

HENDERSON COUNTY SCHOOL DISTRICT

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2018

HENDERSON COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

Financial Section	
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	16
Proprietary Fund Financial Statements:	
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Position – Fiduciary Funds	21
Notes to the Basic Financial Statements	22
Required Supplementary Information	
Statement of Budgetary Comparison – General Fund	57
Statement of Budgetary Comparison – Special Revenue Fund	58
Schedule of the District's Proportionate Share of the Collective Net Pension Liability – Kentucky Teachers' Retirement System Pension Plan	59
Schedule of the District's Pension Contributions – Kentucky Teachers' Retirement System Pension Plan	60
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability – Kentucky Teachers' Retirement System Medical Insurance Plan	61
Schedule of the District's OPEB Contributions – Kentucky Teachers' Retirement System Medical Insurance Plan	62
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability – Kentucky Teachers' Retirement System Medical Insurance Plan	63
Schedule of the District's OPEB Contributions – Kentucky Teachers' Retirement System Life Insurance Plan	64
Schedule of the District's Proportionate Share of the Collective Net Pension Liability – County Employees' Retirement System Pension Plan	65
Schedule of the District's Pension Contributions – County Employees' Retirement System Pension Plan	66
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability – County Employees' Retirement System OPEB Plan	67
Schedule of the District's OPEB Contributions – County Employees Retirement System OPEB Plan	68
Notes to the Required Supplementary Information	69

HENDERSON COUNTY SCHOOL DISTRICT TABLE OF CONTENTS

Other Supplementary Information

Combining Balance Sheet - Non-Major Governmental Funds	71
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	72
Statement of Receipts, Disbursements, and Fund Balance – Elementary and Middle Schools – Activity Funds	73
Statement of Receipts, Disbursements, and Fund Balance – Henderson County High School – Activity Funds	74



Independent Auditor's Report

Members of the Board of Education
Henderson County School District
Henderson, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Henderson County School District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the fiscal year ended June 30, 2018, the District adopted new accounting guidance GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 82, *Pensions Issues*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10, budgetary comparison information on pages 57 and 58, and schedules of the District's proportionate share of the collective net retirement plan liabilities and contributions to the retirement plans on pages 59 through 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods of preparation of the supplemental information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson County School District's basic financial statements. The combining and activity fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and activity fund financial statements on pages 71 through 74 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and activity fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

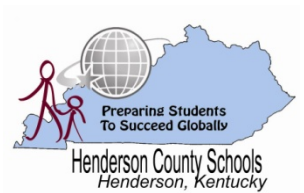
In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018 on our consideration of Henderson County School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Henderson, Kentucky
October 22, 2018

Henderson County Schools

1805 Second Street, Henderson, Kentucky 42420
(270) 831-5000 Fax: (270) 831-5009
<http://www.hendersonschools.net>



HENDERSON COUNTY BOARD OF EDUCATION MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

As management of the Henderson County School 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, 2018. We encourage our readers to consider information presented here in conjunction with additional information located within the body of the audit report.

Financial Highlights:

- The beginning Governmental Fund balance for the District was \$36,888,519. The ending fund balance was \$30,001,715 which was a decrease of \$6,886,804. The decrease was due to the District expending \$13.1 million during the year on the Spottsville School Project.
- The District is in good financial condition as it has been able to withstand the financial pressures of a very tight state education budget over the past several years without impairing the educational programs or facilities maintenance requirements for the District.
- The District's current assets decreased by \$4,049,796 during the year, while current liabilities increased by \$2,974,619 resulting in a current ratio of 4.47, which is indicative of the District's solid financial position and operating efficiency.
- The District continues to make significant investments in the facilities of the District, as evidenced by additions to capital of \$14.4 million (at cost).

Overview of the Financial Statements

Management's 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 the readers with a broad overview of the District's finances, in a manner similar to a private sector business.

- The *Statement of Net Position* presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving.
- 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 if the related cash transactions. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**HENDERSON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Both of these District wide statements are divided into two types of activities:

- *Government Activities* - The government wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. The fixed assets and related debt that are also supported by taxes and intergovernmental revenues are reported in this section.
- *Business-Type Activities* - These services are provided on a charge for goods and services basis to recover all of the expenses of the goods or services provided. The types of activities reported in this category are the food service operations, child care centers, and adult education courses. These activities are funded through fees charged and supported by federal grants and federal commodities used in the food service operations.

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 system. The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds.

- *Governmental Funds* - Most of the School District's activities are reported in the governmental funds that include: general fund, special revenue (grants), capital outlay, building fund (FSPK), construction fund, and debt service fund. These funds are reported using an accounting method referred to as modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The government fund statements provide a detailed short-term view of the School District's general government operations and basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the financial statements provided.
- *Proprietary Funds* - The proprietary funds include the food service, child care centers, and adult education programs found in the business type activity funds. These funds utilize the same basis of accounting as business type activities, therefore, the statements for the proprietary fund will correspond to the statement of net assets.
- *Fiduciary Funds* - The fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The District's fiduciary funds, referred to as "activity funds" are maintained at the school level.
- *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 financial statements. These notes may better explain data found in the financial statements, or provide additional information not found in the financial statements provided

**HENDERSON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net position reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets, which is outstanding at year end.

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 those capital assets.

Net Financial Position For the Fiscal Year Ended June 30, 2018

	June 30, 2018	June 30, 2017	Change
Current assets	\$ 37,050,012	\$ 41,129,808	\$ (4,079,796)
Capital or non-current assets	48,175,853	36,435,675	11,740,178
Deferred outflows	10,549,770	4,424,406	6,125,364
Total Assets and Deferred Outflows	95,775,635	81,989,889	13,785,746
Current liabilities	\$ 8,294,305	\$ 5,319,686	\$ 2,974,619
Non-current liabilities	83,589,491	55,825,198	27,764,293
Deferred Inflows	3,524,923	764,483	2,760,440
Total Liabilities and Deferred Inflows	95,408,719	61,909,367	33,499,352
Investment in capital assets, net of related debt	11,900,502	(695,407)	12,595,909
Restricted	6,239,457	15,249,953	(9,010,496)
Unassigned	(17,773,043)	5,525,976	(23,299,019)
Total Net Financial Position	\$ 366,916	\$ 20,080,522	\$ (19,713,606)

Total net assets and deferred outflows exceeded total liabilities and deferred inflows by \$366,916 a decrease of \$19.7 million due to the adoption of GASB No.75 requiring the District to record its share of the liabilities related to other post- employment benefits the cumulative effect of this decreased net position by \$22.6 million.

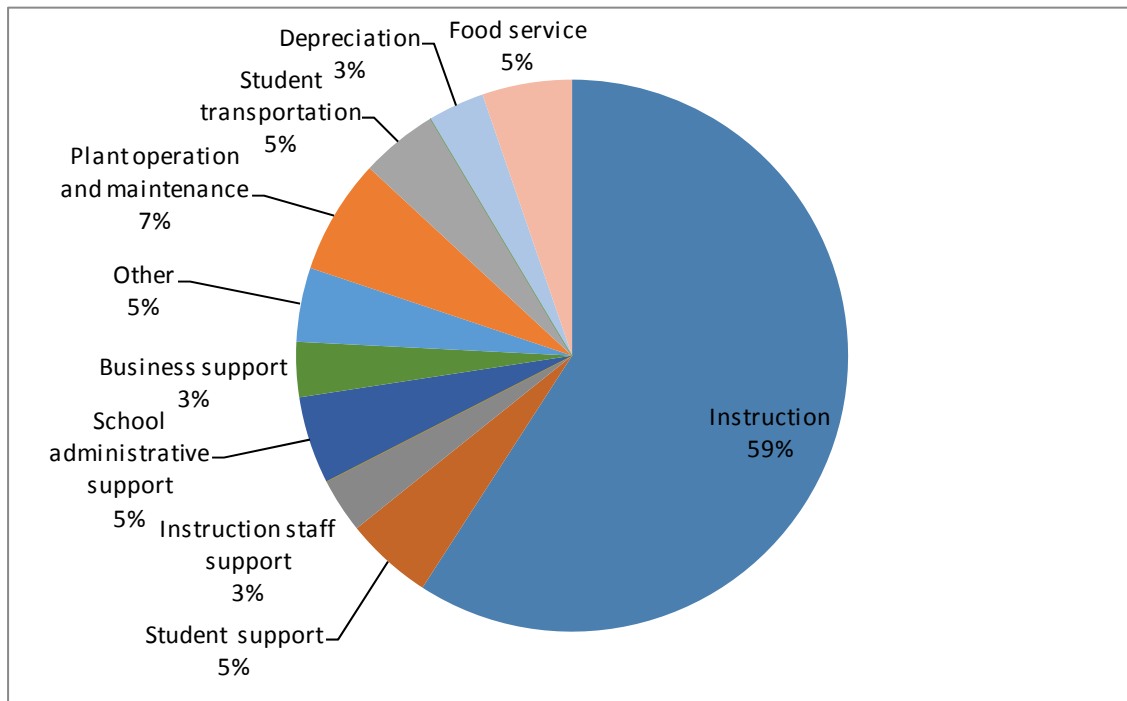
Current assets decreased by \$4,079,796 during the fiscal year and capital assets increased by \$11,740,178. Total expenditures for capital assets during the year were \$14,420,648, while depreciation of assets totaled \$2,737,808. The net increase in the unfunded pension and other post-employment benefits liabilities and issuance of a new bond resulted in a net increase in long-term liabilities of \$27,764,293. All of these factors resulted in a decrease in net position of \$19,713,606 for the year ended June 30, 2018.

The District's total revenues were \$85,808,704 and the total expenditures were \$82,944,393 which resulted in an increase in net position of \$2,864,311 before the cumulative effect of the adoption of GASB No. 75.

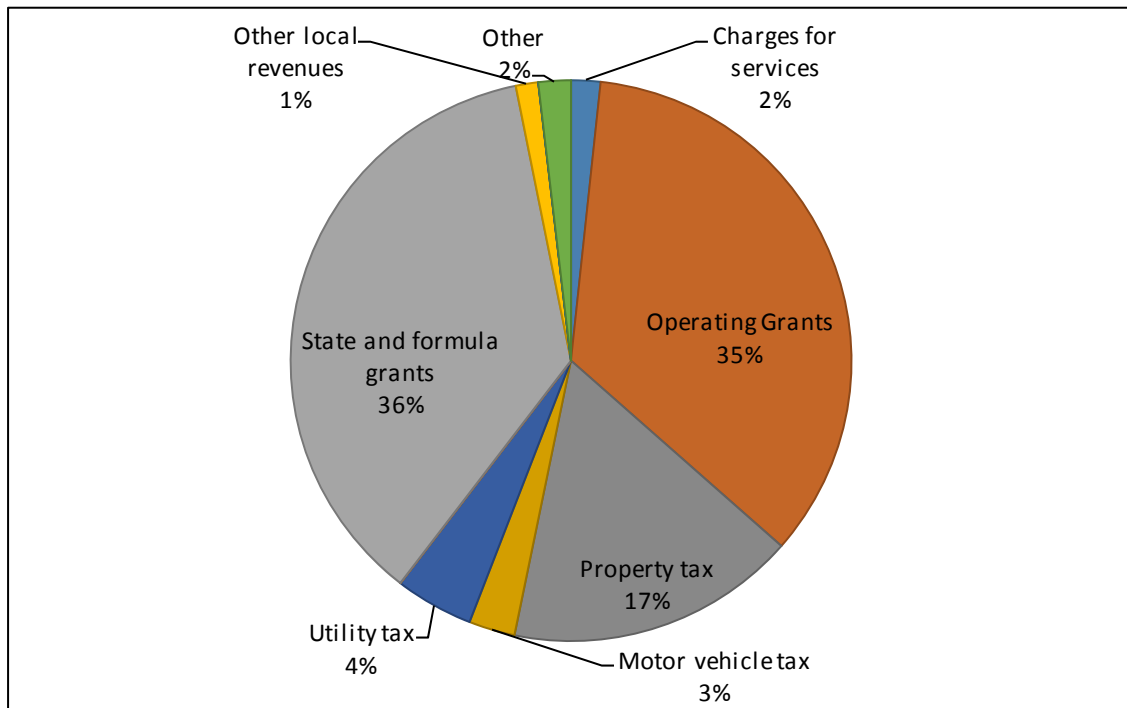
- State revenues and formula grants accounted for 36% of the total revenues while local taxes accounted for 24.0%.
- Expenditures totaled \$82,944,393, with \$55,963,113 or 67% of the total being expended towards student instruction and support.

**HENDERSON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Expenditures:



Revenues:



**HENDERSON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Governmental Fund Highlights

- Total General Fund revenues for the year were \$66.2 million, with \$45.5 million coming from state revenues, \$0.3 million from federal and the remaining \$20.2 million from local sources.
- Total General Fund Expenditures were \$64.1 million, with instruction costs being the largest area at \$40.1 million.
- The net excess of revenues over expenditures was \$2.1 million and other financing sources were minimal, resulting in an increase in the general fund balance of \$2.1 million for the 2018 fiscal year.
- Special Revenue fund expenditures for the year were \$8.1 million. Two major sources of revenues for this fund were state grants totaling \$3.6 million and federal grants totaling \$4.3 million.
- Construction Fund expenditures included \$13.1 million for facilities acquisition and construction and Other Governmental Funds included debt service payments of \$3.1 million.
- Total ending fund balances as of June 30, 2018 were \$23.8 million in the General Fund and \$6.2 million in the other governmental funds for a total of \$30.0 million.

Commentary on General Fund Budgetary Comparisons

- Actual revenues and expenditures both include \$18.9 million of on behalf payments. These represent payments for employee benefits paid at the state level on behalf of the Henderson County School District. The following comments are net of these on-behalf payments.
- Total revenues in relation to budgeted amounts were \$7.5 million favorable. The major revenue line items exceeding amounts budgeted were property taxes from all sources and other local revenues.
- Total expenditures were \$64.1 million, with expenditures in relation to budgeted amounts being \$13.8 million favorable. The budget included a contingency of \$7.8 million with no expenditures, actual instruction expenditures were \$2.5 million less than budgeted, and actual support services were \$3.5 million less than budgeted.

21st Century Learning Environments

The condition of physical infrastructure is integral to the core mission of the District. With the passing of the Nickel tax, the District will have the resources available to expand, improve, and maintain its properties. This tax created a healthy bonding capacity for the district which allows us to begin construction on a new facility for Jefferson Elementary School in the very near future. In addition to the increased bonding potential, the Nickel tax brought in additional revenue that will allow us to have cash available for upgrades to facilities. The District moved forward with several facility projects utilizing the cash generated from the Nickel tax. The District has upgraded lighting, safety and communication, roofing, paving and other projects geared toward

**HENDERSON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

21st Century Learning Environments, continued

energy savings. The District is also creating a plan to upgrade and renovate extracurricular facilities.

Future Budgetary Considerations

In Kentucky, the public schools operate on a July 1st to June 30th fiscal year, other programs such as some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have at least a 2% contingency. The district adopted a budget for fiscal year 2019, with a \$9,360,228 or 9.03% contingency. However, current economic conditions are of concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction. The District intends to take a conservative approach to expenditures as it has in the previous years.

District Challenges for the Future

Henderson County School District's overall financial status remains in a safe financial position. The District is financially stable, but at risk due to continued, inadequate state funding. As with the current year, transportation costs for students is a significant financial concern now and in the future. State provided funds are being reduced while most components are increasing. The cost of diesel fuel has varied widely over the past four years and continues to be of concern in the future. The costs of bus purchases will continue to increase due to changes in EPA requirements and the need to continue to replace an aging fleet.

The Commonwealth of Kentucky's financial condition, due to a stagnant economy, will have a significant impact on the availability of funds allocated to public education. The school districts have already experienced reductions in funding and allocation of some expenses that were traditionally paid by the state. Since a large percentage of the District's funding is provided by the State sources, the financial outlook for public schools is dependent upon the State's financial condition and budgetary funds. The outlook for the future years is a major concern for the Board and management.

The financial instability in the state pension fund and the rising retirement/pension costs is a financial risk that is facing Henderson County Schools. No additional state funding has been appropriated to offset this rising cost. There is a need for the District to increase local funding to provide additional revenue to offset this mandated expense increase.

Several new programs have been initiated in the past few years that will continue to impact test scores in a positive manner. However, many of the programs, such as full day kindergarten, expanded pre-school programs, and instructional coaches are not funded by the State budget. The District will again be challenged to fund these important educational programs.

Technology continues to be a major focus as we continue towards our 1:1 initiative and the need to keep pace with an ever changing technological society. The District Technology Plan will help guide the District's technology decisions. We currently have devices for all instructional staff as well as our third through twelfth grades. The plan objectives, expectations, indicators, targets, and action plans are reviewed and modified in order to accommodate technology changes and/or future funding challenges. This articulates our common vision and identifies strategies for the use of technology in developing critical thinking skills that are essential for academic and workplace success.

**HENDERSON COUNTY BOARD OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Report Purpose and Contact Information

This financial report is designed to provide our citizens, taxpayers, and investors and creditors, with a general overview of the Henderson County School District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

Cindy Cloutier, Director of Finance
Henderson County Schools
1805 Second Street
Henderson, Kentucky 42420
Telephone: 270.831.5000 or Electronic Mail: cindy.cloutier@henderson.kyschools.us

Henderson County School District
Government-Wide Financial Statements – Statement of Net Position
As of June 30, 2018

	Governmental Activities	Business Type Activities	Total
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 34,342,953	\$ 1,458,275	\$ 35,801,228
Inventory	-	81,074	81,074
Accounts receivable:			
Taxes - current	314,123	-	314,123
Accounts receivable	55,170	37,508.00	92,678
Intergovernmental - indirect	760,909	-	760,909
Total Current Assets	35,473,155	1,576,857	37,050,012
<u>Noncurrent Assets:</u>			
Capital assets, net	47,929,089	246,764	48,175,853
Total Noncurrent Assets	47,929,089	246,764	48,175,853
<u>Deferred Outflows of Resources:</u>			
Deferred outflows related to retirement plans	10,549,770	-	10,549,770
Total Deferred Outflows of Resources	10,549,770	-	10,549,770
Total Assets and Deferred Outflows of Resources	\$ 93,952,014	\$ 1,823,621	\$ 95,775,635
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts payable	\$ 3,541,563	\$ 7,995	\$ 3,549,558
Accrued payroll and related expenses	343,266	73,649	416,915
Unearned revenue	1,429,431	-	1,429,431
Current portion of bond obligations	2,313,275	-	2,313,275
Current portion of accrued sick leave	157,180	-	157,180
Interest payable	427,946	-	427,946
Total Current Liabilities	8,212,661	81,644	8,294,305
<u>Noncurrent Liabilities:</u>			
Noncurrent portion of bond obligations	33,962,076	-	33,962,076
Unfunded pension liability	23,075,845	-	23,075,845
Unfunded other postemployment benefits liability	25,828,492	-	25,828,492
Noncurrent portion of accrued sick leave	723,078	-	723,078
Total Noncurrent Liabilities	83,589,491	-	83,589,491
Total Liabilities	91,802,152	81,644	91,883,796
<u>Deferred Inflows of Resources:</u>			
Deferred inflows related to retirement plans	3,524,923	-	3,524,923
Total Deferred Inflows of Resources	3,524,923	-	3,524,923
Total Liabilities and Deferred Inflows of Resources	95,327,075	81,644	95,408,719
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	\$ 11,653,738	\$ 246,764	\$ 11,900,502
Restricted	6,239,457	-	6,239,457
Unrestricted	(19,268,256)	1,495,213	(17,773,043)
Total Net Position	\$ (1,375,061)	\$ 1,741,977	\$ 366,916

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Government-Wide Financial Statements – Statement of Activities
For the fiscal year ended June 30, 2018

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
<u>Governmental Activities:</u>							
Instruction	\$ 49,026,942	\$ 185,706	\$ 21,970,194	\$ -	\$ (26,871,042)	\$ -	\$ (26,871,042)
Support services:							
Student	4,252,949	-	1,181,126	-	(3,071,823)	-	(3,071,823)
Instruction staff	2,683,222	-	178,184	-	(2,505,038)	-	(2,505,038)
District administrative	1,076,404	-	67,724	-	(1,008,680)	-	(1,008,680)
School administrative	4,233,614	-	1,073,781	-	(3,159,833)	-	(3,159,833)
Business	2,675,838	-	314,491	-	(2,361,347)	-	(2,361,347)
Plant operation and maintenance	5,595,575	-	422,469	-	(5,173,106)	-	(5,173,106)
Student transportation	3,775,763	-	404,299	-	(3,371,464)	-	(3,371,464)
Facilities acquisition and construction	-	-	-	-	-	-	-
Community service activities	660,126	-	-	-	(660,126)	-	(660,126)
Interest on long-term debt	1,320,426	-	-	-	(1,320,426)	-	(1,320,426)
Depreciation	2,737,808	-	-	-	(2,737,808)	-	(2,737,808)
Total Governmental Services	<u>78,038,667</u>	<u>185,706</u>	<u>25,612,268</u>	<u>-</u>	<u>(52,240,693)</u>	<u>-</u>	<u>(52,240,693)</u>
<u>Business Type Activities:</u>							
Food service	4,362,735	610,770	4,181,485	-	-	429,520	429,520
Daycare operations	542,991	651,534	73,285	-	-	181,828	181,828
Adult education	-	-	-	-	-	-	-
Total Business Activities	<u>4,905,726</u>	<u>1,262,304</u>	<u>4,254,770</u>	<u>-</u>	<u>-</u>	<u>611,348</u>	<u>611,348</u>
Total Activities	<u>\$ 82,944,393</u>	<u>\$ 1,448,010</u>	<u>\$ 29,867,038</u>	<u>\$ -</u>			<u>\$ (51,629,345)</u>
<u>General Revenues:</u>							
Taxes:							
Property tax					\$ 14,364,875	\$ -	\$ 14,364,875
Motor vehicle tax					2,281,386	-	2,281,386
Utility tax					3,884,110	-	3,884,110
Unmined minerals					176,512	-	176,512
Franchise tax					873,153	-	873,153
Investment earnings					529,366	9,014	538,380
State and formula grants					31,249,586	-	31,249,586
Other local revenues					1,112,132	-	1,112,132
Disposal of assets					13,522	-	13,522
Transfers					216,169	(216,169)	-
Total General Revenues					<u>54,700,811</u>	<u>(207,155)</u>	<u>54,493,656</u>
Change in Net Position					2,460,118	404,193	2,864,311
Cummulative Effect of Change in Accounting Principle					(22,577,917)	-	(22,577,917)
Net Position - Beginning					18,742,738	1,337,784	20,080,522
Net Position - Ending					<u>\$ (1,375,061)</u>	<u>\$ 1,741,977</u>	<u>\$ 366,916</u>

The accompanying notes are an integral part of these financial statements.

**Henderson County School District
Balance Sheet – Governmental Funds
As of June 30, 2018**

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS AND RESOURCES:</u>					
Cash and cash equivalents	\$ 24,202,311	\$ 757,228	\$ 9,319,887	\$ 63,527	\$ 34,342,953
Accounts receivable:					
Taxes - current	314,123	-	-	-	314,123
Accounts receivable	55,170	-	-	-	55,170
Intergovernmental - State	-	760,909	-	-	760,909
Total Assets and Resources	\$ 24,571,604	\$ 1,518,137	\$ 9,319,887	\$ 63,527	\$ 35,473,155
<u>LIABILITIES AND FUND BALANCES:</u>					
<u>LIABILITIES:</u>					
Accounts payable	\$ 308,900	\$ 88,706	\$ 3,143,957	\$ -	\$ 3,541,563
Accrued payroll and related expenses	343,266	-	-	-	343,266
Current portion of accumulated sick leave	157,180	-	-	-	157,180
Unearned revenue	-	1,429,431	-	-	1,429,431
Total Liabilities	809,346	1,518,137	3,143,957	-	5,471,440
<u>FUND BALANCES:</u>					
Restricted	-	-	6,175,930	63,527	6,239,457
Committed	723,079	-	-	-	723,079
Assigned	3,037,649	-	-	-	3,037,649
Unassigned	20,001,530	-	-	-	20,001,530
Total Fund Balances	23,762,258	-	6,175,930	63,527	30,001,715
Total Liabilities and Fund Balances	\$ 24,571,604	\$ 1,518,137	\$ 9,319,887	\$ 63,527	\$ 35,473,155

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position
As of June 30, 2018

Total fund balance per fund financial statements	\$	30,001,715
--	----	------------

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

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.

Gross capital assets	\$ 111,241,022	
Accumulated depreciation	<u>(63,311,933)</u>	47,929,089

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position, as follows:

Unfunded pension liability	\$ (23,075,845)	
Unfunded other postemployment benefits liability	\$ (25,828,492)	
Deferred outflows of resources	10,549,770	
Deferred inflows of resources	(3,524,923)	
Long-term debt	(36,275,351)	
Long-term portion sick leave accrual	(723,078)	
Accrued interest expense	<u>(427,946)</u>	<u>(79,305,865)</u>

Net position for governmental activities	\$	<u><u>(1,375,061)</u></u>
--	----	---------------------------

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the fiscal year ended June 30, 2018

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>					
From local sources:					
Taxes:					
Property	\$ 11,325,703	\$ -	\$ -	\$ 3,039,172	\$ 14,364,875
Motor vehicle and watercraft	2,281,386	-	-	-	2,281,386
Utilities	3,884,110	-	-	-	3,884,110
Unmined minerals	176,512	-	-	-	176,512
Franchise	873,153	-	-	-	873,153
Tuition and fees	180,450	5,256	-	-	185,706
Earnings on investments	507,014	-	-	22,352	529,366
Other local revenues	958,237	48,344	-	105,551	1,112,132
Intergovernmental - intermediate	167,760	16,647	-	-	184,407
Intergovernmental - state	45,530,393	3,578,762	-	2,805,964	51,915,119
Intergovernmental - indirect federal	-	4,339,692	-	-	4,339,692
Intergovernmental - direct federal	326,702	95,934	-	-	422,636
Total Revenues	66,211,420	8,084,635	-	5,973,039	80,269,094
<u>EXPENDITURES:</u>					
Instruction	40,084,182	6,139,151	-	68,060	46,291,393
Support services:					
Student	3,894,790	358,159	-	-	4,252,949
Instruction staff	1,705,115	950,792	-	35,422	2,691,329
District administrative	950,662	145,410	-	-	1,096,072
School administrative	4,242,614	-	-	-	4,242,614
Business	2,675,838	-	-	-	2,675,838
Plant operation and maintenance	6,532,312	-	-	2,069	6,534,381
Student transportation	3,968,923	383	-	-	3,969,306
Facilities acquisition and construction	-	-	13,106,615	-	13,106,615
Community service activities	34,841	625,285	-	-	660,126
Debt service	-	-	-	3,143,072	3,143,072
Total Expenditures	64,089,277	8,219,180	13,106,615	3,248,623	88,663,695
Excess (Deficit) of Revenues Over Expenditures	2,122,143	(134,545)	(13,106,615)	2,724,416	(8,394,601)
<u>OTHER FINANCING SOURCES (USES):</u>					
Operating transfers in	218,198	136,574	2,810,306	2,270,435	5,435,513
Operating transfers out	(233,277)	(2,029)	(13,603)	(4,970,435)	(5,219,344)
Bond principal proceeds	-	-	1,275,000	-	1,275,000
Disposal of assets	16,628	-	-	-	16,628
Total Other Financing Sources	1,549	134,545	4,071,703	(2,700,000)	1,507,797
Change in fund balance	2,123,692	-	(9,034,912)	24,416	(6,886,804)
Fund Balance, Beginning of Year	21,638,566	-	15,210,842	39,111	36,888,519
Fund Balance, End of Year	\$ 23,762,258	\$ -	\$ 6,175,930	\$ 63,527	\$ 30,001,715

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
For the fiscal year ended June 30, 2018

Net change in total fund balances per fund financial statements	\$ (6,886,804)
---	----------------

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

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources but they are presented as assets in the statement of financial position and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.

Depreciation expense	\$ (2,737,808)	
Capital outlay	<u>14,420,648</u>	11,682,840

Gains and losses on the disposal of property and equipment are not recorded in the governmental fund financial statements, only the cash proceeds received from the sale or disposal are recorded in the governmental fund financial statements.	(3,106)
--	---------

Bond issue proceeds, which are reported as other sources of funds in the fund financial statements, are reflected as a liability on the statement of net position.

Bond issue proceeds	\$ (1,275,000)	
Bond discount	<u>25,394</u>	(1,249,606)

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

Bond principal payments	\$ 2,110,000	
Amortization of bond premiums and discounts	<u>(4,663)</u>	2,105,337

Change in noncurrent portion of accrued sick leave	(37,358)
--	----------

Change in interest payable	(308,085)
----------------------------	-----------

Difference between actuarially determined pension and OPEB expenses and actual contributions to the pension and OPEB plans.

Actuarially determined pension expense	\$ (3,485,874)	
Actuarially determined OPEB expense	(2,068,139)	
Actual pension and OPEB contributions	<u>2,710,913</u>	<u>(2,843,100)</u>

Change in net position	<u>\$ 2,460,118</u>
------------------------	---------------------

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Statement of Net Position – Proprietary Funds
As of June 30, 2018

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 843,935	\$ 613,870	\$ 470	\$ 1,458,275
Inventory	81,074	-	-	81,074
Accounts receivable	37,508	-	-	37,508
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Assets	962,517	613,870	470	1,576,857
	<hr/>	<hr/>	<hr/>	<hr/>
Noncurrent Assets:				
Capital assets	1,597,812	47,516	-	1,645,328
Less: accumulated depreciation	(1,371,955)	(26,609)	-	(1,398,564)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Noncurrent Assets	225,857	20,907	-	246,764
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 1,188,374</u>	<u>\$ 634,777</u>	<u>\$ 470</u>	<u>\$ 1,823,621</u>
	<hr/>	<hr/>	<hr/>	<hr/>
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable	\$ 5,744	\$ 2,251	\$ -	\$ 7,995
Accrued payroll and related expenses	33,980	39,669	-	73,649
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Liabilities	39,724	41,920	-	81,644
	<hr/>	<hr/>	<hr/>	<hr/>
<u>NET POSITION:</u>				
Invested in capital assets	225,857	20,907	-	246,764
Unrestricted	922,793	571,950	470	1,495,213
	<hr/>	<hr/>	<hr/>	<hr/>
Net Position	1,148,650	592,857	470	1,741,977
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 1,188,374</u>	<u>\$ 634,777</u>	<u>\$ 470</u>	<u>\$ 1,823,621</u>
	<hr/>	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
For the fiscal year ended June 30, 2018

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>OPERATING REVENUES:</u>				
Lunchroom sales	\$ 648,475	\$ -	\$ -	\$ 648,475
Other operating revenues	(37,705)	651,534	-	613,829
Total Operating Revenues	610,770	651,534	-	1,262,304
<u>OPERATING EXPENSES:</u>				
Salaries and wages	1,422,173	361,618	-	1,783,791
Materials and supplies	2,125,262	7,603	-	2,132,865
Depreciation	36,181	1,901	-	38,082
Other operating expenses	779,119	171,869	-	950,988
Total Operating Expenses	4,362,735	542,991	-	4,905,726
Operating Profit (Loss)	(3,751,965)	108,543	-	(3,643,422)
<u>NON-OPERATING REVENUES:</u>				
Federal grants	3,540,341	-	-	3,540,341
Donated commodities	292,341	-	-	292,341
State grants	39,031	-	-	39,031
Other state	309,772	73,285	-	383,057
Interest income	9,014	-	-	9,014
Total Non-Operating Revenues	4,190,499	73,285	-	4,263,784
Income (Loss) Before Other Financing Sources/Uses	438,534	181,828	-	620,362
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers out	(216,169)	-	-	(216,169)
Total Other Financing Uses	(216,169)	-	-	(216,169)
Change in net position	222,365	181,828	-	404,193
Net position, beginning of year	926,285	411,029	470	1,337,784
Net position, end of year	<u>\$ 1,148,650</u>	<u>\$ 592,857</u>	<u>\$ 470</u>	<u>\$ 1,741,977</u>

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Statement of Cash Flows – Proprietary Funds
For the fiscal year ended June 30, 2018

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash receipts from:				
Lunchroom sales	\$ 648,475	\$ -	\$ -	\$ 648,475
Other activities	(37,705)	651,534	-	613,829
Cash payments for:				
Employees	(1,425,822)	(363,650)	-	(1,789,472)
Supplies	(2,098,859)	(7,603)	-	(2,106,462)
Other operating expenses	(779,119)	(173,585)	-	(952,704)
Net Cash Provided (Used) In Operating Activities	(3,693,030)	106,696	-	(3,586,334)
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>				
Receipt of interest income	9,014	-	-	9,014
Operating transfers out	(216,169)	-	-	(216,169)
Cash received for operating grants	4,193,960	73,285	-	4,267,245
Net Cash Provided By Non-Capital Financing Activities	3,986,805	73,285	-	4,060,090
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</u>				
Purchase of equipment	(98,526)	-	-	(98,526)
Net Cash Used In Capital Financing Activities	(98,526)	-	-	(98,526)
Net Increase (Decrease) In Cash And Cash Equivalents	195,249	179,981	-	375,230
Cash and Cash Equivalents, Beginning of Year	648,686	433,889	470	1,083,045
Cash and Cash Equivalents, End of Year	\$ 843,935	\$ 613,870	\$ 470	\$ 1,458,275

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Statement of Cash Flows – Proprietary Funds, Continued
For the fiscal year ended June 30, 2018

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>				
Operating income (loss)	\$ (3,751,965)	\$ 108,543	\$ -	\$ (3,643,422)
<u>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</u>				
Depreciation	36,181	1,901	-	38,082
Changes in operating assets and liabilities				
Inventory	26,268	-	-	26,268
Accounts payable	135	(1,716)	-	(1,581)
Accrued expenses	(3,649)	(2,032)	-	(5,681)
Net Cash Provided (Used) In Operating Activities	<u><u>\$ (3,693,030)</u></u>	<u><u>\$ 106,696</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,586,334)</u></u>
<u>SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</u>				
Donated commodities received from federal government	<u><u>\$ 292,341</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 292,341</u></u>

The accompanying notes are an integral part of these financial statements.

Henderson County School District
Statement of Fiduciary Net Position – Fiduciary Funds
As of June 30, 2018

	Agency Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 864,867
Accounts receivable	-
Total Assets	\$ 864,867
<u>LIABILITIES</u>	
Accounts payable	\$ -
Due to student groups	864,867
Total Liabilities	864,867
Net Position	\$ -

The accompanying notes are an integral part of these financial statements.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Henderson 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 the Henderson 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*. 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 members.

The District, for financial purposes, includes all the funds and account groups relevant to the operation of the Henderson County Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with 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:

Henderson County Board of Education Finance Corporation – In March, 1989, the Board of Education resolved to authorize the establishment of the Henderson 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) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

BASIS OF PRESENTATION

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

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

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

The District has the following funds:

I) Government Fund Types

- A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as 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 which is reported separately. This is a major fund of the District.
- C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 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 (KSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION (CONTINUED)

- 3) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D) 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.
- E) The District 21 Revenue Fund is used to hold monies transferred from school activity funds to be spent for the purpose of allowable student activities.

II) Proprietary Fund Types (Enterprise Funds)

- 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 contributions of commodities from the USDA.
- B) The Day Care Center Fund is used to account for all day care centers.
- C) The Adult Education Fund is used for adult education.
- D) The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III) Fiduciary Fund Types (Agency and Private Purpose Trust Funds)

- A) The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Accounting Procedures for Kentucky School Activity Funds*.

BASIS OF ACCOUNTING

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

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING (CONTINUED)

Non-exchange transaction, 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 expenditures requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they 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 unearned revenue.

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

The measurement focus of governmental funds 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 cost, such as depreciation, are not recognized in governmental funds.

PROPERTY TAXES

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

The property tax rates assessed for the year ended June 30, 2018, to finance the General Fund operations were \$.530 per \$100 valuation for real property, \$.532 per \$100 valuation for business personal property and \$.548 per \$100 valuation for motor vehicles.

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

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.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONTINUED)

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are reported at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars 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.

All 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>Depreciation</u>	<u>Governmental Activities 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
Rolling stock	15 Years
Other	10 Years

INTER-FUND BALANCES

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

ACCUMULATED UNPAID SICK LEAVE BENEFITS

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

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

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCUMULATED UNPAID SICK LEAVE BENEFITS (CONTINUED)

For governmental fund financial statements the current portion of unpaid 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.

BUDGETARY PROCESS

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy all amendments 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 dictated by law.

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

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

The Food Service Fund uses the specific identification method.

PREPAID ASSETS

Payments made that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

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.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (CONTINUED)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources.

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

FUND BALANCES

In accordance with Governmental Accounting Standards No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the District classifies fund balances as follows:

Non-spendable - Includes fund balance amounts which are not in spendable form or because of legal or contractual requirements.

Restricted - Includes fund balance amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors, or due to constitutional provisions or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority.

Assigned - Includes fund balance amounts that are to be used for a specific purpose that are neither considered to be restricted or committed, but rather assigned by the Deputy Superintendent of Finance or the Superintendent.

Unassigned - Includes positive fund balances within the General Fund which have not been classified in any of the above mentioned categories.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds, and then unassigned funds.

STATEMENT OF NET POSITION

Net position represents the difference between assets and liabilities. The District classifies its net position into the following three categories:

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATEMENT OF NET POSITION (CONTINUED)

- Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

OPERATING REVENUES AND EXPENSES

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

INTER-FUND ACTIVITIES

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 inter-fund activities. Inter-fund transfers are reported as other financing sources/uses in governmental funds and after non-operating 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.

USE OF ESTIMATES

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

PENSION BENEFITS

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

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and GASB Statement No. 82, *Pensions Issues*. The provisions of these statements are effective for financial statements for fiscal years beginning after June 15, 2017. The implementation of GASB Statements No. 75 and 82 resulted in a cumulative effect of change in accounting principle which reduced the net position of the District by \$22,577,917. Additionally, implementation of the new GASB statements also resulted in the recording of related deferred outflows and inflows of resources and unfunded OPEB liability which is further discussed in Note 7.

NOTE 2 – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's cash and cash equivalents was \$39,883,622. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents consisted of the following as of June 30, 2018:

Financial Institution:

Independence Bank	\$ 35,801,228
Independence Bank-Activity Funds	<u>864,867</u>
Totals	<u><u>\$ 36,666,095</u></u>

Allocation per Financial Statements:

Governmental Funds	\$ 34,342,953
Business Type Funds	1,458,275
Agency Funds	<u>864,867</u>
Totals	<u><u>\$ 36,666,095</u></u>

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance			Balance
<u>GOVERNMENTAL ACTIVITIES:</u>	June 30, 2017	Additions	Deductions	June 30, 2018
Land	\$ 989,487	\$ -	\$ -	\$ 989,487
Land improvements	3,399,886	230,424	-	3,630,310
Building and improvements	73,020,901	652,704	-	73,673,605
Technology	5,165,370	141,990	(190,960)	5,116,400
Machinery and equipment	7,348,874	203,243	(41,842)	7,510,275
General equipment	1,976,157	85,672	-	2,061,829
Construction in progress	5,152,501	13,106,615	-	18,259,116
Totals at historical cost	97,053,176	14,420,648	(232,802)	111,241,022
Land improvements	(2,816,972)	(90,100)	-	(2,907,072)
Building and improvements	(46,301,891)	(1,868,564)	-	(48,170,455)
Technology	(4,779,150)	(280,414)	187,854	(4,871,710)
Machinery and equipment	(5,224,246)	(449,767)	41,842	(5,632,171)
General equipment	(1,681,562)	(48,963)	-	(1,730,525)
Less: accumulated depreciation	(60,803,821)	(2,737,808)	229,696	(63,311,933)
Governmental activities, net	\$ 36,249,355	\$ 11,682,840	\$ (3,106)	\$ 47,929,089
	Balance			Balance
	June 30, 2017	Additions	Deductions	June 30, 2018
<u>BUSINESS TYPE ACTIVITIES:</u>				
Buildings and improvements	\$ 47,516	\$ -	\$ -	\$ 47,516
Food service equipment	1,383,109	98,526	-	1,481,635
Technology equipment	116,728	-	(551)	116,177
Totals at historical cost	1,547,353	98,526	(551)	1,645,328
Buildings and improvements	(24,710)	(1,901)	-	(26,611)
Food service equipment	(1,205,857)	(34,811)	551	(1,240,117)
Technology equipment	(130,466)	(1,370)	-	(131,836)
Less: accumulated depreciation	(1,361,033)	(38,082)	551	(1,398,564)
Business type activities, net	\$ 186,320	\$ 60,444	\$ -	\$ 246,764

Depreciation expenses were not allocated to governmental functions. It appears on the statement of activities as “unallocated.”

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

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

Issue Date	Issue Name	Original Amount	Interest Rate	Maturity Date
2007	School Building Revenue Refunding Bonds 2007	\$ 4,095,000	3.50% - 3.75%	2019
2011	School Building Revenue Refunding Bonds 2011	\$ 3,675,000	1.00% - 3.00%	2021
2011	School Building Revenue Bonds Series 2011	\$ 1,810,000	1.00% - 5.00%	2021
2009	School Building Revenue Refunding Bonds 2009	\$ 4,505,000	2.00% - 3.60%	2024
2012	School Building Revenue Refunding Bonds 2012	\$ 2,225,000	0.70% - 2.00%	2024
2013	School Building Revenue Bonds Series 2013	\$ 1,200,000	0.60% - 3.35%	2034
2014	School Building Revenue Refunding Bonds 2014	\$ 7,865,000	0.90% - 3.00%	2030
2015	School Building Revenue Bonds Series 2015	\$ 3,790,000	3.00% - 3.375%	2033
2016	School Building Revenue Bonds Series 2016	\$ 17,845,000	2.00% - 3.125%	2036
2018	Energy Conservation Revenue Bonds Series 2018	\$ 1,275,000	3.00% - 3.70%	2038

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

In connection with the school revenue bonds the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the follow page sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming they are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2018, for debt service (principal and interest) are as follows:

Fiscal Year	Henderson County School District		Kentucky School Facility Construction Commission		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2018-19	\$ 1,708,636	\$ 815,303	\$ 601,364	\$ 201,456	\$ 2,310,000	\$ 1,016,759
2019-20	1,721,357	765,855	613,643	189,148	2,335,000	955,003
2020-21	1,567,978	428,157	627,047	176,281	2,195,025	604,438
2021-22	1,416,015	692,649	453,985	161,290	1,870,000	853,939
2022-23	1,456,867	661,743	463,133	152,109	1,920,000	813,852
2023-24	1,492,534	629,728	472,466	142,753	1,965,000	772,481
2024-25	1,467,432	588,229	352,570	132,750	1,820,002	720,979
2025-26	1,513,629	543,207	366,371	121,966	1,880,000	665,173
2026-27	1,566,557	494,243	373,443	110,869	1,940,000	605,112
2027-28	1,618,656	443,512	386,344	99,471	2,005,000	542,983
2028-29	1,670,437	392,880	394,563	87,758	2,065,000	480,638
2029-30	1,726,225	340,197	408,775	75,729	2,135,000	415,926
2030-31	1,787,906	283,422	392,094	63,696	2,180,000	347,118
2031-32	1,447,675	236,264	302,325	53,279	1,750,000	289,543
2032-33	1,363,467	192,430	311,533	44,071	1,675,000	236,501
2033-34	1,413,979	148,084	321,021	34,583	1,735,000	182,667
2034-35	1,484,203	103,460	330,797	24,806	1,815,000	128,266
2035-36	988,910	54,993	341,090	13,980	1,330,000	68,973
2036-37	1,011,077	23,403	293,923	4,592	1,305,000	27,995
2037-38	135,000	4,996	-	-	135,000	4,996
Totals	\$ 28,558,540	\$ 7,842,755	\$ 7,806,487	\$ 1,890,587	\$ 36,365,027	\$ 9,733,342

A summary of changes in long-term debt during the fiscal year ended June 30, 2018 is as follows:

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Due Within One Year
School Building Revenue Bonds	\$ 37,200,027	\$ 1,275,000	\$ (2,110,000)	\$ 36,365,027	\$ 2,313,275
Deferred amounts: Issuance premiums and discounts	(68,945)	(25,394)	4,663	(89,676)	-
Total governmental bonds payable	<u>\$ 37,131,082</u>	<u>\$ 1,249,606</u>	<u>\$ (2,105,337)</u>	<u>\$ 36,275,351</u>	<u>\$ 2,313,275</u>

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018

NOTE 5 – ACCRUED SICK LEAVE

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net position since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 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 District's past experience of making termination payments. Compensated absences are generally liquidated by the General Fund.

A summary of the changes in accumulated sick leave benefits during the fiscal year ended June 30, 2018 is as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due Within</u> <u>One Year</u>
Accrued Sick Leave	\$ 842,582	\$ 37,676	\$ -	\$ 880,258	\$ 157,180

NOTE 6 – FUND BALANCES

The following is a summary of fund balances as of June 30, 2018:

	<u>General</u> <u>Fund</u>	<u>Construction</u> <u>Fund</u>	<u>FSPK</u> <u>Fund</u>	<u>SEEK</u> <u>Capital Outlay</u> <u>Fund</u>	<u>District 21</u> <u>Activity</u> <u>Fund</u>	<u>Totals</u>
<u>RESTRICTED:</u>						
Construction	\$ -	\$ 6,175,930	\$ 52,135	\$ 1,394	\$ -	\$ 6,229,459
Student activities	-	-	-	-	9,998	9,998
Total Restricted	-	6,175,930	52,135	1,394	9,998	6,239,457
<u>COMMITTED:</u>						
Sick leave	723,079	-	-	-	-	723,079
<u>ASSIGNED:</u>						
State revenue shortfall	749,000	-	-	-	-	749,000
Future technology	429,000	-	-	-	-	429,000
Future bus purchases	643,000	-	-	-	-	643,000
Purchase obligations	1,216,649	-	-	-	-	1,216,649
Total Assigned	3,037,649	-	-	-	-	3,037,649
<u>UNASSIGNED:</u>	20,001,530	-	-	-	-	20,001,530
Total Fund Balances	\$ 23,762,258	\$ 6,175,930	\$ 52,135	\$ 1,394	\$ 9,998	\$ 30,001,715

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS

Teachers' Retirement System of the Commonwealth of Kentucky

General Information about the Pension Plan

Plan description: Teaching-certified employees of the District are provided pensions through the Teachers' Retirement System of the Commonwealth of Kentucky (TRS), a cost-sharing multiple-employer defined benefit 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://ktrs.ky.gov>.

Benefits provided: For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, member 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 55 and complete five years of Kentucky service, or
2. Complete 27 years of Kentucky service

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

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

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONINTUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Pension Plan (continued)

Contributions: Contribution rates are established by Kentucky Revised Statutes (KRS). Members are required to contribute 12.855 percent of their salaries to TRS. The Commonwealth of Kentucky, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008 and 14.105 percent for those who joined thereafter. For employees whose salaries are federally funded, the employer contributes 16.105 percent of salary. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

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

At June 30, 2018, the District did not report a liability for the District's proportionate share of the collective net pension liability because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District.

The amount recognized by the District as its proportionate share of the net pension liability, the related 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	\$ -
State's proportionate share of the net pension liability associated with the District	<u>257,816,883</u>
Total	<u><u>\$ 257,816,883</u></u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 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 System as determined by the actuary. At June 30, 2017, the District's proportion was 0.9555 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$9,160,080 and revenue of \$9,160,080 for support provided by the State.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONINTUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Pension Plan (continued)

Actuarial assumptions: The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases, including inflation	3.50 – 7.30 percent
Long-Term Investment Rate of Return, net of pension plan investment expense, including inflation	7.50 percent
Municipal Bond Index Rate:	
Prior Measurement Date	3.01 percent
Measurement Date	3.56 percent
Year FNP is projected to be depleted	2038
Single Equivalent Interest Rate, net of pension plan investment expense, including inflation:	
Prior Measurement Date	4.20 percent
Measurement Date	4.49 percent
Post-Retirement Benefit Increases	1.50 percent annually

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

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 - June 30, 2015.

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 rate of return by the target asset allocation percentage and by adding expected inflation.

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONINTUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Pension Plan (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	42.0%	4.4%
International Equity	20.0%	5.3%
Fixed Income	16.0%	1.5%
Additional Categories*	9.0%	3.6%
Real Estate	5.0%	4.4%
Private Equity	6.0%	6.7%
Cash	2.0%	0.8%
Total	100%	

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

Discount rate: The discount rate used to measure the total pension liability as of the measurement date was 4.49%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that member contributions will be made at the current contribution rates and that employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of plan members until the 2038 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Index Rate (SEIR). There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 68, the SEIR of 4.49 percent at the measurement date was calculated using the Municipal Bond Index Rate as of the measurement date (3.56 percent). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

General Information about the OPEB Plans

Plan description: Teaching-certified employees of the District are provided other postemployment benefits (OPEB) through the Teachers' Retirement System of the Commonwealth of Kentucky (TRS), a cost-sharing multiple-employer defined benefit 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://ktrs.ky.gov>.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

General Information about the OPEB Plans (continued)

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 OPEB plans:

Medical Insurance Plan

Plan description: In addition to the pension benefits describe above, Kentucky Revised Statute 161.175 requires TRS to provide postemployment healthcare benefits to eligible members and dependents. The TRS Medical Insurance Plan is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes 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, 7.50 percent of the gross annual payroll of members is contributed. Three and three quarters percent is paid by member contributions and 0.75 percent from State appropriation and 3.00 percent 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, premiums collected from retirees as described in the plan description and investment interest help to meet the medical expenses of the plan. The District's contributions to TRS for the year ended June 30, 2018 were \$1,210,653.

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

At June 30, 2018, the District reported a liability of \$17,903,000 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.912222 percent.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

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

District's proportionate share of the net OPEB liability	\$ 17,903,000
State's proportionate share of the net OPEB liability associated with the District	<u>14,624,000</u>
Total	<u><u>\$ 32,527,000</u></u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,876,277 and revenue of \$711,277 for support provided by the State. At June 30, 2018, 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	\$ -	\$ 127,143
Changes of assumptions	-	-
Net difference between projected and actual investment earnings on pension plan investments	-	-
Changes in proportion and differences between District contributions and proportional share of contributions	-	-
District contributions subsequent to the measurement date	<u>882,688</u>	<u>-</u>
Total	<u><u>\$ 882,688</u></u>	<u><u>\$ 127,143</u></u>

The \$882,688 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

<u>Year ended June 30:</u>	<u>Amount</u>
2019	\$ (31,786)
2020	(31,786)
2021	(31,786)
2022	(31,785)
2023	-
Thereafter	-

Actuarial assumptions: The total OPEB liability in the June 30, 2016 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including wage inflation
Long-term Investment Rate of Return	8.00%, net of investment expense, including inflation
Healthcare Trend Rates	
Pre-65	7.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2023
Post-65	5.75% for FYE 2017 decreasing to an ultimate rate of 5.00% by FYE 2020
Medicare Part B Premiums	1.02% for FYE 2017 with an ultimate rate of 5.00% by 2029

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

The remaining actuarial assumptions (e.g. initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan elections, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

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

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
Global Equity	60.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	4.5%	4.0%
Private Equity	5.5%	6.6%
High Yield	10.0%	4.3%
Other Additional Categories*	10.0%	3.3%
Cash (LIBOR)	1.0%	0.5%
Total	100%	

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

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

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate: The following presents the District's proportionate share of the collective net OPEB liability calculated using the discount rate of 8.00 percent, 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 one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	1.00% Decrease (7.00%)	Current Discount Rate (8.00%)	1.00% Increase (9.00)
District's proportionate share of the collective net OPEB liability as of June 30, 2017	<u>\$ 20,848,541</u>	<u>\$ 17,903,000</u>	<u>\$ 15,451,708</u>

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Medical Insurance Plan (continued)

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

	<u>1.00% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1.00% Increase</u>
District's proportionate share of the collective net OPEB liability as of June 30, 2017	<u>\$ 14,993,588</u>	<u>\$ 17,903,000</u>	<u>\$ 21,495,853</u>

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

Life Insurance Plan

Plan description: TRS administers the life insurance plan as provided by Kentucky Revised Statute 161.655 to eligible active and retired members. The TRS Life Insurance plan is a cost-sharing multiple employer defined benefit plan with a special funding situation. Changes 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 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 (0.03%) 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 OPEB

At June 30, 2018, the District did not report a liability for the District's proportionate share of the collective net OPEB liability because the Commonwealth of Kentucky provides the OPEB support directly to TRS on behalf of the District.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Life Insurance Plan (continued)

The amount recognized by the District as its proportionate share of the net 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	\$ -
State's proportionate share of the net OPEB liability associated with the District	<u>196,000</u>
Total	<u><u>\$ 196,000</u></u>

The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2016 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 System as determined by the actuary. At June 30, 2017, the District's proportion was 0.891477 percent.

Actuarial assumptions: The total OPEB liability in the June 30, 2016 valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Real wage growth	0.50%
Wage inflation	3.50%
Salary increases	3.50% - 7.20%, including wage inflation
Long-term Investment Rate of Return	7.50%, net of investment expense, including inflation

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

The remaining actuarial assumptions (e.g. initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan elections, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

Teachers' Retirement System of the Commonwealth of Kentucky (continued)

Life Insurance Plan (continued)

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) were developed for each major investment 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 asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Large Cap Equity	38.4%	4.3%
U.S. Small Cap Equity	2.6%	4.8%
Developed Int'l Equity	15.8%	5.2
Emerging Markets Equity	4.2	5.4
Fixed Income – Inv Grad	16.0%	1.2%
Real Estate	6.0%	4.0%
Private Equity	7.0%	6.6%
High Yield	2.0%	4.3%
Other Additional Categories*	7.0%	3.3%
Cash (LIBOR)	2.0%	0.5%
Total	100%	

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

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

OPEB plan fiduciary net position: Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Teachers' Retirement System of the Commonwealth of Kentucky financial report.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System

General Information about the Pension Plan

Plan description: Substantially all other employees (classified personnel) participate in the County Employees' Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems. CERS consists of two plans – Non-Hazardous and Hazardous. District employees participate in the Non-Hazardous plan only. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and supplementary information for CERS. That report can be obtained at <https://kyret.ky.gov>.

Benefits provided: CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Kentucky Revised Statute 61.645 assigns the authority to establish and amend benefit provisions to the Kentucky Retirement Systems Board of Trustees.

Contributions: Tier 1 plan members, who began participating prior to September 1, 2008, are required to contribute 5 percent of their annual creditable compensation. These members are classified in the Tier 1 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5 percent. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest.

Tier 2 plan members, who began participating on, or after, September 1, 2008, and before January 1, 2014, are required to contribute 6 percent of their annual creditable compensation, while 1 percent of these contributions are deposited to an account created for the payment of health insurance benefits under 25 USC Section 401(h) in the Pension Fund. These members are classified in the Tier 2 structure of benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5 percent. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1 percent contribution to the 401(h) account is non-refundable and is forfeited.

Tier 3 plan members, who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute 5 percent of their annual creditable compensation, and an additional 1 percent to the health insurance fund (401(h) account) which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Kentucky Retirement System Board of Trustees based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

Interest is paid into the Tier 3 member's account. The account currently earns 4 percent interest credit on the member's account balance as of June 30 of the previous year. The member's account may be credited with additional interest if the system's five-year Geometric Average Net Investment Return (GANIR) exceeded 4 percent. If the member was actively employed and participating in the fiscal year, and if the system's GANIR for the previous five years exceeds 4 percent, then the member's account will be credited with 75 percent of the amount of the returns over 4 percent on the account balance as of June 30 of the previous year (Upside Sharing Interest). The Upside Sharing Interest is credited to both the member contribution balance and Employer Pay Credit Balance.

The District is required to contribute at an actuarially determined rate. As of June 30, 2018, the District's required contribution rate was 14.48 percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to CERS from the District were \$1,453,351 for the year ended June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability of \$23,075,845 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled-forward using generally accepted actuarial principles. The District's proportion of the collective net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the District's proportion was 0.394236 percent, which was a decrease of 0.014374 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$3,485,874. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,622	\$ 585,764
Changes of assumptions	4,258,119	-
Net difference between projected and actual investment earnings on pension plan investments	1,827,579	1,542,158
Changes in proportion and differences between District contributions and proportional share of contributions	-	854,900
District contributions subsequent to the measurement date	<u>1,453,351</u>	<u>-</u>
Total	<u><u>\$ 7,567,671</u></u>	<u><u>\$ 2,982,822</u></u>

Of the total amount reported as deferred outflows of resources related to pensions, \$1,453,351 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 pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the District's pension expense as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
2019	\$ 1,283,156
2020	1,452,909
2021	691,739
2022	(296,306)
2023	-
Thereafter	-

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll Growth	2.00%
Investment Rate of Return	6.25%, including inflation

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

In July 2017, Kentucky Retirement Systems approved new asset allocations and, after reviewing capital market assumptions from eight leading investment and/or consulting firms, lowered the assumed rate of return from 7.50% to 6.25% to more realistically reflect the need to reduce volatility and increase the liquidity of the investments. Target asset allocations are summarized below.

Asset Class	Target Allocation
U.S. Equity	25.60%
International Equity	25.20%
Global Fixed	6.80%
Credit Fixed	7.20%
Real Return	8.00%
Private Equity	10.00%
Real Estate	5.00%
Absolute Return	10.00%
Cash Equivalent	2.20%
Total	100%

Discount rate: The projection of cash flows used to determine the discount rate of 6.25% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate.

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

Pension Plan (continued)

	1.00% Decrease (5.25%)	Current Discount Rate (6.25%)	1.00% Increase (7.25)
District's proportionate share of the collective net pension liability as of June 30, 2017	<u>\$ 29,103,628</u>	<u>\$ 23,075,845</u>	<u>\$ 18,033,650</u>

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued Kentucky Retirement Systems financial report.

The District also offers employees the option to participate in a defined contribution plan under Section 403(b) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amounts allowable by law. The District does not contribute to these plans.

General Information about the OPEB Plan

Plan description: In addition to the pension benefits described above, Kentucky Retirement Systems provides postemployment healthcare benefits through the Kentucky Retirement Systems Insurance Fund (Insurance Fund). The Insurance Fund was established to provide hospital and medical insurance for those receiving benefits from the Kentucky Employees' Retirement System (KERS), the County Employees' Retirement System (CERS), and the State Police Retirement System (SPRS). Eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. Kentucky Retirement Systems submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to eligible Medicare retirees through a Medicare Advantage Plan.

Benefits Provided: The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2017 (the date of the latest available information), insurance premiums withheld from benefit payments for members of CERS were \$22.9 million and \$2.7 million for non-hazardous and hazardous employees, respectively. For the fiscal year ended June 30, 2016, insurance premiums withheld from benefit payments for members of CERS were \$22.6 million and \$2.2 million for non-hazardous and hazardous employees, respectively. The Insurance Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous employees killed in the line of duty.

The amount of contributions paid by the Insurance Fund is based on years of service. For employees participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are shown below:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or more	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less than 4	0%

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

OPEB Plan (continued)

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for those who began participating on or after July 1, 2003. Once employees reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn \$15 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives \$10 per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

Contributions: The District is required to contribute at an actuarially determined rate. As of June 30, 2018, the District's required contribution rate was 4.70 percent of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement Systems Board of Trustees. Contributions to the Insurance Fund from the District were \$471,737 for the year ended June 30, 2018. As described above, Tier 2 and Tier 3 employees contribute 1 percent of their annual creditable compensation to the Insurance Fund; Tier 1 employees are not required to contribute.

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

At June 30, 2018, the District reported a liability of \$7,925,492 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2016 and rolled-forward using generally accepted actuarial principles. The District's proportion of 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, 2017, the District's proportion was 0.394236%.

For the year ended June 30, 2018, the District recognized OPEB expense of \$903,139. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

OPEB Plan (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 22,013
Changes of assumptions	1,724,537	-
Net difference between projected and actual investment earnings on pension plan investments	-	374,555
Changes in proportion and differences between District contributions and proportional share of contributions	-	18,390
District contributions subsequent to the measurement date	<u>374,874</u>	<u>-</u>
Total	<u><u>\$ 2,099,411</u></u>	<u><u>\$ 414,958</u></u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$374,874 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, 2019. 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 ended June 30:</u>	<u>Amount</u>
2019	\$ 225,326
2020	225,326
2021	225,326
2022	225,326
2023	318,965
Thereafter	89,310

Actuarial assumptions: The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll Growth	2.00%
Investment Rate of Return	6.25%, including inflation
Healthcare Trend Rates	
Pre-65	Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Post-65	Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

OPEB Plan (continued)

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

In July 2017, Kentucky Retirement Systems approved new asset allocations and, after reviewing capital market assumptions from eight leading investment and/or consulting firms, lowered the assumed rate of return from 7.50% to 6.25% to more realistically reflect the need to reduce volatility and increase the liquidity of the investments. Target asset allocations are summarized below.

Asset Class	Target Allocation
U.S. Equity	26.50%
International Equity	26.50%
Global Fixed	6.00%
Credit Fixed	6.00%
Real Return	8.00%
Private Equity	10.00%
Real Estate	5.00%
Absolute Return	10.00%
Cash Equivalent	2.00%
Total	100%

The fully-insured premiums Kentucky Retirement Systems pays for the CERS Health Insurance 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. GASB 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Discount rate: The projection of cash flows used to determine the discount rate of 5.84% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy was included in the calculation of the system's actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the system's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 7 – RETIREMENT PLANS (CONTINUED)

County Employees' Retirement System (continued)

OPEB Plan (continued)

Sensitivity of the District's proportionate share of the collective net OPEB liability to changes in the discount rate: The following presents the District's proportionate share of the collective net OPEB liability calculated using the discount rate of 5.84%, 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 one percentage point lower (4.84%) or one percentage point higher (6.84%) than the current rate:

	1.00% Decrease (4.84%)	Current Discount Rate (5.84%)	1.00% Increase (6.84)
District's proportionate share of the collective net OPEB liability as of June 30, 2017	<u>\$ 10,084,749</u>	<u>\$ 7,925,492</u>	<u>\$ 6,128,651</u>

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 are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
District's proportionate share of the collective net OPEB liability as of June 30, 2017	<u>\$ 6,079,260</u>	<u>\$ 7,925,492</u>	<u>\$ 10,325,485</u>

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

NOTE 8 – CONTINGENCIES

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

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U. S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 9 – RISK MANAGEMENT

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

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district 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. 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 members on a pro-rata basis.

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

NOTE 10 – COBRA

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

NOTE 11 – TRANSFER OF FUNDS

The following transfers were made during the fiscal year ended June 30, 2018:

<u>From:</u>	<u>To:</u>	<u>Amount</u>
General Fund	Special Revenue	\$ 122,972
General Fund	Construction Fund	110,306
Special Revenue	General Fund	2,029
Food Service	General Fund	216,169
Construction	Special Revenue	13,603
SEEK	Construction Fund	654,000
FSPK	Construction	2,046,000
FSPK	Debt Service	2,270,435
		<u>\$ 5,435,514</u>

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2018**

NOTE 12 – ON-BEHALF PAYMENTS

The District receives on-behalf payments for fringe benefits, technology, and bond debt from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances - governmental funds, and the statement of revenues, expenses, and changes in net position - proprietary funds:

Retirement Contributions to the Teachers' Retirement System of Kentucky	\$ 9,871,357
Health Insurance	7,804,345
Life Insurance	12,993
Health Reimbursement Account - HRA/Dental/Vision	512,533
Administrative Fee	107,321
Less: Federal Reimbursements of Health Benefits	<u>(327,611)</u>
Total On-Behalf Payments for Fringe Benefits	17,980,938
Technology On-Behalf Payments	99,706
School Facilities Construction Commission (SFCC) Debt Service	<u>872,426</u>
Total On-Behalf Payments	<u><u>\$ 18,953,070</u></u>

NOTE 13 – LITIGATION

The District is subject to various legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of cases currently in progress.

NOTE 14 – DEFICIT NET POSITION

The District reported a deficit net position of \$1,375,061, which is primarily due to the implementation of GASB No. 75, which reduced the aggregate net position by \$22,577,917 during the fiscal year ended June 30, 2018.

NOTE 15 – SUBSEQUENT EVENTS

In accordance with ASC 855, subsequent events were evaluated through October 22, 2018, the date these financial statements were available to be issued. The following were noted:

a. Construction of New Elementary School

The Board of Education of the Henderson County School District subsequent to year end approved the construction of a new Jefferson Elementary School. The estimated costs of the project is \$15 million. The cost of the project will be financed by the issuance of bonds.

**Henderson County Board of Education
Statement of Budgetary Comparison – General Fund
For the fiscal year ended June 30, 2018**

	BUDGETED AMOUNTS			Variance with Final Budget
	Original	Final	Actual	
<u>REVENUES:</u>				
From local sources				
Taxes:				
Property	\$ 11,000,000	\$ 11,000,000	\$ 11,325,703	\$ 325,703
Motor vehicle and watercraft	2,054,661	2,054,661	2,281,386	226,725
Utilities	3,250,000	3,250,000	3,884,110	634,110
Unmined minerals	125,000	125,000	176,512	51,512
Franchise	700,000	700,000	873,153	173,153
Tuition and fees	110,000	110,000	180,450	70,450
Earnings on investments	125,000	125,000	507,014	382,014
Other local revenues	518,350	518,350	958,237	439,887
Intergovernmental - intermediate	90,900	90,900	167,760	76,860
Intergovernmental - state	40,380,483	40,380,483	45,530,393	5,149,910
Intergovernmental - direct federal	300,000	300,000	326,702	26,702
Total Revenues	58,654,394	58,654,394	66,211,420	7,557,026
<u>EXPENDITURES:</u>				
Instruction	42,636,638	42,636,638	40,084,182	2,552,456
Support services:				
Student	3,565,414	3,565,414	3,894,790	(329,376)
Instruction staff	1,918,605	1,918,605	1,705,115	213,490
District administrative	1,167,498	1,167,498	950,662	216,836
School administrative	4,417,328	4,417,328	4,242,614	174,714
Business	4,253,025	4,253,025	2,675,838	1,577,187
Plant operation & maintenance	7,286,519	7,286,519	6,532,312	754,207
Student transportation	4,822,626	4,822,626	3,968,923	853,703
Community services	8,719	8,719	34,841	(26,122)
Debt Service	-	-	-	-
Contingency	7,806,119	7,806,119	-	7,806,119
Total Expenditures	77,882,491	77,882,491	64,089,277	13,793,214
Excess (Deficit) of Revenues Over Expenditures	(19,228,097)	(19,228,097)	2,122,143	21,350,240
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in	221,286	221,286	218,198	(3,088)
Operating transfers out	(171,224)	(171,224)	(233,277)	(62,053)
Fixed Asset Disposal	-	-	16,628	16,628
Total Other Financing Sources (Uses)	50,062	50,062	1,549	(48,513)
Change in fund balance	(19,178,035)	(19,178,035)	2,123,692	21,301,727
Fund Balance, Beginning of Year	21,638,566	21,638,566	21,638,566	-
Fund Balance, End of Year	<u>\$ 2,460,531</u>	<u>\$ 2,460,531</u>	<u>\$ 23,762,258</u>	<u>\$ 21,301,727</u>

See Independent Auditor's Report.

Henderson County Board of Education
Statement of Budgetary Comparison – Special Revenue Fund
For the fiscal year ended June 30, 2018

	BUDGETED AMOUNTS			Variance with Final Budget
	Original	Final	Actual	
<u>REVENUES:</u>				
Other local revenues	\$ 33,788	\$ 33,788	\$ 53,600	\$ 19,812
Intergovernmental - state	3,700,835	3,700,835	3,578,762	(122,073)
Intergovernmental - federal	4,436,503	4,436,503	4,452,273	15,770
Total Revenues	8,171,126	8,171,126	8,084,635	(86,491)
<u>EXPENDITURES:</u>				
Instruction	6,663,528	6,663,528	6,139,151	524,377
Support services:				
Student	673,106	673,106	358,159	314,947
Instruction staff	821,715	821,715	950,792	(129,077)
School administrative	145,534	145,534	145,410	124
Student transportation	2,000	2,000	383	1,617
Community services	629,439	629,439	625,285	4,154
Total Expenditures	8,935,322	8,935,322	8,219,180	716,142
Excess (Deficit) of Revenues Over Expenditures	(764,196)	(764,196)	(134,545)	629,651
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in	136,574	136,574	136,574	-
Operating transfers out	(4,273)	(4,273)	(2,029)	2,244
Total Other Financing Sources	132,301	132,301	134,545	2,244
Change in fund balance	(631,895)	(631,895)	-	631,895
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ (631,895)	\$ (631,895)	\$ -	\$ 631,895

See Independent Auditor's Report.

Henderson County Board of Education
Schedule of the District's Proportionate Share of the Collective Net Pension Liability
Kentucky Teachers' Retirement System Pension Plan
As of the measurement date for the last four years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the collective net pension liability	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the collective net pension liability associated with the District	<u>257,816,883</u>	<u>301,816,489</u>	<u>264,542,143</u>	<u>222,594,552</u>
Total	<u>\$ 257,816,883</u>	<u>\$ 301,816,489</u>	<u>\$ 264,542,143</u>	<u>\$ 222,594,552</u>
District's covered-employee payroll	\$ 36,502,212	\$ 35,630,694	\$ 35,915,858	\$ 33,946,994
District's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	39.83%	35.20%	42.50%	45.59%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's Pension Contributions
Kentucky Teachers' Retirement System Pension Plan
For the last four fiscal years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
District's covered-employee payroll	\$ 31,468,916	\$ 36,502,212	\$ 35,630,694	\$ 35,915,858
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

Henderson County Board of Education
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
Kentucky Teachers' Retirement System Medical Insurance Plan
As of the measurement date for the last year*

	<u>2017</u>
District's proportion of the collective net OPEB liability	0.502088%
District's proportionate share of the collective net OPEB liability	\$ 17,903,000
State's proportionate share of the collective net OPEB liability associated with the District	<u>14,624,000</u>
Total	<u><u>\$ 32,527,000</u></u>
District's covered-employee payroll	\$ 36,502,212
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	49.05%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's OPEB Contributions
Kentucky Teachers' Retirement System Medical Insurance Plan
For the last fiscal year***

	<u>2018</u>
Statutorily required contribution	\$ 882,688
Contributions in relation to the statutorily required contribution	<u>(882,688)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered-employee payroll	\$ 31,468,916
Contributions as a percentage of covered- employee payroll	2.80%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

Henderson County Board of Education
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
Kentucky Teachers' Retirement System Life Insurance Plan
As of the measurement date for the last year*

	<u>2017</u>
District's proportion of the collective net OPEB liability	0.00%
District's proportionate share of the collective net OPEB liability	\$ -
State's proportionate share of the collective net OPEB liability associated with the District	<u>196,000</u>
Total	<u><u>\$ 196,000</u></u>
District's covered-employee payroll	\$ 36,502,212
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's OPEB Contributions
Kentucky Teachers' Retirement System Life Insurance Plan
For the last fiscal year***

	<u>2018</u>
Statutorily required contribution	\$ -
Contributions in relation to the statutorily required contribution	<u>-</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered-employee payroll	\$ 31,468,916
Contributions as a percentage of covered- employee payroll	0.00%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's Proportionate Share of the Collective Net Pension Liability
County Employees' Retirement System Pension Plan
As of the measurement date for the last four years***

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the collective net pension liability	0.394236%	0.408610%	0.436502%	0.437600%
District's proportionate share of the collective net pension liability	\$ 23,075,845	\$ 20,118,396	\$ 18,767,532	\$ 14,197,000
District's covered-employee payroll	\$ 9,888,703	\$ 9,939,050	\$ 10,338,682	\$ 10,200,575
District's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	233.36%	202.42%	181.53%	139.18%
Plan fiduciary net position as a percentage of the total pension liability	53.30%	55.50%	59.97%	66.80%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's Pension Contributions
County Employees' Retirement System Pension Plan
For the last four fiscal years***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 1,453,351	\$ 1,379,474	\$ 1,234,430	\$ 1,318,182
Contributions in relation to the statutorily required contribution	<u>(1,453,351)</u>	<u>(1,379,474)</u>	<u>(1,234,430)</u>	<u>(1,318,182)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 10,036,954	\$ 9,888,703	\$ 9,939,050	\$ 10,338,682
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	12.42%	12.75%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's Proportionate Share of the Collective Net OPEB Liability
County Employees' Retirement System OPEB Plan
As of the measurement date for the last year***

	<u>2017</u>
District's proportion of the collective net OPEB liability	0.394236%
District's proportionate share of the collective net OPEB liability	\$ 7,925,492
District's covered-employee payroll	\$ 9,888,703
District's proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	80.15%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Schedule of the District's OPEB Contributions
County Employees' Retirement System OPEB Plan
For the last fiscal year***

	<u>2018</u>
Statutorily required contribution	\$ 471,737
Contributions in relation to the statutorily required contribution	<u>(471,737)</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
District's covered-employee payroll	\$ 10,036,954
Contributions as a percentage of covered- employee payroll	4.70%

*This table will present ten years of information as it becomes available.

See Independent Auditor's Report and Notes to the Required Supplementary Information.

**Henderson County Board of Education
Notes to the Required Supplementary Information
June 30, 2018**

Kentucky Teachers' Retirement System

Pension Plan

Changes of benefit terms: None.

Changes of assumptions: In the June 30, 2017 and 2016 actuarial valuations, the following changes in actuarial assumptions were made:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Prior Periods</u>
Municipal Bond Index Rate	3.56%	3.01%	3.82%
Single Equivalent Interest Rate	4.49%	4.20%	4.88%

There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 68, the Single Equivalent Interest Rate was calculated using the Municipal Bond Index Rate as of the measurement date.

In the 2016 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience and the assumed salary scale, price inflation, and wage inflation were adjusted to reflect a decrease.

Medical Insurance Plan

Changes of benefit terms: The following changes were by the General Assembly and reflected in the valuation performed as of June 30, 2016:

House Bill 471 restored the eligibility of non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010, but the State will only finance, via its KEHP "shared responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

Changes of assumptions: None.

Life Insurance Plan

Changes of benefit terms: None.

Changes of assumptions: None.

**Henderson County Board of Education
Notes to the Required Supplementary Information
June 30, 2018**

County Employees' Retirement System

Pension Plan

Changes of benefit terms: The following changes were by the General Assembly and reflected in the valuation performed as of June 30, 2014:

A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions: In the June 30, 2017 and 2015 actuarial valuations, the following changes in actuarial assumptions were made:

	<u>June 30, 2017</u>	<u>June 30, 2015</u>	<u>Prior Periods</u>
Inflation	2.30%	3.25%	3.50%
Payroll Growth	2.00%	4.00%	4.50%
Investment Rate of Return	6.25%	7.50%	7.75%

In the June 30, 2015 actuarial valuation, 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 one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement.

For periods prior to the June 30, 2015 actuarial valuation, the rates of mortality for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other members. The Group Annuity Mortality Table set forward five years was used for the period after disability retirement.

Other Postemployment Benefits Plan

Changes of benefit terms: None.

Changes of assumptions: In the June 30, 2017 actuarial valuation, the following changes in actuarial assumptions were made:

	<u>June 30, 2017</u>	<u>Prior Periods</u>
Inflation	2.30%	3.25%
Payroll Growth	2.00%	4.00%
Investment Rate of Return	6.25%	7.70%
Single Discount Rate	5.84%	6.89%

Henderson County Board of Education
Combining Balance Sheet – Non-Major Governmental Funds
As of June 30, 2018

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	District 21 Activity Fund	Total Non-Major Governmental Funds
<u>ASSETS AND RESOURCES:</u>					
Cash and cash equivalents	\$ 52,135	\$ 1,394	\$ -	\$ 9,998	\$ 63,527
Accounts receivable	-	-	-	-	-
Total Assets and Resources	<u>\$ 52,135</u>	<u>\$ 1,394</u>	<u>-</u>	<u>\$ 9,998</u>	<u>\$ 63,527</u>
<u>LIABILITIES:</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES:</u>					
Restricted	52,135	1,394	-	9,998	63,527
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>52,135</u>	<u>1,394</u>	<u>-</u>	<u>9,998</u>	<u>63,527</u>
Total Liabilities and Fund Balances	<u>\$ 52,135</u>	<u>\$ 1,394</u>	<u>\$ -</u>	<u>\$ 9,998</u>	<u>\$ 63,527</u>

See Independent Auditor's Report.

Henderson County Board of Education
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Non-Major Governmental Funds
For the fiscal year ended June 30, 2018

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	District 21 Activity Fund	Total Non-major Governmental Funds
<u>REVENUES:</u>					
From local sources:					
Taxes:					
Property	\$ 3,039,172	\$ -	\$ -	\$ -	\$ 3,039,172
Other	-	-	-	105,551	105,551
Earnings on investments	18,101	4,040	211	-	22,352
Intergovernmental - State	1,283,185	650,353	872,426	-	2,805,964
Intergovernmental - Federal	-	-	-	-	-
Total Revenues	<u>4,340,458</u>	<u>654,393</u>	<u>872,637</u>	<u>105,551</u>	<u>5,973,039</u>
<u>EXPENDITURES:</u>					
Instruction	-	-	-	68,060	68,060
Instruction staff	-	-	-	35,422	35,422
Plant operation and maintenance	-	-	-	2,069	2,069
Debt service	-	-	3,143,072	-	3,143,072
Total Expenditures	<u>-</u>	<u>-</u>	<u>3,143,072</u>	<u>105,551</u>	<u>3,248,623</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,340,458</u>	<u>654,393</u>	<u>(2,270,435)</u>	<u>-</u>	<u>2,724,416</u>
<u>OTHER FINANCING SOURCES (USES):</u>					
Operating transfers in	-	-	2,270,435	-	2,270,435
Operating transfers out	(4,316,435)	(654,000)	-	-	(4,970,435)
Bond proceeds	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>(4,316,435)</u>	<u>(654,000)</u>	<u>2,270,435</u>	<u>-</u>	<u>(2,700,000)</u>
Change in fund balance	24,023	393	-	-	24,416
Fund balance, beginning of year	<u>28,112</u>	<u>1,001</u>	<u>-</u>	<u>9,998</u>	<u>39,111</u>
Fund balance, end of year	<u>\$ 52,135</u>	<u>\$ 1,394</u>	<u>\$ -</u>	<u>\$ 9,998</u>	<u>\$ 63,527</u>

See Independent Auditor's Report.

**Henderson County Board of Education
Statement of Revenues, Expenditures, and Fund Balance
Elementary and Middle Schools – Activity Funds
For the fiscal year ended June 30, 2018**

	Cash Balance July 1, 2017	Receipts For Year	Disbursements For Year	Cash Balance June 30, 2018	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2018
<u>SCHOOL ACTIVITY FUNDS:</u>							
Bend Gate Elementary	\$ 6,542	\$ 44,337	\$ 44,721	\$ 6,158	\$ -	\$ -	\$ 6,158
Cairo Elementary	17,211	38,120	41,747	13,584	-	-	13,584
Central Learning Center	598	4,673	4,126	1,145	-	-	1,145
Chandler Elementary	12,554	37,903	42,632	7,825	-	-	7,825
East Heights Elementary	37,220	40,826	40,279	37,767	-	-	37,767
Jefferson Elementary	13,577	16,262	21,441	8,398	-	-	8,398
Niagara Elementary	12,789	26,979	27,021	12,747	-	-	12,747
South Heights Elementary	6,651	60,238	64,900	1,989	-	-	1,989
Spottsville Elementary	13,398	50,876	46,288	17,986	-	-	17,986
Thelma B. Johnson ELC	8,171	17,631	15,542	10,260	-	-	10,260
North Middle School	63,559	266,505	253,481	76,583	-	-	76,583
South Middle School	59,827	238,555	257,166	41,216	-	-	41,216
Totals	\$ 252,097	\$ 842,905	\$ 859,344	\$ 235,658	\$ -	\$ -	\$ 235,658

See Independent Auditor's Report.

**Henderson County Board of Education
Statement of Revenues, Expenditures, and Fund Balance
Henderson County High School – Activity Funds
For the fiscal year ended June 30, 2018**

<u>Accounts</u>	Balance July 1, 2017	Receipts For Year	Disbursements For Year	Cash Balance June 30, 2018	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2018
Henderson County High School:							
Athletic	79,899	\$ 302,455	\$ 274,653	\$ 107,701	\$ -	\$ -	\$ 107,701
Band	59,433	106,060	107,403	58,090	-	-	58,090
Bookstore	8,618	14,856	2,991	20,483	-	-	20,483
Clubs	135,728	420,941	412,747	143,922	-	-	143,922
General Fund	105,399	192,287	151,434	146,252	-	-	146,252
Industrial Technology	587	1,385	1,308	664	-	-	664
Media	106,313	25,617	15,754	116,176	-	-	116,176
Memorial Funds	1,036	500	-	1,536	-	-	1,536
School concessions	1,477	4,654	3,279	2,852	-	-	2,852
Supplies	1,326	65	171	1,220	-	-	1,220
Speech and drama	15,976	5,215	15,737	5,454	-	-	5,454
Student council	2,831	4,437	4,486	2,782	-	-	2,782
Textbooks	2,786	48,608	47,082	4,312	-	-	4,312
Scholarship Funds	20,973	26,966	30,174	17,765	-	-	17,765
Totals	\$ 542,382	\$ 1,154,046	\$ 1,067,219	\$ 629,209	\$ -	\$ -	\$ 629,209

See Independent Auditor's Report.