending balance was approximately \$19,544,442, an increase of approximately \$10,736,588 for the year, principally due to receipt of an \$8,131,300 capital grant, in conjunction with an increase in state and federal revenues.
- The General Fund had \$23,587,311 in revenue, which consisted primarily of the State program (SEEK) and property, utilities, and motor vehicle taxes. Excluding interfund transfers, there was \$22,198,847 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt decreased by \$2,204,125 during the current fiscal year.
- Net pension liabilities required to be recorded under GASB No. 68 increased during the year. Non-professional staff members are covered by the Kentucky County Employee Retirement System. Under this system, the District's share of the pension liability was \$7,612,079 as of June 30, 2022, which represents an increase of \$663,749 from the June 30, 2021 balance of \$6,948,330. The Kentucky Teachers Retirement System covers the District's professional staff members. The District's allocated pension liability as of June 30, 2022 was \$43,778,029, which represents an increase of \$9,820,543 from the June 30, 2021 balance of \$33,957,486. However, this pension liability is the responsibility of the Commonwealth of Kentucky.
- Net OPEB liabilities required to be recorded under GASB 75 increased during the year. There are two sources of OPEB liabilities with which the District has to contend. The Kentucky Teachers Retirement System (KTRS) Medical Insurance Plan and Life Insurance Plan covers the District's professional staff members. The District's allocated OPEB liability as of June 30, 2022 for KTRS Medical Insurance Plan was \$6,146,000 with the District's responsibility being \$4,626,000 and the Commonwealth of Kentucky's responsibility being \$1,520,000. This is an overall increase of \$747,000 from the District's allocated OPEB liability of \$5,399,000 at June 30, 2021 for the KTRS Medical Insurance Plan. The liability for the KTRS Life Insurance Plan is the responsibility of the Commonwealth of Kentucky and the District's allocated amount as of June 30, 2022 was \$76,000, which represents an increase of \$44,000 from the June 30, 2021 balance of \$32,000. Non-professional staff members are covered by the County Employee Retirement System Insurance Fund. Under this fund the District's share of OPEB liability was \$2,078,209 as of June 30, 2022, which represents a decrease of \$7,680 from the June 30, 2021 balance of \$2,085,889.

## OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 10 and 11 of this report.

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 51 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by approximately \$14.1 million as of June 30, 2023.

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

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

**Net Position for the period ending June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Current Assets	\$ 20,668,266	\$ 9,897,429
Noncurrent Assets	<u>28,841,892</u>	<u>30,393,638</u>
Total Assets	<u>49,510,158</u>	<u>40,291,067</u>
Deferred Outflows	4,597,689	3,137,468
Current Liabilities	11,006,635	3,071,028
Noncurrent Liabilities	<u>25,406,852</u>	<u>25,343,001</u>
Total Liabilities	<u>36,413,487</u>	<u>28,414,029</u>
Deferred Inflows	3,589,574	5,058,916
Net Position		
Investment in capital assets (net of debt)	15,885,163	15,270,190
Restricted	1,242,710	(62,984)
Unrestricted	<u>(3,023,087)</u>	<u>(5,251,616)</u>
Total Net Position	<u>\$ 14,104,786</u>	<u>\$ 9,955,590</u>

The following table presents a summary of all governmental activities and business-type activities revenues and expenses for the fiscal year ended June 30, 2023, with comparison to 2022.

	<u>2023</u>	<u>2022</u>
<b>Revenues:</b>		
Local Revenue Sources	\$ 8,880,135	\$ 7,410,109
State Revenue Sources	18,540,686	9,812,618
Federal Revenue	6,214,519	5,158,639
Other Sources	<u>15,953</u>	<u>10,899</u>
Total Revenues	<u>33,651,293</u>	<u>22,392,265</u>
<b>Expenses:</b>		
Instruction	17,412,709	7,463,545
Student Support Services	1,287,818	1,307,689
Instructional Support	473,546	328,369
District Administration	731,949	792,266
School Administration	1,617,553	1,350,893
Plant Operations	2,420,396	2,957,321
Student Transportation	1,871,370	1,891,195
Business and Other Support Services	910,405	944,888
Community Services	348,955	257,261
Debt Service	498,735	555,832
Food Services	1,836,686	1,631,293
Day Care Operations	<u>91,975</u>	<u>56,500</u>
Total Expenses	<u>29,502,097</u>	<u>19,537,052</u>
Revenues Over (Under) Expenses	<u>\$ 4,149,196</u>	<u>\$ 2,855,213</u>

**Governmental Funds Revenue**

The majority of revenue was derived from state funding, making up 61.48% and federal funding of 12.90% of total revenue. Local revenues make up 25.62% of total revenue (33.09% in 2022).

## **District-Wide Support Allocation**

District-wide support services expenditures were Transportation 6.34%, Maintenance & Operations 8.20%, and Business Functions 3.09% (as compared to 9.68%, 15.14%, and 4.84% in 2022, respectively).

The total cost of all programs and services for governmental activities was \$27,655,075 compared with \$17,903,719 in 2022.

The District's total revenues for the governmental funds for the fiscal year ended June 30, 2023 and 2022, net of other financing sources, was approximately \$34.0 million and \$28.8 million, respectively.

## **Comments on Budget Comparisons**

- After adjustments for contingency, the General fund budget compared to actual expenditures varied modestly from line item to line item with the ending actual balance being \$3,147,017 less than budget, or approximately 12.42%. This is primarily due to on-behalf payments being difficult to budget.
- General Fund revenue compared to budget varied modestly from line item to line item, with the ending actual balance being more than budgeted amounts by \$2,971,612.

## **Capital Assets**

At the end of June 30, 2023, the District's investment in capital assets for its governmental and business-type activities was \$28,778,259, representing a decrease of \$1,533,565 due primarily to depreciation for the current year.

## **Debt Service**

At year-end, the District had approximately \$13.1 million in outstanding debt, compared to \$15.3 million last year.

## **Budgetary Implications**

In Kentucky, the public school fiscal year is July 1 - June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted the 2024 budget with approximately \$2,752,044 in contingency (8.66%). The general fund cash balance for beginning the next fiscal year is \$9,084,670. There was no significant Board action that impacts the finances for the new year.

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

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

**PENDLETON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2023**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 18,633,049	\$ 911,393	\$ 19,544,442
Receivables (net of allowances for uncollectibles):			
Taxes	66,409	-	66,409
Other	34,750	-	34,750
Intergovernmental - state	970,985	-	970,985
Inventories	-	51,680	51,680
Right to use leased assets, net	63,633	-	63,633
Capital assets, not being depreciated	999,790	-	999,790
Capital assets, being depreciated, net	27,322,942	455,527	27,778,469
Total assets	<u>48,091,558</u>	<u>1,418,600</u>	<u>49,510,158</u>
<b>Deferred Outflows of Resources</b>			
Deferred savings from refunding bonds	188,086	-	188,086
Deferred outflows - pension related	827,942	146,162	974,104
Deferred outflows - OPEB related	3,373,051	62,448	3,435,499
Total deferred outflows of resources	<u>4,389,079</u>	<u>208,610</u>	<u>4,597,689</u>
<b>Liabilities</b>			
Accounts payable	61,909	8,708	70,617
Accrued salaries and benefits	82,221	-	82,221
Accrued interest payable	83,169	-	83,169
Unearned revenue	8,413,434	-	8,413,434
Portion due or payable within one year:			
Leases payable	17,733	-	17,733
Notes payable	129,461	-	129,461
Bond obligations	2,210,000	-	2,210,000
Portion due or payable after one year:			
Accrued sick leave	302,943	-	302,943
Leases payable	48,053	-	48,053
Notes payable	485,925	-	485,925
Bond obligations	10,253,643	-	10,253,643
Net pension liability	6,553,711	1,058,368	7,612,079
Net OPEB liability	6,393,044	311,165	6,704,209
Total liabilities	<u>35,035,246</u>	<u>1,378,241</u>	<u>36,413,487</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows - pension related	331,713	55,634	387,347
Deferred inflows - OPEB related	3,118,973	83,254	3,202,227
Total deferred inflows of resources	<u>3,450,686</u>	<u>138,888</u>	<u>3,589,574</u>
<b>Net Position</b>			
Net investment in capital assets	15,429,636	455,527	15,885,163
Restricted for:			
Capital projects	279,135	-	279,135
Other	1,309,021	(345,446)	963,575
Unrestricted	(3,023,087)	-	(3,023,087)
Total net position	<u>\$ 13,994,705</u>	<u>\$ 110,081</u>	<u>\$ 14,104,786</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary government:</b>							
Governmental activities:							
Instruction	\$ 17,412,709	\$ -	\$ 4,496,312	\$ -	\$ (12,916,397)	\$ -	\$ (12,916,397)
Support services:							
Students	1,287,818	-	122,065	-	(1,165,753)	-	(1,165,753)
Instructional staff	473,546	-	91,702	-	(381,844)	-	(381,844)
District administration	731,949	-	-	-	(731,949)	-	(731,949)
School administration	1,617,553	-	-	-	(1,617,553)	-	(1,617,553)
Business and other support services	910,405	-	57,107	-	(853,298)	-	(853,298)
Operation and maintenance of plant	2,420,396	-	110,309	278,658	(2,031,429)	-	(2,031,429)
Student transportation	1,871,370	-	39,563	-	(1,831,807)	-	(1,831,807)
Day care operations	81,639	-	85,161	-	3,522	-	3,522
Community services	348,955	-	341,666	-	(7,289)	-	(7,289)
Interest	498,735	-	-	148,619	(350,116)	-	(350,116)
Total governmental activities	<u>27,655,075</u>	<u>-</u>	<u>5,343,885</u>	<u>427,277</u>	<u>(21,883,913)</u>	<u>-</u>	<u>(21,883,913)</u>
Business-type activities:							
Food service	1,836,686	92,089	1,950,677	-	-	206,080	206,080
Day Care Fund	10,336	41,967	-	-	-	31,631	31,631
Community Ed Fund	-	-	-	-	-	-	-
Total business-type activities	<u>1,847,022</u>	<u>134,056</u>	<u>1,950,677</u>	<u>-</u>	<u>-</u>	<u>237,711</u>	<u>237,711</u>
Total primary government	<u>\$ 29,502,097</u>	<u>\$ 134,056</u>	<u>\$ 7,294,562</u>	<u>\$ 427,277</u>	<u>\$ (21,883,913)</u>	<u>\$ 237,711</u>	<u>\$ (21,646,202)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 4,982,035	\$ -	\$ 4,982,035
Motor vehicle					913,297	-	913,297
Utilities					929,514	-	929,514
Intergovernmental revenues:							
State					17,033,366	-	17,033,366
Investment earnings					680,614	38,915	719,529
Gain on sale of assets					15,953	-	15,953
Other local revenues					1,201,704	-	1,201,704
Total general revenues					<u>25,756,483</u>	<u>38,915</u>	<u>25,795,398</u>
Transfers					<u>111,785</u>	<u>(111,785)</u>	<u>-</u>
Change in net position					<u>3,984,355</u>	<u>164,841</u>	<u>4,149,196</u>
Net position, June 30, 2022					<u>10,010,350</u>	<u>(54,760)</u>	<u>9,955,590</u>
Net position, June 30, 2023					<u>\$ 13,994,705</u>	<u>\$ 110,081</u>	<u>\$ 14,104,786</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2023**

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Construction Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 9,084,670	\$ -	\$ 8,131,777	\$ 1,416,602	\$ 18,633,049
Receivables (net of allowances for uncollectibles):					
Taxes	66,409	-	-	-	66,409
Other	34,232	-	-	518	34,750
Intergovernmental - state	-	970,985	-	-	970,985
Interfund receivable	399,696	-	-	-	399,696
Total assets	<u>\$ 9,585,007</u>	<u>\$ 970,985</u>	<u>\$ 8,131,777</u>	<u>\$ 1,417,120</u>	<u>\$ 20,104,889</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 47,397	\$ 10,497	\$ -	\$ 4,015	\$ 61,909
Accrued salaries and benefits	82,221	-	-	-	82,221
Unearned revenue	-	560,792	7,852,642	-	8,413,434
Interfund payable	-	399,696	-	-	399,696
Total liabilities	<u>129,618</u>	<u>970,985</u>	<u>7,852,642</u>	<u>4,015</u>	<u>8,957,260</u>
<b>Fund balances:</b>					
Restricted	-	-	279,135	1,309,021	1,588,156
Committed	151,471	-	-	104,084	255,555
Assigned	31,746	-	-	-	31,746
Unassigned	9,272,172	-	-	-	9,272,172
Total fund balances	<u>9,455,389</u>	<u>-</u>	<u>279,135</u>	<u>1,413,105</u>	<u>11,147,629</u>
Total liabilities and fund balances	<u>\$ 9,585,007</u>	<u>\$ 970,985</u>	<u>\$ 8,131,777</u>	<u>\$ 1,417,120</u>	<u>\$ 20,104,889</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF  
NET POSITION  
JUNE 30, 2023**

Fund balances—total governmental funds \$ 11,147,629

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. 28,322,732

Right to use leased assets of \$90,904, net of accumulated amortization of \$27,271 used in governmental activities are not financial resources and therefore are not reported in the governmental funds. 63,633

Savings from refunding bonds are not available to pay current period expenditures and, therefore, are not reported in the funds. 188,086

Deferred outflows and inflows of resources related to pensions and OPEB plans are applicable to future periods and, therefore, are not reported in the governmental funds. 750,307

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

Net pension liability	(6,553,711)	
Net OPEB liability	(6,393,044)	
Bond obligations	(12,463,643)	
Notes payable	(615,386)	
Leases payable	(65,786)	
Accrued interest payable	(83,169)	
Accrued sick leave	(302,943)	(26,477,682)

Net position of governmental activities \$ 13,994,705

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

**PENDLETON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Taxes -					
Property	\$ 3,600,355	\$ -	\$ -	\$ 1,381,680	\$ 4,982,035
Motor vehicles	913,297	-	-	-	913,297
Utilities	929,514	-	-	-	929,514
Interest income	440,697	-	224,174	15,743	680,614
Other local revenues	265,173	100,000	-	836,531	1,201,704
Intergovernmental - State	17,308,962	1,090,003	278,658	2,215,314	20,892,937
Intergovernmental - Indirect federal	-	3,996,446	-	-	3,996,446
Intergovernmental - Direct federal	129,313	257,436	-	-	386,749
Total revenues	<u>23,587,311</u>	<u>5,443,885</u>	<u>502,832</u>	<u>4,449,268</u>	<u>33,983,296</u>
Expenditures:					
Current:					
Instruction	13,077,205	4,519,875	-	817,651	18,414,731
Support services:					
Students	1,181,861	122,065	-	172	1,304,098
Instructional staff	402,796	91,702	-	7,283	501,781
District administration	738,848	-	-	-	738,848
School administration	1,650,692	-	-	-	1,650,692
Business and other support services	889,513	57,107	-	-	946,620
Operation and maintenance of plant	2,254,348	110,309	-	-	2,364,657
Student transportation	1,828,033	39,563	-	21,819	1,889,415
Other instructional	-	4,889	-	-	4,889
Day care operations	-	85,161	-	-	85,161
Community services	7,289	341,666	-	-	348,955
Facilities acquisition and construction	-	-	330,024	-	330,024
Debt service	168,262	-	-	2,595,505	2,763,767
Total expenditures	<u>22,198,847</u>	<u>5,372,337</u>	<u>330,024</u>	<u>3,442,430</u>	<u>31,343,638</u>
Excess (deficiency) of revenues over expenditures	<u>1,388,464</u>	<u>71,548</u>	<u>172,808</u>	<u>1,006,838</u>	<u>2,639,658</u>
Other financing sources (uses):					
Note proceeds	99,886	-	-	-	99,886
Sale of assets	15,953	-	-	-	15,953
Transfers in	176,558	173,411	51,366	2,478,092	2,879,427
Transfers out	(44,651)	(244,959)	-	(2,478,032)	(2,767,642)
Total other financing sources and uses	<u>247,746</u>	<u>(71,548)</u>	<u>51,366</u>	<u>60</u>	<u>227,624</u>
Net change in fund balances	1,636,210	-	224,174	1,006,898	2,867,282
Fund balances, June 30, 2022	<u>7,819,179</u>	<u>-</u>	<u>54,961</u>	<u>406,207</u>	<u>8,280,347</u>
Fund balances, June 30, 2023	<u>\$ 9,455,389</u>	<u>\$ -</u>	<u>\$ 279,135</u>	<u>\$ 1,413,105</u>	<u>\$ 11,147,629</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2023**

Net change in fund balances—total governmental funds \$2,867,282

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

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

Capital outlay	456,542	
Depreciation expense	(2,095,341)	
Amortization expense	<u>(18,181)</u>	(1,656,980)

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

Long-term portion of accrued sick leave	(28,887)
Interest payable	15,699
Amortization of bond discounts and premiums	(454)
Capitalized savings from bond refundings amortization expense	(53,434)

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

KTRS on-behalf pension and OPEB revenue	(2,471,604)	
KTRS on-behalf pension and OPEB expense	2,733,491	
CERS pension and OPEB contributions	(66,894)	
Pension and OPEB expense	<u>424,620</u>	619,613

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and interest consumes current financial resources of governmental funds.

Note proceeds	(99,886)	
Lease payments	16,937	
Debt payments	2,304,465	<u>2,221,516</u>

Change in net position of governmental activities \$3,984,355

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

**PENDLETON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2023**

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 813,332	\$ 97,981	\$ 80	\$ 911,393
Inventories	51,680	-	-	51,680
Total current assets	865,012	97,981	80	963,073
Noncurrent assets:				
Capital assets, net of accumulated depreciation	455,527	-	-	455,527
Total noncurrent assets	455,527	-	-	455,527
Total assets	1,320,539	97,981	80	1,418,600
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pension related	146,162	-	-	146,162
Deferred outflows - OPEB related	62,448	-	-	62,448
Total deferred outflows of resources	208,610	-	-	208,610
Total assets and deferred outflows	\$ 1,529,149	\$ 97,981	\$ 80	\$ 1,627,210
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	\$ 8,708	\$ -	\$ -	\$ 8,708
Total current liabilities	8,708	-	-	8,708
Noncurrent liabilities:				
Net pension liability	1,058,368	-	-	1,058,368
Net OPEB liability	311,165	-	-	311,165
Total liabilities	1,378,241	-	-	1,378,241
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pension related	55,634	-	-	55,634
Deferred inflows - OPEB related	83,254	-	-	83,254
Total deferred inflows of resources	138,888	-	-	138,888
<b>Net Position</b>				
Invested in capital assets	455,527	-	-	455,527
Restricted	(443,507)	97,981	80	(345,446)
Total net position	12,020	97,981	80	110,081
Total liabilities and net position	\$ 1,529,149	\$ 97,981	\$ 80	\$ 1,627,210

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

**PENDLETON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues:				
Lunchroom sales	\$ 92,089	\$ -	\$ -	\$ 92,089
Other operating revenues	-	41,967	-	41,967
Total operating revenues	<u>92,089</u>	<u>41,967</u>	<u>-</u>	<u>134,056</u>
Operating expenses:				
Salaries and wages	502,754	1,943	-	504,697
Employee benefits	213,976	525	-	214,501
Materials and supplies	1,054,423	7,803	-	1,062,226
Depreciation	29,015	-	-	29,015
Other operating expenses	36,518	65	-	36,583
Total operating expenses	<u>1,836,686</u>	<u>10,336</u>	<u>-</u>	<u>1,847,022</u>
Operating income (loss)	<u>(1,744,597)</u>	<u>31,631</u>	<u>-</u>	<u>(1,712,966)</u>
Nonoperating revenues:				
Federal grants	1,683,837	-	-	1,683,837
Investment income	38,915	-	-	38,915
On-behalf payments	106,874	-	-	106,874
Donated commodities	147,487	-	-	147,487
State grants	12,479	-	-	12,479
Total nonoperating revenue	<u>1,989,592</u>	<u>-</u>	<u>-</u>	<u>1,989,592</u>
Transfers	<u>(111,785)</u>	<u>-</u>	<u>-</u>	<u>(111,785)</u>
Change in net position	133,210	31,631	-	164,841
Net position, June 30, 2022	<u>(121,190)</u>	<u>66,350</u>	<u>80</u>	<u>(54,760)</u>
Net position, June 30, 2023	<u>\$ 12,020</u>	<u>\$ 97,981</u>	<u>\$ 80</u>	<u>\$ 110,081</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023**

	Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities:				
Cash received from:				
Lunchroom sales and fees charged	\$ 92,089	\$ 41,967	\$ -	\$ 134,056
Cash paid to/for:				
Payments to suppliers and providers of goods and services	(921,785)	(7,803)	-	(929,588)
Payments to employees	(670,171)	(2,468)	-	(672,639)
Other payments	(36,518)	(65)	-	(36,583)
Net cash provided by (used for) operating activities	<u>(1,536,385)</u>	<u>31,631</u>	<u>-</u>	<u>(1,504,754)</u>
Cash flows from noncapital financing activities:				
Transfer out	(111,785)	-	-	(111,785)
Government grants	1,696,316	-	-	1,696,316
Net cash provided by noncapital and related financing activities	<u>1,584,531</u>	<u>-</u>	<u>-</u>	<u>1,584,531</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(134,249)	-	-	(134,249)
Net cash used for capital and related financing activities	<u>(134,249)</u>	<u>-</u>	<u>-</u>	<u>(134,249)</u>
Cash flows from investing activities:				
Interest received on investments	38,915	-	-	38,915
Net cash provided by investing activities	<u>38,915</u>	<u>-</u>	<u>-</u>	<u>38,915</u>
Net increase (decrease) in cash and cash equivalents	(47,188)	31,631	-	(15,557)
Cash and cash equivalents, June 30, 2022	<u>860,520</u>	<u>66,350</u>	<u>80</u>	<u>926,950</u>
Cash and cash equivalents, June 30, 2023	<u>\$ 813,332</u>	<u>\$ 97,981</u>	<u>\$ 80</u>	<u>\$ 911,393</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (1,744,597)	\$ 31,631	\$ -	\$ (1,712,966)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	29,015	-	-	29,015
Donated commodities	147,487	-	-	147,487
On-behalf payments	106,874	-	-	106,874
Net pension expense	(68,348)	-	-	(68,348)
Net OPEB expense	8,033	-	-	8,033
Change in assets and liabilities:				
Inventory	(18,391)	-	-	(18,391)
Accounts payable	3,542	-	-	3,542
Net cash provided by (used for) operating activities	<u>\$ (1,536,385)</u>	<u>\$ 31,631</u>	<u>\$ -</u>	<u>\$ (1,504,754)</u>
Non-cash items:				
Donated commodities	\$ 147,487	\$ -	\$ -	\$ 147,487
On-behalf payments	106,874	-	-	106,874

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

**PENDLETON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes -				
Property	\$ 3,144,000	\$ 3,243,500	\$ 3,600,355	\$ 356,855
Motor vehicles	577,611	581,099	913,297	332,198
Utilities	750,000	750,000	929,514	179,514
Interest income	-	-	440,697	440,697
Other local revenues	60,100	63,100	265,173	202,073
Intergovernmental - State	15,918,000	15,918,000	17,308,962	1,390,962
Intergovernmental - Direct federal	60,000	60,000	129,313	69,313
Total revenues	<u>20,509,711</u>	<u>20,615,699</u>	<u>23,587,311</u>	<u>2,971,612</u>
Expenditures:				
Current:				
Instruction	13,067,018	13,374,513	13,077,205	297,308
Support services:				
Students	1,311,218	1,293,828	1,181,861	111,967
Instructional staff	434,483	378,796	402,796	(24,000)
District administration	889,631	984,645	738,848	245,797
School administration	1,460,538	1,535,036	1,650,692	(115,656)
Business and other support services	984,772	1,026,666	889,513	137,153
Operation and maintenance of plant	3,323,815	3,901,033	2,254,348	1,646,685
Student transportation	2,883,607	2,675,407	1,828,033	847,374
Community service	5,002	7,225	7,289	(64)
Debt service	168,715	168,715	168,262	453
Contingency	2,701,244	2,701,244	-	2,701,244
Total expenditures	<u>27,230,043</u>	<u>28,047,108</u>	<u>22,198,847</u>	<u>5,848,261</u>
Excess (deficiency) of revenues over expenditures	<u>(6,720,332)</u>	<u>(7,431,409)</u>	<u>1,388,464</u>	<u>8,819,873</u>
Other financing sources (uses):				
Note proceeds	-	-	99,886	99,886
Sale of assets	1,000	1,000	15,953	14,953
Transfers in	75,000	75,000	176,558	101,558
Transfers out	(44,591)	(44,591)	(44,651)	(60)
Total other financing sources and uses	<u>31,409</u>	<u>31,409</u>	<u>247,746</u>	<u>216,337</u>
Net change in fund balances	<u>(6,688,923)</u>	<u>(7,400,000)</u>	<u>1,636,210</u>	<u>9,036,210</u>
Fund balances, June 30, 2022	<u>6,688,923</u>	<u>7,400,000</u>	<u>7,819,179</u>	<u>419,179</u>
Fund balances, June 30, 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,455,389</u>	<u>\$ 9,455,389</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2023**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Other local revenues	\$ -	\$ -	\$ 100,000	\$ 100,000
Intergovernmental - State	934,285	837,586	1,090,003	252,417
Intergovernmental - Indirect federal	1,434,586	1,490,121	3,996,446	2,506,325
Intergovernmental - Direct federal	91,583	91,583	257,436	165,853
Total revenues	<u>2,460,454</u>	<u>2,419,290</u>	<u>5,443,885</u>	<u>3,024,595</u>
Expenditures:				
Current:				
Instruction	1,838,789	1,746,710	4,519,875	(2,773,165)
Support services:				
Students	227,783	258,333	122,065	136,268
Instructional staff	140,003	137,143	91,702	45,441
Business and other support services	-	-	57,107	(57,107)
Operation and maintenance of plant	69,057	71,522	110,309	(38,787)
Student transportation	20,413	41,173	39,563	1,610
Other instructional	-	-	4,889	(4,889)
Day care operations	-	-	85,161	(85,161)
Community services	209,000	209,000	341,666	(132,666)
Total expenditures	<u>2,505,045</u>	<u>2,463,881</u>	<u>5,372,337</u>	<u>(2,908,456)</u>
Excess (deficiency) of revenues over expenditures	<u>(44,591)</u>	<u>(44,591)</u>	<u>71,548</u>	<u>116,139</u>
Other financing sources (uses):				
Transfers in	166,788	176,030	173,411	(2,619)
Transfers out	(122,197)	(131,439)	(244,959)	(113,520)
Total other financing sources and uses	<u>44,591</u>	<u>44,591</u>	<u>(71,548)</u>	<u>(116,139)</u>
Net change in fund balances	-	-	-	-
Fund balances, June 30, 2022	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, June 30, 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**PENDLETON COUNTY SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2023**

**(1) REPORTING ENTITY**

The Pendleton County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Pendleton County School District (“District”). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

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

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

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements. Copies of this organization’s financial statements may be obtained from the District’s Finance Office at 2525 Hwy 27 North, Falmouth, Kentucky 41040.

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

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

Basis of Presentation

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

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

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the

manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses to programs or functions, except where allowable for certain grant programs. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund financial statements provide information about the District's funds. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.
  - 1. The Special Revenue Fund includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
  - 2. The District Activity Fund is a special revenue fund used to account for funds collected at individual schools for operational costs of the school or school district that allows for more flexibility in the expenditure of those funds.
  - 3. The School Activity Fund is a special revenue fund used to account for funds collected at individual schools for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by the Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
  2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Fund  
The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

## II. Proprietary Fund Types (Enterprise Fund)

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

### Basis of Accounting

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

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

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

which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

### Property Taxes

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

The property tax rates assessed for the year ended June 30, 2023, to finance the General Fund operations were \$.645 per \$100 valuation for real property, \$.645 per \$100 valuation for business personal property and \$.550 per \$100 valuation for motor vehicles. These rates include \$.177 per \$100 valuation that is committed to the Building Fund.

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

### In-Kind

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

### Cash and Cash Equivalents

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

### Inventories

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

### Right-to-Use Assets

The District has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease liability plus any lease payments made prior to the lease term, less lease incentives, and plus ancillary charges

necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease.

### Capital Assets

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

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

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

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

### Interfund Balances

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

### Budgetary Process

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

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

### Accrued Liabilities and Long-Term Obligations

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

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

contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, all payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds, leases and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balance Reserves

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

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

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

### Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets and right to use leased assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets and increased by any deferred savings from refunding bonds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

### Interfund Activity

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

### Accumulated Unpaid Sick Leave Benefits

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

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

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported in the fund financial statements, but is reflected in the statement of net position.

### Bond Issuance Costs

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

### Deferred Inflows and Outflows of Resources

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

### Pension

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

### Postemployment Benefits Other Than Pensions (OPEB)

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

### Recent Accounting Pronouncements

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB 96"). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement (1)

defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. GASB 96 was effective for the District beginning with its year ending June 30, 2023. The adoption of this standard did not have a material effect on the District's financial statements.

In May 2022, the GASB issued Statement No. 99, *Omnibus 2022* ("GASB 99"), to provide guidance addressing various accounting and financial reporting issues identified during the implementation and application of certain GASB pronouncements or during the due process on other pronouncements. GASB 99 addresses, among other matters:

- Accounting and financial reporting for exchange or exchange-like financial guarantees;
- Clarification of certain provisions of Statement No.:
  - 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,
  - 87, Leases,
  - 94, Public-Private and Public-Public Partnership and Availability Payment Arrangements,
  - 96, Subscription-Based Information Technology Arrangements (SBITA);
- Replacing the original deadline for use of the London Interbank Offered Rate (LIBOR) as a benchmark interest rate for hedges of interest rate risk of taxable debt with a deadline for when LIBOR ceases to be determined by the ICE Benchmark Administration using the methodology in place as of December 31, 2021;
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP);
- Disclosures related to non-monetary transactions; and
- Pledges of future revenues when resources are not received by the pledging government.

Requirements that relate to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures for non-monetary transactions, pledges of future revenues by pledging governments, clarifications of certain provisions in Statement No. 34, and terminology updates were effective upon issuance. Requirements related to leases, public-public and public-private partnerships (PPPs), and SBITAs were effective for the District beginning with its year ending June 30, 2023. Requirements related to other requirements related to derivative instruments will be effective for the District beginning with its year ending June 30, 2024. Adoption of the provisions required thru the year ending June 30, 2023 did not have a material effect on the District's financial statements. Management is currently evaluating the impact of the remaining provisions of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections (an amendment of GASB Statement No. 62)* ("GASB 100"), which has as its primary objective to provide more straightforward guidance that is easier to understand and is more reliable, relevant, consistent, and comparable across governments for making decisions and assessing accountability. Improving the clarity of accounting and financial reporting requirements for accounting changes and error corrections will mean greater consistency in the application of these requirements in general.

GASB 100 prescribes accounting and financial reporting for each category of accounting change and error corrections, requiring that:

- Changes in accounting principle and error corrections be reported retroactively by restating prior periods;
- Changes in accounting estimate be reported prospectively by recognizing the change in the current period; and
- Changes to and within the financial reporting entity be reported by adjusting beginning balances of the current period.

- Requires that governments disclose the effects of each accounting change and error correction on beginning balances in a tabular format.

The requirements of GASB 100 will be effective for accounting changes and error corrections made by the District beginning with its year ending June 30, 2024. Management is currently evaluating the impact of this Statement on its financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* (“GASB 101”), which supersedes the guidance in Statement No. 16, *Accounting for Compensated Absences*, issued in 1992. GASB 101 aligns recognition and measurement guidance for all types of compensated absences under a unified model. It also requires that a liability for specific types of compensated absences not be recognized until the leave is used. Additionally, it establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. For example, a liability for leave that has not been used would be recognized if the leave:

- Is attributable to services already rendered;
- Accumulates; and
- Is more likely than not to be used for time off or otherwise paid or settled. Some exceptions to this general rule include parental leave, military leave and jury duty leave for which a liability would not be recognized until the leave commences.

Additionally, GASB 101 (1) provides an alternative to the existing requirement to disclose the gross annual increases and decreases in long-term liability for compensated absences, allowing governments to disclose only the net annual change in the liability as long as it is identified as such; and (2) removes the disclosure of the government funds used to liquidate the liability for compensated absences. The requirements of GASB 101 will be effective for the District beginning with its year ending June 30, 2025. Management is currently evaluating the impact of this Statement on its financial statements.

### **(3) ESTIMATES**

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

### **(4) CASH AND CASH EQUIVALENTS**

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

At year-end, the carrying amount of the District's total cash and cash equivalents was \$19,544,442 and the related bank balances totaled \$20,512,600. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, \$11,907,926 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name, and \$8,354,674 was invested in short-term obligations of the United States. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

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

**(5) CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	Balance June 30, 2022	Additions	Deductions	Balance June 30, 2023
<b>Governmental Activities</b>				
Land	\$ 669,766	\$ -	\$ -	\$ 669,766
Construction in progress	-	330,024	-	330,024
Land improvements	3,024,554	-	-	3,024,554
Buildings and improvements	55,092,968	-	-	55,092,968
Technology equipment	2,719,482	-	(46,736)	2,672,746
General equipment	2,203,947	27,400	-	2,231,347
Vehicles	3,864,549	99,118	-	3,963,667
Totals	<u>67,575,266</u>	<u>456,542</u>	<u>(46,736)</u>	<u>67,985,072</u>
Less: accumulated depreciation				
Land improvements	2,345,639	92,303	-	2,437,942
Buildings and improvements	27,808,657	1,789,013	-	29,597,670
Technology equipment	2,696,114	11,774	(46,736)	2,661,152
General equipment	1,704,146	59,543	-	1,763,689
Vehicles	3,059,179	142,708	-	3,201,887
Total accumulated depreciation	<u>37,613,735</u>	<u>2,095,341</u>	<u>(46,736)</u>	<u>39,662,340</u>
<b>Governmental Activities</b>				
Capital Assets - Net	<u>\$ 29,961,531</u>	<u>\$ (1,638,799)</u>	<u>\$ -</u>	<u>\$ 28,322,732</u>
<b>Business-Type Activities (Food Service)</b>				
Buildings and improvements	\$ 875,390	\$ 134,249	\$ -	\$ 1,009,639
Technology equipment	11,974	-	-	11,974
Vehicles	22,054	-	-	22,054
General equipment	943,470	-	-	943,470
	<u>1,852,888</u>	<u>134,249</u>	<u>-</u>	<u>1,987,137</u>
Less: accumulated depreciation (Food Service)				
Buildings and improvements	589,819	15,927	-	605,746
Technology equipment	11,974	-	-	11,974
Vehicles	22,054	-	-	22,054
General equipment	878,748	13,088	-	891,836
	<u>1,502,595</u>	<u>29,015</u>	<u>-</u>	<u>1,531,610</u>
<b>Business-Type Activities</b>				
Capital Assets - Net	<u>\$ 350,293</u>	<u>\$ 105,234</u>	<u>\$ -</u>	<u>\$ 455,527</u>

Depreciation expense was allocated to governmental functions as follows:

Instruction	\$ 1,767,667
Student support services	1,619
Instructional staff support services	1,210
District administration	1,721
Plant operations & maintenance	143,997
Student transportation	179,127
	<u>\$ 2,095,341</u>

**(6) RIGHT TO USE LEASED ASSETS**

The District has recorded right to use leased assets. The assets are right to use assets for copier equipment. The related leases are discussed in the Leases subsection of the Long-Term Obligations section of note (7). The right to use leased assets are amortized on a straight-line basis over the terms of the related leases.

Right to use leased asset activity for the fiscal year ended June 30, 2023, was as follows:

	June 30, 2022	Additions	Deductions	June 30, 2023
Intangible right to use assets	\$ 90,904	\$ -	\$ -	\$ 90,904
Totals at historical cost	90,904	-	-	90,904
Less: accumulated amortization	(9,090)	(18,181)	-	(27,271)
Right to Use Leased Assets - Net	<u>\$ 81,814</u>	<u>\$ (18,181)</u>	<u>\$ -</u>	<u>\$ 63,633</u>

**(7) LONG-TERM OBLIGATIONS**

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

**Bonds**

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

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

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

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

In connection with the 2015R and 2017 bond issues, the District entered into a participation agreement with the Kentucky School Facilities Construction Commission, whereby the Commission has agreed to provide amounts on an annual basis (reflected in the following table) toward the payment of principal and interest requirements on the bonds. The agreement is in effect for a period of two years. The obligation of the Commission to make said payments shall automatically renew every two years, unless the Commission provides the District notice of its intention not to participate within sixty days prior to the expiration of the two year period.

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

<u>Description</u>	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2023</u>	<u>Due Within One Year</u>
General obligation bonds - \$24,855,000 originally issued with interest rates ranging from 2.00% to 4.00%	\$ 14,625,000	\$ -	\$ 2,155,000	\$ 12,470,000	\$ 2,210,000
Discount on bonds	(6,811)	-	(454)	(6,357)	-
KISTA Loans	664,965	99,886	149,465	615,386	129,461
Leases payable	82,723	-	16,937	65,786	17,733
Accrued interest	98,868	-	15,699	83,169	83,169
Accumulated unpaid sick leave benefits	274,056	28,887	-	302,943	-
	<u>\$ 15,738,801</u>	<u>\$ 128,773</u>	<u>\$ 2,336,647</u>	<u>\$ 13,530,927</u>	<u>\$ 2,440,363</u>

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2023, for bond debt service, (principal and interest) are as shown below:

<u>Year</u>	<u>Kentucky School Facilities Construction Commission</u>		<u>Pendleton County School District</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2024	\$ 119,072	\$ 28,646	\$ 2,090,928	\$ 354,309	\$ 2,592,955
2025	121,300	25,520	2,133,700	297,611	2,578,131
2026	123,582	22,338	2,181,418	237,482	2,564,820
2027	130,921	19,098	2,229,079	174,852	2,553,950
2028	35,000	15,650	1,450,000	108,438	1,609,088
2029-2033	190,000	58,400	1,490,000	55,876	1,794,276
2034-2037	175,000	17,800	-	-	192,800
	<u>\$ 894,875</u>	<u>\$ 187,452</u>	<u>\$ 11,575,125</u>	<u>\$ 1,228,568</u>	<u>\$ 13,886,020</u>

Future minimum debt service on notes payable to KISTA, at June 30, 2023, are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 129,461	\$ 15,420	\$ 144,881
2025	110,680	12,064	122,744
2026	92,355	9,235	101,590
2027	90,484	6,885	97,369
2028	75,739	4,596	80,335
2029-2032	116,667	5,077	121,744
	<u>\$ 615,386</u>	<u>\$ 53,277</u>	<u>\$ 668,663</u>

#### **Leases**

The District has entered into agreements to lease certain equipment. The lease agreements qualify as other than short-term leases under GASB 87 and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

1. A lease agreement was executed on December 22, 2021, to lease copiers and requires 60 monthly payments of \$1,699 per month. There are no variable payment components of the lease. The lease liability is measured at a discount rate of 4.60%, which is the rate specified in the lease. As a result, the District has recorded a right to use asset.

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2023, were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2024	\$ 17,733	\$ 2,655	\$ 20,388
2025	18,566	1,822	20,388
2026	19,438	950	20,388
2027	10,049	145	10,194
	<u>\$ 65,786</u>	<u>\$ 5,572</u>	<u>\$ 71,358</u>

### Net Pension Liability

The net pension liability is \$6,553,711 and \$1,058,368 for governmental activities and business-type activities, respectively, at June 30, 2023. See Note (8) for more detailed information.

### Net OPEB Liability

The net OPEB liability is \$6,393,044 and \$311,165 for governmental activities and business-type activities, respectively, at June 30, 2023. See Note (9) for more detailed information.

## (8) RETIREMENT PLANS

### Kentucky Teachers Retirement System

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

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

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

Non-university members receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002, will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than 10 years. New members after July 1, 2002, who retire with 10 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 10 years. In addition, non-university members who retire July 1, 2004, and later with more than 30 years of service will have a multiplier for all years over 30 of 3%.

The final average salary is the member's five highest annual salaries except members at least age 55 with 27 or more years of service may use their three highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

For Members On or After July 1, 2008, and Before Jan. 1, 2022: Members become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age 60 and complete five years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service, or
- 3.) Attain age 55 and complete 10 years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) 1.7% of final average salary for each year of credited service if their service is 10 years or less; (b) 2% of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) 2.3% of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) 2.5% of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) 3% of final average salary for years of credited service greater than 30 years.

The final average salary is the member's five highest annual salaries except members at least age 55 with 27 or more years of service may use their three highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

For Members On or After Jan. 1, 2022: To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age 57 and complete 10 years of Kentucky service, or
- 2.) Attain age 65 and complete five years of Kentucky service.

**Foundational Benefit** - The annual foundational benefit for members is equal to service times a multiplier times final average salary. The final average salary is the member's five highest annual salaries. The annual foundational benefit is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 30 years of service.

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). For members who began participating before Jan. 1, 2022, non-university members are required to contribute 12.855% of their salaries to the system; university members are required to contribute 10.4% of their salaries. KRS 161.565 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 8.185% of their salary to TRS. For members employed by local school districts, the state (as a non-employer contributing entity) contributes 13.105% of salary for those who joined before July 1, 2008, and 14.105% for those who joined on or after July 1, 2008, and before Jan. 1, 2022. Other participating employers are required to contribute the percentage contributed by members plus an additional 3.25% of members' gross salaries.

For members who began participating on or after Jan. 1, 2022, non-university members contribute 14.75% and university members contribute 9.775% of their salaries to the system. Employers of non-university members, including the state (as a non-employer contributing entity), contribute 10.75% of salary. University employers contribute 9.775% of member's salary to the system.

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

At June 30, 2023, the District did not report a liability for its proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net Pension liability	\$ -
Commonwealth's proportionate share of the Net Pension liability associated with the District	43,778,029
	<u>\$ 43,778,029</u>

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2022 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June 30, 2022, the District's proportion was 0.2584%.

For the year ended June 30, 2023, the District recognized pension expense of \$1,596,750 and revenue of \$1,596,750 for support provided by the State.

*Actuarial Methods and Assumptions:* The total pension liability was determined by applying procedures to the actuarial valuation as of June 30, 2021. The financial reporting actuarial valuation as of June 30, 2022, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	21.9 years
Asset Valuation Method	5-year smoothed market value
Single Equivalent Interest Rate	7.10%
Municipal Bond Index Rate	3.37%
Inflation	2.5%
Salary Increase	3.0-7.5%, including inflation
Investment Rate of Return	7.1%, net of pension plan investment expense, including inflation
Post-retirement Benefit Increases	1.50% annually

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees and active members. The actuarial assumptions used were based on the results of an actuarial experience study for the five-year period ending June 30, 2020 adopted by the Board on September 20, 2021. The assumed long-term investment rate of return was changed from 7.5% to 7.1% and the price inflation assumption was lowered from 3% to 2.5%. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large cap U.S. equity	37.4%	4.2%
Small cap U.S. equity	2.6%	4.7%
Developed international equity	16.5%	5.3%
Emerging markets equity	5.5%	5.4%
Fixed Income	15.0%	(0.1)%
High yield bonds	2.0%	1.7%
Other Additional Categories	5.0%	2.2%
Real Estate	7.0%	4.0%
Private Equity	7.0%	6.9%
Cash	2.0%	(0.3)%
<b>Total</b>	<b>100.0%</b>	

*Discount Rate:* The discount rate used to measure the total pension liability as of the Measurement Date was 7.10%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rates and that employer contributions will be made at the actuarially determined contribution (ADC) rates for all future fiscal years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 7.10%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10%) or 1-percentage-point higher (8.10%) than the current rate:

	<u>1% Decrease (6.10%)</u>	<u>Current discount rate (7.10%)</u>	<u>1% Increase (8.10%)</u>
Commonwealth's proportionate share of the Net Pension liability associated with the District	\$ 58,366,000	\$ 43,778,029	\$ 35,204,000

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

### County Employees Retirement System

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

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

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

*Contributions:* Funding for CERS is provided by members, who contribute 5.00% (6.00% for employees hired after September 1, 2008) of their salary through payroll deductions, and by employers of members. For the year ending June 30, 2023, employers were required to contribute 26.79% (23.40% - pension, 3.39% - insurance) of the member's salary. During the year ending June 30, 2023, the District contributed \$770,820 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2023, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2022 was determined using standard roll-forward techniques. The District's proportion of the net pension liability was based on contributions to CERS during the fiscal year ended June 30, 2022. At June 30 2022, the District's proportion was 0.105299%.

For the year ended June 30, 2023, the District recognized pension expense of approximately \$281,000. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,138	\$ 67,789
Changes of assumptions	-	-
Net difference between projected and actual earnings on investments	195,146	-
Changes in proportion and differences between District contributions and proportionate share of contributions	-	319,558
District contributions subsequent to the measurement date	770,820	-
	<u>\$ 974,104</u>	<u>\$ 387,347</u>

The \$770,820 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, 2024.

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

<u>Year</u>	
2024	\$ (251,661)
2025	(84,676)
2026	(63,968)
2027	216,242
	<u>\$ (184,063)</u>

*Actuarial Methods and Assumptions:* The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2021. The financial reporting actuarial valuation as of June 30, 2022, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of pay
Remaining Amortization Period	29 years, closed
Payroll Growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected market value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%, net of pension plan investment expense, including inflation

There have been no actuarial assumptions or method changes since June 30, 2021. Additionally, there have been no plan provision changes that would materially impact the total pension liability since June 30, 2012.

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%
Cash	0.00%	(0.91)%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	3.67%
Real Return	<u>13.00%</u>	<u>4.07%</u>
<b>Expected Real Return</b>	<b><u>100.00%</u></b>	<b>4.28%</b>
<b>Long Term Inflation Assumption</b>		<b><u>2.30%</u></b>
		<b><u>6.58%</u></b>

## Expected Nominal Return for Portfolio

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

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

	1% Decrease <u>(5.25%)</u>	Current discount rate <u>(6.25%)</u>	1% Increase <u>(7.25%)</u>
District's proportionate share of the net pension liability	\$ 9,514,000	\$ 7,612,079	\$ 6,039,000

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

*Payables to the pension plan:* At June 30, 2023, there were no payables to the pension plan.

## (9) OTHER POSTEMPLOYMENT BENEFIT (“OPEB”) PLANS

### Kentucky Teachers Retirement System OPEB Plans

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

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

### **Medical Insurance Plan**

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

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

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

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

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

At June 30, 2023, the District reported a liability of \$4,626,000 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, 2022. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2021. An expected total OPEB liability as of June 30, 2022 was determined using standard roll-forward techniques. The total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2022, the District’s proportion was 0.247562%.

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	\$ 4,626,000
Commonwealth’s proportionate share of the Net OPEB liability associated with the District	<u>1,520,000</u>
	<u>\$ 6,146,000</u>

For the year ended June 30, 2023, the District recognized OPEB expense of \$13,000 and revenue of \$81,000 for support provided by the State. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,945,000
Changes of assumptions	939,000	-
Net difference between projected and actual earnings on investments	246,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,239,000	298,000
District contributions subsequent to the measurement date	<u>275,143</u>	<u>-</u>
	<u>\$ 2,699,143</u>	<u>\$ 2,243,000</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$275,143 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, 2024. Other

amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year</u>	
2024	\$ (155,000)
2025	(129,000)
2026	(84,000)
2027	237,000
2028	210,000
Thereafter	<u>102,000</u>
	<u>\$ 181,000</u>

*Actuarial methods and assumptions:* The total OPEB liability was determined by applying procedures to the actuarial valuation as of June 30, 2021. The financial reporting actuarial valuation as of June 30, 2022, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Investment rate of return	7.1%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.0 – 7.5%, including wage inflation
Inflation rate	2.5%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Municipal bond index rate	3.37%
Discount rate	7.1%
Single equivalent interest rate	7.1%, net of OPEB plan investment expense, including price inflation
Healthcare cost trend rates	
Under 65	7% for FY 2022 decreasing to an ultimate rate of 4.5% by FY 2032
Ages 65 and Older	5.125% for FY 2022* decreasing to an ultimate rate of 4.5% by FY 2025
Medicare Part B Premiums	6.97% for FY 2022 with an ultimate rate of 4.5% by 2034

*\*Based on known expected increase in Medicare-eligible costs in the year following the valuation date, an increase rate of 20% was used for 2021.*

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees and active members. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation and rates of plan election used in the June 30, 2021, valuation were based on the results of the most recent actuarial experience study for the system, which covered the five-year period ending June 30, 2020, adopted by the board on September 20, 2021. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2021, valuation of the health trust were based on a review of recent plan experience done concurrently with the June 30, 2021, valuation. The health care cost trend rate assumption was updated for the June 30, 2021, valuation and was shown as an assumption change in the total OPEB liability (TOL) roll-forward while the change in initial per capita claims costs were included with experience in the TOL roll-forward. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	9.0%	(0.1)%
Real Estate	6.5%	4.0%
Private Equity	8.5%	6.9%
Additional categories: high yield	8.0%	1.7%
Other Additional Categories	9.0%	2.2%
Cash	1.0%	(0.3)%
Total	<u>100.0%</u>	

*Discount rate:* The discount rate used to measure the TOL as of the measurement date was 7.1%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection's basis was an actuarial valuation performed as of June 30, 2021. In addition to the actuarial methods and assumptions of the June 30, 2021, actuarial valuation, the following actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 2.75%.
- The KEHP group retiree health care costs for members retired on or after July 1, 2010, were assumed to be paid by either the state or the retirees themselves.
- As administrative expenses, other than the administrative fee of \$8.00 per member per month (PMPM) paid to KEHP by TRS, were assumed to be paid in all years by the employer as they come due, they were not considered.
- Cash flows occur midyear.
- Future contributions to the Health Insurance Trust were based upon the contribution rates defined in statute and the projected payroll of active employees. Per KRS 161.540(1)(c).3 and 161.550(5), when the health trust achieves a sufficient funded status, as determined by TRS's actuary, the following health trust statutory contributions are to be decreased, suspended or eliminated:
  - Employee contributions
  - Employer contributions
  - State contributions for KEHP premium subsidies payable to retirees who retire after June 30, 2010

To reflect these adjustments, open group projections were used and assumed an equal, pro rata reduction to the current statutory amounts in the years if the health trust is projected to achieve a funded ratio of 100% or more. Here, the current statutory amounts are adjusted to achieve total contributions equal to the actuarially determined contribution, as determined by the prior year's valuation and in accordance with the health trust's funding policy. As the specific methodology to be used for the adjustments has yet to be

determined, there may be differences between the projected results and future experience. This also may include any changes to retiree contributions for KEHP coverage pursuant to KRS 161.675(4)(b).

- In developing the adjustments to the statutory contributions in future years, the following was assumed:
  - Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.
  - For the purposes of developing estimates for new entrants, active headcounts were assumed to remain flat for all future years.

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

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

The following table presents the District’s proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.1%, as well as what the District’s proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.1%) or 1-percentage-point higher (8.1%) than the current rate:

	<u>1% Decrease (6.1%)</u>	<u>Current discount rate (7.1%)</u>	<u>1% Increase (8.1%)</u>
District's proportionate share of the net OPEB liability	\$ 5,804,000	\$ 4,626,000	\$ 3,651,000

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

	<u>1% Decrease</u>	<u>Current trend rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 3,468,000	\$ 4,626,000	\$ 6,066,000

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

**Life Insurance Plan**

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

*Benefits provided:* TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars

payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

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

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

At June 30, 2023, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ -
Commonwealth's proportionate share of the Net OPEB liability associated with the District	76,000
	<u>\$ 76,000</u>

The net OPEB liability was measured as of June 30, 2022, and the total pension liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021. An expected total OPEB liability as of June 30, 2022 was determined using standard roll-forward techniques. The District's proportion of the net OPEB liability was based on the actual liability of the employees and former employees relative to the total liability of the Commonwealth as determined by the actuary. At June 30, 2022, the District's proportion was 0.243046%. For the year ended June 30, 2023, the District recognized OPEB expense of \$-0- and revenue of \$5,769 for support provided by the State.

*Actuarial methods and assumptions:* The total OPEB liability was determined by applying procedures to the actuarial valuation as of June 30, 2021. The financial reporting actuarial valuation as of June 30, 2022, used the following actuarial methods and assumptions:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Investment rate of return	7.1%, net of OPEB plan investment expense, including inflation
Projected salary increases	3.0 – 7.5%, including wage inflation
Inflation rate	2.5%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Municipal Bond Index Rate	2.13%
Discount Rate	7.1%
Single Equivalent Interest Rate	7.1%, net of OPEB plan investment expense, including price inflation

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees and active members. The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation and rates of plan election used in the June 30, 2021, valuation were based on the results of the most recent actuarial experience study for the system, which covered the five-year period ending June 30, 2020, adopted by the board on September 20, 2021. The Municipal Bond Index Rate used for this purpose is the June average

of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System.

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

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

	<u>Target Allocation</u>	<u>Expected Geometric Real Rate of Return</u>
U.S. Equity	40.0%	4.4%
International Equity	23.0%	5.6%
Fixed Income	18.0%	(0.1)%
Real Estate	6.0%	4.0%
Private Equity	5.0%	6.9%
Additional Categories	6.0%	2.1%
Cash	2.0%	(0.3)%
Total	<u>100.0%</u>	

*Discount rate:* The discount rate used to measure the total OPEB liability as of the measurement date was 7.1%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection's basis was an actuarial valuation performed as of June 30, 2021. In addition to the actuarial methods and assumptions of the June 30, 2021, actuarial valuation, the following actuarial methods and assumptions were used in the projection of the life insurance cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 2.75%.
- The employer will contribute the actuarially determined contribution (ADC) in accordance with the Life Insurance Trust's funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Active employees do not contribute to the plan.
- Cash flows occur midyear.

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

The following table presents the Commonwealth's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.1%, as well as what the District's proportionate

share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.1%) or 1-percentage-point higher (8.1%) than the current rate:

	1% Decrease <u>(6.1%)</u>	Current discount rate <u>(7.1%)</u>	1% Increase <u>(8.1%)</u>
Commonwealth's proportionate share of the net OPEB liability	\$ 117,000	\$ 76,000	\$ 42,000

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

#### County Employees Retirement System Insurance Fund

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

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

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

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

*Contributions:* CERS allocates a portion of the employer contributions to the health insurance benefit plans. For the year ending June 30, 2023, CERS allocated 3.39% of the 26.79% actuarially required contribution rate paid by employers for funding the healthcare benefit. In addition, 1.00% of the contributions by employees hired after September 1, 2008 are allocated to the health insurance plan. During the year ending June 30, 2023, the District contributed \$111,670 to the CERS Insurance Fund. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

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

At June 30, 2023, the District reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2021. An expected total pension liability as of June 30, 2022 was determined using standard roll-forward techniques. District's proportion

of the net OPEB liability was based on contributions to CERS during the fiscal year ended June 30, 2022. At June 30 2022, the District's proportion was 0.105305%.

For the year ended June 30, 2023, the District recognized OPEB expense of approximately \$232,000, including an implicit subsidy of \$74,928. At June 30, 2023, 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	\$ 209,189	\$ 476,581
Changes of assumptions	328,683	270,833
Net difference between projected and actual earnings on investments	84,349	-
Changes in proportion and differences between District contributions and proportionate share of contributions	2,465	211,813
District contributions subsequent to the measurement date	111,670	-
	<u>\$ 736,356</u>	<u>\$ 959,227</u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$111,670 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, 2024.

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

<u>Year</u>	
2024	\$ (87,356)
2025	(78,610)
2026	(164,796)
2027	(3,779)
	<u>\$ (334,541)</u>

*Actuarial Methods and Assumptions* - The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	29 Years, Closed
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates	
Pre-65	Initial trend starting at 6.20% at January 1, 2024 and

Post-65	gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years Initial trend starting at 9.00% in 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Mortality Pre-retirement	PUB-2010 General Mortality table, for the Non-Hazardous Systems, and the PUB- 2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013- 2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The single discount rates used to calculate the total OPEB liability within each plan changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021, valuation process and was updated to better reflect the plan’s anticipated long-term healthcare costs. There were no other material assumption changes.

Senate Bill 209 passed during the 2022 legislative session and increased the insurance dollar contribution for members hired on or after July 1, 2003, by \$5 for each year of service a member attains over certain thresholds, depending on a member’s retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member’s applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023. Senate Bill 209 also allows members receiving the insurance dollar contribution to participate in a medical insurance reimbursement plan that would provide the reimbursement of premiums for health plans other than those administered by KPPA. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions. There were no other material plan provision changes.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
<b>Equity</b>	<b>60.00%</b>	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
<b>Fixed Income</b>	<b>20.00%</b>	
Core Bonds	10.00%	0.28%
Specialty Credit/High Yield	10.00%	2.28%

Cash	0.00%	(0.91)%
<b>Inflation Protected</b>	<b>20.00%</b>	
Real Estate	7.00%	3.67%
Real Return	<u>13.00%</u>	<u>4.07%</u>
<b>Expected Real Return</b>	<b><u>100.00%</u></b>	<b>4.28%</b>
<b>Long Term Inflation Assumption</b>		<b><u>2.30%</u></b>
<b>Expected Nominal Return for Portfolio</b>		<b><u>6.58%</u></b>

*Discount rate* - The discount rate used to measure the total OPEB liability was 5.70%. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2022. However, the cost associated with the implicit employer subsidy was not included in the calculation of the KRS' actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the KRS' trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.70%, 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 (4.70%) or 1-percentage-point higher (6.70%) than the current rate:

	<u>1% Decrease (4.70%)</u>	<u>Current discount rate (5.70%)</u>	<u>1% Increase (6.70%)</u>
District's proportionate share of the net OPEB liability	\$ 2,778,000	\$ 2,078,209	\$ 1,500,000

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

	<u>1% Decrease</u>	<u>Current trend rate</u>	<u>1% Increase</u>
District's proportionate share of the net OPEB liability	\$ 1,545,000	\$ 2,078,209	\$ 2,718,000

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

*Payables to the OPEB plan:* At June 30, 2023, there were no payables to the OPEB plan.

## **(10) COMMITMENTS AND CONTINGENCIES**

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

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

The District has outstanding construction commitments of approximately \$385,000 at June 30, 2023 for renovations at Sharp Middle School.

**(11) RISK MANAGEMENT**

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

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

**(12) COBRA**

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

**(13) INTERFUND TRANSACTIONS**

**Interfund Transfers**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Special Revenue	Special Revenue	Intra Fund Transfer	\$ 128,820
Operating	General	Special Revenue	Operating	44,591
Operating	Food Service	General	Indirect Costs	111,785
Operating	Special Revenue	General	Indirect Costs	64,773
Debt Service	Building	Debt Service	Debt Service	2,446,884
Capital	Special revenue	Construction	Capital	51,366
Operating	General	Student Activity	Operating	60
Operating	Student Activity	District Activity	Operating	27,991
Operating	District Activity	Student Activity	Operating	3,157

### Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds are eliminated in the Statement of Net Position. The composition of interfund balances as of June 30, 2023 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 399,696

#### (14) ON-BEHALF PAYMENTS

For the year ended June 30, 2023, total payments of \$6,843,246 were made by the Commonwealth of Kentucky on behalf of the District for life insurance, health insurance, debt service, KTRS matching and administrative fees, and vocational education. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense account on the Statement of Activities and the Government Funds Statement of Revenue, Expenditures and Changes in Fund Balance.

On-behalf payments at June 30, 2023 consisted of the following:

Teacher Retirement	\$	3,994,358
Teacher Retirement – Health & Life		86,996
Health Insurance		2,574,478
Life Insurance		3,738
Administrative Fee		29,924
HRA/Dental/Vision		150,850
Federal Reimbursement		(234,029)
Technology		88,312
SFCC Debt Service		148,619
<b>Total on-behalf</b>		<u>\$ 6,843,246</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2023**

	Reporting Fiscal Year (Measurement Date)								
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>									
District's proportion of the net pension liability	0.10530%	0.10898%	0.11535%	0.12153%	0.12067%	0.12683%	0.12653%	0.12725%	0.13298%
District's proportionate share of the net pension liability	\$ 7,612,079	\$ 6,948,330	\$ 8,847,250	\$ 8,546,978	\$ 7,348,927	\$ 7,423,457	\$ 6,229,770	\$ 5,471,373	\$ 4,314,000
District's covered payroll	\$ 2,984,478	\$ 2,831,974	\$ 3,011,140	\$ 3,067,670	\$ 3,026,845	\$ 3,087,002	\$ 3,044,678	\$ 3,005,325	\$ 3,082,933
District's proportionate share of the net pension liability as a percentage of its covered payroll	255.056%	245.353%	293.817%	278.615%	242.792%	240.475%	204.612%	182.056%	139.932%
Plan fiduciary net position as a percentage of the total pension liability	52.420%	57.330%	47.810%	50.450%	53.540%	53.300%	55.500%	59.970%	66.800%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>									
District's proportion of the net pension liability	0.2584%	0.2609%	0.2690%	0.2785%	0.2944%	0.2950%	0.3083%	0.3235%	0.3194%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	43,778,029	33,957,486	38,123,151	37,997,206	38,549,564	79,590,461	90,944,998	75,273,376	65,624,544
Total	<u>\$ 43,778,029</u>	<u>\$ 33,957,486</u>	<u>\$ 38,123,151</u>	<u>\$ 37,997,206</u>	<u>\$ 38,549,564</u>	<u>\$ 79,590,461</u>	<u>\$ 90,944,998</u>	<u>\$ 75,273,376</u>	<u>\$ 65,624,544</u>
District's covered payroll	\$ 9,566,785	\$ 9,099,191	\$ 9,206,647	\$ 9,343,523	\$ 9,817,329	\$ 9,684,430	\$ 10,018,300	\$ 10,235,019	\$ 9,940,433
District's proportionate share of the net pension liability as a percentage of its covered payroll	0.030%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	56.400%	65.600%	58.300%	58.800%	59.300%	39.830%	35.220%	42.490%	45.590%

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

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2023**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM:</b>										
Contractually required contribution	\$ 770,820	\$ 631,814	\$ 546,571	\$ 581,150	\$ 497,576	\$ 438,315	\$ 430,759	\$ 378,139	\$ 383,127	\$ 423,555
Contributions in relation to the contractually required contribution	<u>770,820</u>	<u>631,814</u>	<u>546,571</u>	<u>581,150</u>	<u>497,576</u>	<u>438,315</u>	<u>430,759</u>	<u>378,139</u>	<u>383,127</u>	<u>423,555</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered payroll	\$ 3,294,103	\$ 2,984,478	\$ 2,831,974	\$ 3,011,140	\$ 3,067,670	\$ 3,026,845	\$ 3,087,002	\$ 3,044,678	\$ 3,005,325	\$ 3,082,933
District's contribution's as a percentage of its covered payroll	23.40%	21.17%	19.30%	19.30%	16.22%	14.48%	13.95%	12.42%	12.75%	13.74%
 <b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>										
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>									
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered payroll	\$ 10,661,672	\$ 9,566,785	\$ 9,099,191	\$ 9,206,647	\$ 9,343,523	\$ 9,817,329	\$ 9,684,430	\$ 10,018,300	\$ 10,235,019	\$ 9,940,433
District's contributions as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S PROPORTIONATE  
SHARE OF THE NET OPEB LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2023**

	Reporting Fiscal Year (Measurement Date)					
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND:</b>						
District's proportion of the net OPEB liability	0.10531%	0.10896%	0.11532%	0.12153%	0.12066%	0.12683%
District's proportionate share of the net OPEB liability	\$ 2,078,209	\$ 2,085,889	\$ 2,784,531	\$ 2,044,097	\$ 2,142,330	\$ 2,549,616
District's covered payroll	\$ 2,984,478	\$ 2,831,974	\$ 3,011,140	\$ 3,067,670	\$ 3,026,845	\$ 3,087,002
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	69.634%	73.655%	92.474%	66.634%	70.778%	82.592%
Plan fiduciary net position as a percentage of the total OPEB liability	61.0%	62.9%	51.7%	60.4%	57.6%	52.4%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM - MEDICAL INSURANCE PLAN:</b>						
District's proportion of the net OPEB liability	0.24756%	0.25162%	0.25979%	0.26864%	0.28354%	0.28355%
District's proportionate share of the net OPEB liability	\$ 4,626,000	\$ 2,979,000	\$ 3,640,000	\$ 4,350,000	\$ 5,284,000	\$ 5,565,000
State's proportionate share of the net OPEB liability associated with the District	1,520,000	2,420,000	2,916,000	3,513,000	4,554,000	4,546,000
Total	<u>\$ 6,146,000</u>	<u>\$ 5,399,000</u>	<u>\$ 6,556,000</u>	<u>\$ 7,863,000</u>	<u>\$ 9,838,000</u>	<u>\$ 10,111,000</u>
District's covered payroll	\$ 8,241,867	\$ 8,215,380	\$ 8,491,599	\$ 8,626,169	\$ 9,042,766	\$ 8,909,594
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	56.128%	36.261%	42.866%	50.428%	58.433%	62.461%
Plan fiduciary net position as a percentage of the total OPEB liability	47.80%	51.70%	39.10%	32.58%	25.50%	21.18%

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

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S PROPORTIONATE  
SHARE OF THE NET OPEB LIABILITY (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2023**

	Reporting Fiscal Year (Measurement Date)					
	2023 (2022)	2022 (2021)	2021 (2020)	2020 (2019)	2019 (2018)	2018 (2017)
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM - LIFE INSURANCE PLAN:</b>						
District's proportion of the net OPEB liability	0.24305%	0.24598%	0.25405%	0.26260%	0.27710%	0.27712%
District's proportionate share of the net OPEB liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net OPEB liability associated with the District	76,000	32,000	88,000	82,000	78,000	61,000
Total	<u>\$ 76,000</u>	<u>\$ 32,000</u>	<u>\$ 88,000</u>	<u>\$ 82,000</u>	<u>\$ 78,000</u>	<u>\$ 61,000</u>
District's covered payroll	\$ 8,241,867	\$ 8,215,380	\$ 8,491,599	\$ 8,626,169	\$ 9,042,766	\$ 8,909,594
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total OPEB liability	74.000%	89.200%	71.600%	73.400%	75.000%	79.990%

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

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF OPEB CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>COUNTY EMPLOYEES RETIREMENT SYSTEM</b>							
<b>INSURANCE FUND:</b>							
Contractually required contribution	\$ 111,670	\$ 172,503	\$ 134,802	\$ 143,330	\$ 161,359	\$ 142,235	\$ 146,057
Contributions in relation to the contractually required contribution	<u>111,670</u>	<u>172,503</u>	<u>134,802</u>	<u>143,330</u>	<u>161,359</u>	<u>142,235</u>	<u>146,057</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-
District's covered payroll	\$ 3,294,103	\$ 2,984,478	\$ 2,831,974	\$ 3,011,140	\$ 3,067,670	\$ 3,026,845	\$ 3,087,002
District's proportionate share of the OPEB liability as a percentage of its covered payroll	3.39%	5.78%	4.76%	4.76%	5.26%	4.70%	4.73%
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM:</b>							
<b>MEDICAL INSURANCE PLAN:</b>							
Contractually required contribution	\$ 275,143	\$ 247,256	\$ 246,464	\$ 254,751	\$ 258,787	\$ 271,284	\$ 267,388
Contributions in relation to the contractually required contribution	<u>275,143</u>	<u>247,256</u>	<u>246,464</u>	<u>254,751</u>	<u>258,787</u>	<u>271,284</u>	<u>267,388</u>
Contribution deficiency (excess)	-	-	-	-	-	-	-
District's covered payroll	\$ 9,171,433	\$ 8,241,867	\$ 8,215,380	\$ 8,491,599	\$ 8,626,169	\$ 9,042,766	\$ 8,909,594
District's contributions as a percentage of its covered payroll	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

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

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF OPEB CONTRIBUTIONS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2023**

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>KENTUCKY TEACHER'S RETIREMENT SYSTEM - LIFE INSURANCE PLAN:</b>							
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>						
Contribution deficiency (excess)	-	-	-	-	-	-	-
District's covered payroll	\$ 9,171,433	\$ 8,241,867	\$ 8,215,380	\$ 8,491,599	\$ 8,626,169	\$ 9,042,766	\$ 8,909,594
District's contributions as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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

**PENDLETON COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION PLANS  
FOR THE YEAR ENDED JUNE 30, 2023**

**(1) CHANGES OF ASSUMPTIONS**

KTRS

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

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

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

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

In the 2020 experience study, rates of withdrawal, retirement, disability, mortality and salary increase were adjusted to more closely reflect actual experience. The expectation of mortality was changed to the Pub2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set-forwards, set-backs and adjustments for each of the groups: service retirees, contingent annuitants, disabled retirees and actives. The assumed long-term investment rate of return was changed from 7.5% to 7.1% and the price inflation assumption was lowered from 3% to 2.5%.

CERS

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

- The assumed investment rate of return was decreased from 7.75% to 7.50%.
- The assumed rate of inflation was reduced from 3.50% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

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

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

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

- The assumed salary increase was changed from 4.00% (average) to 3.30%-10.30% (varies by service).
- The mortality table used for pre-retirement is PUB-2010 General Mortality table, for the Non-Hazardous Systems, and PUB-2010 Public Safety Mortality table for the Hazardous Systems, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
- The mortality table used for post-retirement (non-disabled) is a system specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2022.
- The mortality table used for post-retirement (disabled) is PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2010.

The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020:

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

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

KTRS

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

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	25.4 years
Asset Valuation Method	5-year smoothed fair value
Inflation	3.0%
Salary Increase	3.5% to 7.3%, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

CERS

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

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 - June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll
Remaining Amortization Period	30 years closed period at June 30, 2019 (Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases)

Payroll growth	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB362 enacted in 2018
Mortality	System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

### (3) CHANGES OF BENEFITS

#### KTRS

A new benefit tier was added for members joining the system on and after January 1, 2022.

#### CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children, or 75% of average pay for three children. The total pension liability as of June 30, 2022 is determined using these updated benefit provisions.

Senate Bill 169 passed during the 2021 legislative session and increased the disability benefits for qualified members who become "totally and permanently disabled" as a result of a duty-related disability. The minimum disability benefit increased from 25% of the member's monthly final rate of pay to 75% of the member's monthly average pay. The insurance premium for the member, the member's spouse, and the member's dependent children shall also be paid in full by the System. For non-hazardous members to be eligible for this benefit, they must be working in a position that could be certified as a hazardous position. There were no other material plan provision changes since the prior valuation.

**PENDLETON COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB PLANS  
FOR THE YEAR ENDED JUNE 30, 2023**

**(1) CHANGES OF ASSUMPTIONS**

KTRS

*Medical Insurance Plan & Life Insurance Plan:* The following change of assumptions were adopted by the Board of Trustees and reflected in the liability measurement as of June 30, 2020:

- In the 2020 experience study, rates of withdrawal, retirement, disability, mortality and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub-2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set forwards, set-backs and adjustments for each of the groups: service retirees, contingent annuitants, disabled retirees and actives.
- The assumed long-term investment rate of return was changed from 7.5% to 7.1%. The price inflation assumption was lowered from 3% to 2.5%.
- The rates of member participation and spousal participation were adjusted to reflect actual experience more closely.

For 2022, the health care trend rates were updated to reflect future anticipated experience.

CERS Insurance Fund

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

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

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

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

For the June 30, 2020 measurement date, the assumed increase in future health care costs, or trend assumption, is reviewed on an annual basis and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. The assumed impact of the Cadillac Tax (previously a 0.9% load on employer paid non-Medicare premiums for those who became participants prior to July 1, 2003) was removed to reflect its repeal since the prior valuation.

The following changes were made by the Board of Trustees and reflected in the valuation performed as of June 30, 2022:

- The single discount rates used to calculate the total OPEB liability increased from 5.34% to 5.70%.

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

KTRS

*Medical Insurance Plan* - The medical insurance plan is not funded based on an actuarially determined contribution, but instead is funded based on statutorily determined amounts. For 2022, the KTRS Board of Trustees approved a single contribution amount of up to \$696.84. KTRS will contribute this amount towards insurance costs, less the Shared Responsibility cost of \$148.50.

*Life Insurance Plan* - 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 Normal
Amortization method	Level Percent of Payroll
Amortization period	25 years, Closed
Asset valuation method	Five-year smoothed fair value
Inflation	3%
Real wage growth	0.5%
Wage inflation	3.5%
Salary increases, including wage inflation	3.5% - 7.2%
Discount rate	7.5%

CERS Insurance Fund

The following actuarial methods and assumptions, for actuarially determined contributions effective for fiscal year ending June 30, 2022:

Experience Study	July 1, 2008 - June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years, closed period at June 30, 2019 (Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases)
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30% to 11.55%, varies by service
Investment Rate of Return	6.25%

Healthcare Trend Rates

Pre - 65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement.
Post – 65	Initial trend starting at 6.30% on January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Additionally, Humana provided “Not to Exceed” 2022 Medicare premiums, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022.
Phase-in Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018.
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

**(3) CHANGES OF BENEFITS**

KTRS

*Medical Insurance Plan*

June 30, 2022:

- A new benefit tier was added for members joining the system on and after January 1, 2022.

*Life Insurance Plan*

June 30, 2022:

- A new benefit tier was added for members joining the system on and after January 1, 2022.

CERS

During the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. The system shall now pay 100% of the insurance premium for spouses and children of all active members who die in the line of duty. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions.

Senate Bill 169 passed during the 2022 legislative session increased the disability benefits for certain qualifying members who become “totally and permanently disabled” in the line of duty or as a result of a duty-related disability. The total OPEB liability as of June 30, 2022, is determined using these updated benefit provisions.

Senate Bill 209 passed during the 2022 legislative session increased the insurance dollar contribution for members hired on or after July 1, 2003 by \$5 for each year of service a member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023.

**SUPPLEMENTARY INFORMATION**

**PENDLETON COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2023**

	District Activity Fund	Student Activity Fund	Debt Service Fund	SEEK Capital Outlay Fund	FSPK Building Fund	Total Non-Major Governmental Funds
<b>ASSETS:</b>						
Cash and cash equivalents	\$ 103,709	\$ 311,402	\$ -	\$ 212,338	\$ 789,153	\$ 1,416,602
Accounts receivable	518	-	-	-	-	518
Total assets	<u>\$ 104,227</u>	<u>\$ 311,402</u>	<u>\$ -</u>	<u>\$ 212,338</u>	<u>\$ 789,153</u>	<u>\$ 1,417,120</u>
<b>LIABILITIES AND FUND BALANCE:</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 143	\$ 3,872	\$ -	\$ -	\$ -	\$ 4,015
Total liabilities	<u>143</u>	<u>3,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,015</u>
<b>Fund Balances:</b>						
Committed	104,084	-	-	-	-	104,084
Restricted	-	307,530	-	212,338	789,153	1,309,021
Total fund balance	<u>104,084</u>	<u>307,530</u>	<u>-</u>	<u>212,338</u>	<u>789,153</u>	<u>1,413,105</u>
Total liabilities and fund balances	<u>\$ 104,227</u>	<u>\$ 311,402</u>	<u>\$ -</u>	<u>\$ 212,338</u>	<u>\$ 789,153</u>	<u>\$ 1,417,120</u>

**PENDLETON COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023**

	District Activity Fund	School Activity Fund	Debt Service Fund	SEEK Capital Outlay Fund	FSPK Building Fund	Total Non-Major Governmental Funds
<b>REVENUES:</b>						
From local sources -						
Taxes -						
Property	\$ -	\$ -	\$ -	\$ -	\$ 1,381,680	\$ 1,381,680
Interest income	-	15,743	-	-	-	15,743
Other local revenues	83,919	752,612	-	-	-	836,531
Intergovernmental - State	-	-	148,619	212,338	1,854,357	2,215,314
Total revenues	<u>83,919</u>	<u>768,355</u>	<u>148,619</u>	<u>212,338</u>	<u>3,236,037</u>	<u>4,449,268</u>
<b>EXPENDITURES:</b>						
Current -						
Instruction	123,768	693,883	-	-	-	817,651
Support services:						
Students	-	172	-	-	-	172
Instructional staff	-	7,283	-	-	-	7,283
Operation and maintenance of plant	-	-	-	-	-	-
Student transportation	-	21,819	-	-	-	21,819
Debt service	-	-	2,595,505	-	-	2,595,505
Total expenditures	<u>123,768</u>	<u>723,157</u>	<u>2,595,505</u>	<u>-</u>	<u>-</u>	<u>3,442,430</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(39,849)</u>	<u>45,198</u>	<u>(2,446,886)</u>	<u>212,338</u>	<u>3,236,037</u>	<u>1,006,838</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in	27,991	3,217	2,446,884	-	-	2,478,092
Operating transfers out	(3,157)	(27,991)	-	-	(2,446,884)	(2,478,032)
Total other financing sources (uses)	<u>24,834</u>	<u>(24,774)</u>	<u>2,446,884</u>	<u>-</u>	<u>(2,446,884)</u>	<u>60</u>
NET CHANGE IN FUND BALANCE	(15,015)	20,424	(2)	212,338	789,153	1,006,898
FUND BALANCE JUNE 30, 2022	<u>119,099</u>	<u>287,106</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>406,207</u>
FUND BALANCE JUNE 30, 2023	<u>\$ 104,084</u>	<u>\$ 307,530</u>	<u>\$ -</u>	<u>\$ 212,338</u>	<u>\$ 789,153</u>	<u>\$ 1,413,105</u>

**PENDLETON COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
SCHOOL ACTIVITY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2023**

	Cash Balance June 30, 2022	Receipts	Disbursements	Cash Balance June 30, 2023	Accounts Receivable (Accounts Payable)	Restricted Fund Balance June 30, 2023
Pendleton County High School	\$ 119,675	\$ 582,731	\$ 576,583	\$ 125,823	\$ (2,932)	\$ 122,891
Phillip Sharp Middle School	116,440	117,395	118,089	115,746	(510)	115,236
Northern Elementary	38,269	43,514	32,546	49,237	(7)	49,230
Southern Elementary	10,006	31,554	20,964	20,596	(423)	20,173
	<u>284,390</u>	<u>775,194</u>	<u>748,182</u>	<u>311,402</u>	<u>(3,872)</u>	<u>307,530</u>
Effect of accruals	-	(3,622)	2,966	-	-	-
	<u>\$ 284,390</u>	<u>\$ 771,572</u>	<u>\$ 751,148</u>	<u>\$ 311,402</u>	<u>\$ (3,872)</u>	<u>\$ 307,530</u>

PENDLETON COUNTY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
SCHOOL ACTIVITY FUNDS  
PENDLETON COUNTY HIGH SCHOOL  
FOR THE YEAR ENDED JUNE 30, 2023

	Cash Balance June 30, 2022	Receipts	Disburse- ments	Cash Balance June 30, 2023	Accounts Receivable (Accounts Payable)	Restricted Fund Balance June 30, 2023
General	\$ 4,131	\$ 10,354	\$ 6,369	\$ 8,116	\$ -	\$ 8,116
Charitable Gaming	71	-	-	71	-	71
Concessions	1,595	28,950	27,543	3,002	-	3,002
Guidance	2,260	1,543	3,228	575	-	575
Faculty Gift	-	10	-	10	-	10
PBIS/Student	-	5,590	5,590	-	-	-
PBIS/Staff	93	510	259	344	-	344
Special Ed	368	52	185	235	-	235
General - Staff	1,393	1,541	1,894	1,040	(85)	955
Start-Up Change	-	9,700	9,700	-	-	-
Athletic Banquets	-	620	620	-	-	-
Athletic Department	-	55,740	55,740	-	-	-
Athletic Programs	-	48,630	46,923	1,707	(15)	1,692
Athletic Uniforms	2	-	-	2	-	2
Archery	1,747	9,057	9,291	1,513	-	1,513
Baseball	7,355	6,951	12,396	1,910	(215)	1,695
Boys Basketball	18,198	23,849	32,065	9,982	-	9,982
Girls Basketball	8,217	18,727	26,216	728	-	728
Bowling Team	-	5,508	5,508	-	-	-
Cheerleaders	2,520	59,946	55,739	6,727	-	6,727
Cross Country	-	1,644	1,644	-	-	-
Football	10,327	31,243	36,641	4,929	-	4,929
Boys Golf	317	1,888	1,285	920	-	920
Girls Golf	-	3,762	3,762	-	-	-
Boys Soccer	2,828	8,359	7,889	3,298	-	3,298
Girls Soccer	2,603	5,889	4,653	3,839	-	3,839
Softball	3,581	9,181	8,812	3,950	(68)	3,882
Tennis	-	1,661	1,661	-	-	-
Track	-	3,676	2,226	1,450	(138)	1,312
Volleyball	838	5,665	6,046	457	-	457
E-Sports	-	2,012	2,012	-	-	-
Academic Team	336	1,720	2,056	-	-	-
Art Club	146	1,332	1,478	-	-	-
CATS Club	200	-	-	200	-	200
Chess Club	103	-	-	103	-	103
Drama Club	2,423	637	1,809	1,251	-	1,251
FBLA	758	10,670	8,709	2,719	-	2,719
FCCLA Club	887	21,849	16,022	6,714	(44)	6,670
FFA	5,144	14,699	13,617	6,226	-	6,226
GT - theatre	818	1	62	757	-	757
Literary Magazine Club	1,300	388	594	1,094	-	1,094
National Honor Society	401	3,882	4,215	68	-	68
NJROTC Activity	12,989	14,315	12,232	15,072	-	15,072
Project Graduation	2,486	21,897	21,319	3,064	-	3,064
Prom	3	11,886	9,839	2,050	-	2,050
Scuba Club	351	2,245	2,568	28	-	28
Senior Council	9,007	20,960	16,170	13,797	(2,367)	11,430
Senior Trip	697	62,987	63,167	517	-	517
Spanish Club	2,674	1,500	1,472	2,702	-	2,702
STLP	224	100	129	195	-	195
Student Council	4,086	20,045	15,356	8,775	-	8,775
TSA	413	342	190	565	-	565
Yearbook	4,308	3,505	3,400	4,413	-	4,413
Fellowship of Christian Students	543	80	405	218	-	218
Library Council	100	-	-	100	-	100
Parent Advisory Council	825	172	607	390	-	390
KUNA	9	7,321	7,330	-	-	-
Less: Inter-fund Transfers	-	(2,060)	(2,060)	-	-	-
	119,675	582,731	576,583	125,823	(2,932)	122,891
Effect of accruals	-	(3,622)	2,072	-	-	-
	<u>\$ 119,675</u>	<u>\$ 579,109</u>	<u>\$ 578,655</u>	<u>\$ 125,823</u>	<u>\$ (2,932)</u>	<u>\$ 122,891</u>

PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
<u>U.S. Department of Education</u>					
Passed through Kentucky Department of Education:					
Title I Grants to Local Educational Agencies	84.010	3100002-21	\$ -	\$ 785,835	\$ 452,551 *
Title I Grants to Local Educational Agencies	84.010	3100002-22	-	954,733	393,419 *
					<u>845,970</u>
Special Education Cluster (IDEA):					
Special Education Grants to States - IDEA, Part B	84.027	3810002-21	-	501,911	231,040
Special Education Grants to States - IDEA, Part B	84.027	3810002-22	-	529,056	241,331
Special Education Grants to States - IDEA, Part B - ARPA	84.027	4910002-21	-	121,574	121,574
Special Education Grants to States - IDEA, Part B, Preschool	84.173	3800002-20	-	43,872	25,360
Special Education Grants to States - IDEA, Part B, Preschool	84.173	3800002-21	-	43,913	41,604
Special Education Grants to States - IDEA, Part B, Preschool - ARPA	84.173	4900002-21	-	16,864	16,864
Total Special Education Cluster					<u>677,773</u>
Title I, Part D - AIM (Arts in Mind)	84.351A	315J	-	3,535	3,535
Rural Education	84.358	3140002-21	-	51,306	27,897
Vocational Education Basic Grants to States	84.048	3710002-21	-	28,878	2,084
Vocational Education Basic Grants to States	84.048	3710002-22	-	29,923	29,923
					<u>32,007</u>
21st Century Community Learning Centers	84.287C	3400002-19	-	300,000	17,134
21st Century Community Learning Centers	84.287C	3400002-20	-	100,000	3,157
					<u>20,291</u>
Title IV Safe and Healthy Students	84.424	3420002-21	-	51,131	3,955
Title IV Safe and Healthy Students	84.424	3420002-22	-	50,911	24,745
					<u>28,700</u>
CRRSA - ESSER II Funds	84.425D	4200002-21	-	2,225,883	1,312,548 *
CRRSA - ESSER II Funds - Digital Learning Coach	84.425D	554GL	-	5,572	2,305 *
CRRSA - ESSER II Funds - State Set-Aside	84.425D	4200003-21	-	153,272	9,664 *
CRRSA - GEER II Funds	84.425C	564GF	-	200,000	117,670 *
ARPA - ESSER Funds - Deeper Learning	84.425U	563J	-	43,445	14,272 *
ARPA - ESSER Funds	84.425U	4300002-21	-	5,016,226	512,722 *
CRRSA - ESSER II Funds - New Teacher Induction	84.425D	578J	-	9,505	9,505 *
					<u>1,978,686</u>
Passed through Council on Postsecondary Education:					
GEAR Up State Grants	84.334S	614I	-	717	717
GEAR Up State Grants	84.334S	614J	-	5,096	5,096
					<u>5,813</u>
Total U.S. Department of Education					<u>3,620,672</u>
<u>U.S. Department of Agriculture</u>					
Passed through Kentucky Department of Education:					
Cash Assistance:					
State Administrative Expense	10.560	7700001-22	-	-	3,004
State Pandemic EFT	10.649	9990000-22	-	-	3,135
					<u>6,139</u>
Child Nutrition Cluster:					
National School Lunch Program	10.555	7750002-22	-	-	251,651 *
National School Lunch Program	10.555	7750002-23	-	-	905,030 *
National School Lunch Program	10.555	9980000-22	-	-	57,554 *
National School Lunch Program	10.555	9980000-23	-	-	27,869 *
School Breakfast Program	10.553	7760005-22	-	-	96,952 *
School Breakfast Program	10.553	7760005-23	-	-	338,642 *
					<u>1,677,698</u>
Non-cash Assistance:					
Food Donation	10.555	057502-02	-	-	147,487 *
Total Child Nutrition Cluster					<u>1,825,185</u>
Total U.S. Department of Agriculture					<u>1,831,324</u>

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONCLUDED)  
FOR THE YEAR ENDED JUNE 30, 2023**

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
<u>U.S. Department of Defense</u>					
Direct:					
Navy ROTC	12.630	504I	-	91,319	33
Navy ROTC	12.630	504J	-	91,583	81,820
Total U.S. Department of Defense					<u>81,853</u>
<u>U.S. Department of Justice</u>					
Direct:					
Community Policing Grants	16.710	450G	-	255,075	32,344
Total U.S. Department of Justice					<u>32,344</u>
<u>U.S. Department of Health &amp; Human Services</u>					
Direct:					
Drug Free Community Support	93.276	1H79SP021421-01	-	125,000	114,928
Drug Free Community Support	93.276	1H79SP021421-01	-	125,000	19,323
					<u>134,251</u>
Total expenditures of Federal awards					<u>\$ 5,700,444</u>

\* Denotes major program.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Pendleton County School District under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the Pendleton County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2023, commodities on hand are included in the total inventory of \$33,289.

**NOTE D - INDIRECT COST RATE**

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

**NOTE E - TRANSFERS**

Transfers of federal funds between programs are included as expenditures of the receiving program. The District made the following transfers of federal funds during the year ended June 30, 2023:

Disbursing Program	Receiving Program	Amount
Title II - 84.367	Title I - 84.010	\$ 106,909
Title IV - 84.424	Title I - 84.010	21,911
		<u>\$ 128,820</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities* and *State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pendleton County School District (the "District") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 13, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

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

## Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

We noted certain matters that we reported to management of the District in a separate letter dated November 13, 2023.

### 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.

*Kelley Dalloway Smith Goolsby, PSC*

Ashland, Kentucky  
November 13, 2023



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

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

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Pendleton County School District's (the "District") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2023. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

*Kelly Dalloway Smith Godsey, PSC*

Ashland, Kentucky  
November 13, 2023

**PENDLETON COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2023**

**(A) SUMMARY OF AUDIT RESULTS**

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

Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

Noncompliance material to the financial statements noted? \_\_\_\_\_ yes   x   no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified? \_\_\_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_\_\_ yes   x   none reported

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

Unmodified

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

Identification of major federal programs:

Education Stabilization Fund (84.425C, 84.425D and 84.425U)

Title I Grants to Local Educational Agencies (84.010)

Child Nutrition Cluster (10.553 and 10.555)

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

\$   750,000  

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

**(B) FINANCIAL STATEMENT FINDINGS**

None noted in the current year.

**(C) FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no findings in the current year.

**PENDLETON COUNTY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2023**

There were no findings in the prior year.



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

In planning and performing our audit of the financial statements of Pendleton County School District (the "District") as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comment and suggestion regarding these matters. This letter does not affect our report dated November 13, 2023, on the financial statements of the District.

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

*Kelley Galloway Smith Goolsby, PSC*

Ashland, Kentucky  
November 13, 2023

**PENDLETON COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINT**  
**FOR THE YEAR ENDED JUNE 30, 2023**

**2023-01    ACTIVITY FUNDS - GATE RECEIPTS:**

*Condition:* We noted two instances in which the ticket taker did not sign the ticket reconciliation (Form F-SA-1), as required by Redbook, for gate receipts at athletic events.

*Criteria for Condition:* Redbook requirement.

*Cause of Condition:* Oversight.

*Effect of Condition:* Noncompliance with a Redbook requirement.

*Recommendation for Correction:* We recommend that the District implement procedures to ensure that both the ticket taker and ticket seller sign Form F-SA-1 to document compliance with Redbook requirements.

*Management Response:* A refresher update of the Redbook requirement governing Form F-SA-1 and the correct procedures for handling gate receipts will be shared with the Principals, Bookkeepers, and the District Athletic Director. The Bookkeeper/School Treasurer will be advised to not accept a Form F-SA-1 for processing without two different signatures applied for the ticket seller and ticket taker. The Bookkeeper/School Treasurer will serve as the stop gap on this procedure to assure compliance moving forward.

Status of Prior Year Management Points

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