

**SOUTHGATE INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2019**

**DRAFT**  
**Subject to Change**

## TABLE OF CONTENTS

<b>Report of Independent Auditor .....</b>	<b>1 - 2</b>
<b>Management's Discussion and Analysis.....</b>	<b>3 - 5</b>
<b>Basic Financial Statements</b>	
<i>Government-wide Financial Statements</i>	
Statement of Net Position .....	6
Statement of Activities .....	7
<i>Fund Financial Statements</i>	
Balance Sheet – Governmental Funds.....	8
Reconciliation of Total Government Fund Balances to Net Position of Governmental Activities.....	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds .....	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	11
Statement of Net Position – Proprietary Fund .....	12
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund .....	13
Statement of Cash Flows – Proprietary Fund .....	14
Statement of Fiduciary Net Position – Fiduciary Fund .....	15
<b>Notes to the Financial Statements .....</b>	<b>16 - 40</b>
<b>Supplementary Information</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund.....	41
Statement of Revenues, Expenditures, and Chang in Fund Balances – Budget and Actual – Special Revenue Fund .....	42
Combining Balance Sheet – Nonmajor Governmental Funds .....	43
Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Nonmajor Governmental Funds .....	44
Schedule of District's Proportionate Share of the Net Pension Liability – County Employees Retirement System .....	45
Schedule of District's Proportionate Share of the Net Pension Liability – Kentucky Teachers Retirement System.....	46
Schedule of District's Proportionate Share of the Net OPEB Liability – Kentucky Teachers Retirement System.....	47
Schedule of District's Proportionate Share of the Net OPEB Liability – County Employees Retirement System .....	48
Statement of Receipts and Disbursements – School Activity Fund .....	49

<b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters required by Government Auditing Standards .....</b>	<b>50 - 51</b>
<b>Schedule of Prior Year Audit Findings .....</b>	<b>52</b>
<b>Management Letter Transmittal.....</b>	<b>53</b>
<b>Management Letter Comments.....</b>	<b>54</b>

**DRAFT**  
**Subject to Change**

## REPORT OF INDEPENDENT AUDITOR

Members of the Board of Education  
Southgate Independent School District  
6 William Blatt Avenue  
Southgate, KY 41071

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**REPORT OF INDEPENDENT AUDITOR  
(CONTINUED)**

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 5, budgetary comparison information on pages 40 to 41, and pension and OPEB schedules on pages 44 to 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 District's internal control over financial reporting and compliance.

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky

November 11, 2019

As management of the Southgate Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2019 are as follows:

- The beginning cash balance for all funds of the District, excluding agency funds, was \$1,040,634 and the ending balance was \$1,555,418; an increase of \$514,784 for the year.
- The District's long-term debt increased by \$570,000 due to issuing new bonds of \$640,000 and making principal payments of \$70,000.
- The General Fund had \$2,538,364 in revenues and \$2,582,496 in expenditures.

## **OVERVIEW OF FINANCIAL STATEMENTS**

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

### **Government-Wide Financial Statements**

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

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

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

The 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, and operation of non-instructional services.

### **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. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. The only proprietary fund is the food service fund. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. All other activities of the District are included in the governmental funds.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$630,022 at year end.

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

Net position for the period ending June 30, 2019:

	June 30, 2019	June 30, 2018
Current assets	\$ 1,669,718	\$ 1,171,727
Non-current assets	1,801,597	1,782,526
Total assets	3,471,315	2,954,253
Deferred outflows	228,588	209,850
Current liabilities	114,344	177,695
Non-current liabilities	2,862,767	2,189,348
Total liabilities	2,977,111	2,367,043
Deferred inflows	109,005	60,505
Net investment in capital assets	291,594	833,815
Restricted	660,041	93,835
Unrestricted	(321,613)	(216,599)
Total net position	\$ 630,022	\$ 711,051

### COMMENTS ON GENERAL FUND BUDGET COMPARISONS

The District's total general fund revenue was \$2,538,364 compared to budgeted revenue of \$2,092,651. The favorable variance is mainly due to property taxes and state aid.

General Fund actual expenditures were \$2,582,496 compared to budgeted expenditures of \$3,071,732. The favorable variance is mainly due building improvements and the budgeted contingency.

The following table presents a summary of revenue and expense of total governmental funds for the year ended June 30, 2019:

	June 30, 2019	June 30, 2018
Revenues and other sources:		
Local revenue	\$ 1,328,361	\$ 1,288,402
State/federal revenue	1,894,175	1,630,894
Investments	27,463	17,371
Total revenues	<u>\$ 3,249,999</u>	<u>\$ 2,936,667</u>
Expenditures:		
Instruction	\$ 2,129,058	\$ 1,849,642
Student support	152,024	116,184
Instruction staff	134,278	64,877
District administrative	323,074	296,322
School administrative	219,376	170,074
Business support	41,232	24,481
Plant operations and maintenance	293,306	216,968
Food service operation		2,804
Debt service	112,575	114,325
Total expenditures	<u>\$ 3,404,923</u>	<u>\$ 2,855,677</u>

#### **General Fund Expenditures**

The District expended approximately 62% of total expenditures for instruction. The remaining 38% was expended mainly for support services and plant operation and maintenance.

#### **Budgetary Implications**

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with a contingency of \$271,001 (9%). The beginning general fund cash balance for the next fiscal year is \$962,830.

#### **Contacting the District's Financial Management**

Questions about this report should be directed to the Superintendent at (859) 441-0743 or by mail at 6 William Blatt Avenue, Southgate, Kentucky 41071.



Southgate Independent School District  
Statement of Net Position  
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,521,004	18,776	\$ 1,539,780
Receivables	112,507		112,507
Inventories for consumption		1,793	1,793
Capital assets, net	1,767,337	19,257	1,786,594
Bond issue costs	34,260		34,260
Total assets	3,435,108	39,826	3,474,934
<b>Deferred Outflows</b>			
Related to pensions - CERS	118,974		118,974
Related to OPEB - CERS	34,614		34,614
Related to OPEB - KTRS	75,000		75,000
Total deferred outflows	228,588	0	228,588
<b>Liabilities:</b>			
Accounts payable	6,503	3,022	9,525
Accrued salaries and benefits	21,238		21,238
Accrued interest payable	40,825		40,825
Unearned revenue	65,600		65,600
Net pension liability - CERS	432,655		432,655
Net OPEB liability - CERS	126,112		126,112
Net OPEB liability - KTRS	669,000		669,000
Long-term liabilities:			
Due within one year	70,000		70,000
Due in more than one year	1,565,000		1,565,000
Total liabilities	2,996,933	3,022	2,999,955
<b>Deferred inflows</b>			
Related to pensions - CERS	42,945		42,945
Related to OPEB - CERS	29,060		29,060
Related to OPEB - KTRS	37,000		37,000
Total deferred inflows	109,005	0	109,005
<b>Net position:</b>			
Net investment in capital assets	272,337	19,257	291,594
Restricted	642,494	17,547	660,041
Unrestricted	(357,073)		(357,073)
Total net position	\$ 557,758	\$ 36,804	\$ 594,562

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

Southgate Independent School District  
Statement of Activities  
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Instruction	\$ 2,256,635		\$ 691,577		\$ (1,565,058)		\$(1,565,058)
Support services:							
Student	152,024				(152,024)		(152,024)
Instruction staff	134,278				(134,278)		(134,278)
District administrative	358,534				(358,534)		(358,534)
School administrative	219,376				(219,376)		(219,376)
Business support	41,232				(41,232)		(41,232)
Plant operation and maintenance	205,348				(205,348)		(205,348)
Interest on long-term debt	40,825			35,255	(5,570)		(5,570)
Total governmental activities	3,408,252	0	691,577	35,255	(2,681,420)	0	(2,681,420)
Business-type activities:							
Food service	121,859	2,264	135,855			16,260	16,260
Total business-type activities	121,859	2,264	135,855	0	0	16,260	16,260
Total District	\$ 3,530,111	\$ 2,264	\$ 827,432	\$ 35,255	(2,681,420)	16,260	(2,665,160)
General Revenues:							
Property taxes					1,144,340		1,144,340
Motor vehicle taxes					59,390		59,390
Utilities tax					104,411		104,411
State aid					1,167,343		1,167,343
Investment earnings					27,463		27,463
Other revenues					20220		20220
Funds transfer					4,960	(4,960)	0
Total general revenues					2,528,127	(4,960)	2,523,167
Change in net position					(153,293)	11,300	(141,993)
Net position - beginning of year					711,051	25,504	736,555
Net position - end of year					\$ 557,758	\$ 36,804	\$ 594,562

Southgate Independent School District  
Balance Sheet  
Governmental Funds  
June 30, 2019

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents (deficit)	\$ 940,565	\$ (62,074)	\$ 558,113	\$ 84,400	\$ 1,521,004
Receivables:					
Taxes					0
Intergovernmental - federal		112,507			112,507
Interfund receivable					0
<b>Total assets</b>	<b>\$ 940,565</b>	<b>\$ 50,433</b>	<b>\$ 558,113</b>	<b>\$ 84,400</b>	<b>\$ 1,633,511</b>
<b>Liabilities:</b>					
Accounts payable	\$ 1,074	\$ 5,410	\$ 19		\$ 6,503
Accrued salaries and benefits	12,121	9,117			21,238
<b>Total liabilities</b>	<b>13,195</b>	<b>14,527</b>	<b>19</b>	<b>0</b>	<b>27,741</b>
<b>Deferred inflows of resources:</b>					
Deferred revenue	0	65,600			65,600
<b>Total deferred inflows of resources</b>	<b>0</b>	<b>65,600</b>	<b>0</b>	<b>0</b>	<b>65,600</b>
<b>Fund balances:</b>					
Restricted		(29,694)	558,094	84,400	612,800
Assigned for sick leave	25,882				25,882
Unassigned	901,488				901,488
<b>Total fund balances</b>	<b>927,370</b>	<b>(29,694)</b>	<b>558,094</b>	<b>84,400</b>	<b>1,540,170</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 940,565</b>	<b>\$ 50,433</b>	<b>\$ 558,113</b>	<b>\$ 84,400</b>	<b>\$ 1,633,511</b>

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

Southgate Independent School District  
Reconciliation of Total Governmental Fund Balances  
to Net Position of Governmental Activities  
June 30, 2019

Total governmental fund balances	\$ 1,540,170
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,767,337
Deferred bond costs are not available to pay for current period expenditures and therefore are deferred in the funds	34,260
Deferred inflows and outflows related to pensions are not reported in the funds	
Deferred outflows related to pensions - CERS	118,974
Deferred outflows related to OPEB - CERS	34,614
Deferred outflows related to OPEB - KTRS	75,000
Deferred inflows related to pensions - CERS	(42,945)
Deferred inflows related to OPEB - CERS	(29,060)
Deferred inflows related to OPEB - KTRS	(37,000)
Certain liabilities are not due and payable from current resources and therefore are not reported in the funds	
Net pension liability	(432,655)
Net OPEB liability - CERS	(126,112)
Net OPEB liability - KTRS	(669,000)
Long-term liabilities	(1,635,000)
Accrued interest payable	(40,825)
Net position of governmental activities	<u>\$ 557,758</u>

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

Southgate Independent School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2019

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources:					
Taxes:					
Property	\$ 1,088,915			\$ 55,425	\$ 1,144,340
Motor vehicle	59,390			0	59,390
Utilities	104,411			0	104,411
Earnings on investments	27,106		64	293	27,463
Other local revenue	11,358	8,862		0	20,220
Intergovernmental - State	535,844	171,477		30,859	738,180
Intergovernmental - State on behalf	691,577			35,255	726,832
Intergovernmental - Indirect federal	19,763	409,400		0	429,163
Total revenues	2,538,364	589,739	64	121,832	3,249,999
Expenditures:					
Instruction	1,510,304	618,754			2,129,058
Support services:					
Student	152,024				152,024
Instruction staff	131,138	3,140			134,278
District administrative	358,534				358,534
School administrative	219,376				219,376
Business support	41,232				41,232
Plant operation and maintenance	205,348		87,958		293,306
Debt service					
Principal				70,000	70,000
Interest				42,575	42,575
Total expenditures	2,617,956	621,894	87,958	112,575	3,440,383
Excess of revenues over (under) expenditures	(79,592)	(32,155)	(87,894)	9,257	(190,384)
Other financing sources (uses):					
Transfers in	4,960	2,461		77,320	84,741
Transfers out	(2,461)			(77,320)	(79,781)
Original issue discount			(12,704)		(12,704)
Bond proceeds			640,000		640,000
Total other financing sources (uses)	2,499	2,461	627,296	0	632,256
Net change in fund balances	(77,093)	(29,694)	539,402	9,257	441,872
Fund balances - beginning of year	1,004,463	0	18,692	75,143	1,098,298
Fund balances - end of year	\$ 927,370	\$ (29,694)	\$ 558,094	\$ 84,400	\$ 1,540,170

Southgate Independent School District  
Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities  
Year Ended June 30, 2019

Net change in fund balances - total governmental funds \$ 441,872

Amounts reported for governmental activities in the statement of

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

Capital asset additions	3,776	
Construction in progress	72,918	
Depreciation expense	(68,172)	
		8,522

Bond proceeds are reported as financing sources in the government funds; however they are reported as increases in long-term liabilities and do not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the government funds but reduces the liability in the statement of net position.

Principal paid	71,750	
Bond proceeds	(640,000)	
Bond issue costs	15,040	
Bond issue discount	12,704	
		(540,506)

Government funds report pension and OPEB contributions as expenditures; however, in the statement of activities the cost of pension and OPEB benefits earned is reported as an expense.

Pension and OPEB expense	(63,181)	
--------------------------	----------	--

Change in net position of governmental activities	<u>\$ (153,293)</u>
---	---------------------

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

Southgate Independent School District  
Statement of Net Position  
Proprietary Fund  
June 30, 2019

	Food Service Fund
Assets:	
Current assets:	
Cash and cash equivalents	\$ 18,776
Inventories for consumption	1,793
Total current assets	<u>20,569</u>
Noncurrent assets:	
Capital assets, net	<u>19,257</u>
Total noncurrent assets	<u>19,257</u>
Total assets	<u><u>\$ 39,826</u></u>
Liabilities:	
Current liabilities:	
Accounts payable	<u>\$ 3,022</u>
Total current liabilities	<u>3,022</u>
Total liabilities	<u>3,022</u>
Net position:	
Net investment in capital assets	19,257
Restricted	<u>17,547</u>
Total net position	<u>36,804</u>
Total liabilities and net position	<u><u>\$ 39,826</u></u>

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

Southgate Independent School District  
Statement of Revenues, Expenses, and Changes in Net Position  
Proprietary Fund  
Year Ended June 30, 2019

	Food Service Fund
Operating revenues	
Lunchroom sales	\$ 2,264
Total operating revenues	<u>2,264</u>
Operating expenses	
Salaries and wages	38,051
Employee benefits	30,475
Materials and supplies	47,302
Depreciation	4,454
Other operating expenses	<u>1,577</u>
Total operating expenses	<u>121,859</u>
Operating loss	<u>(119,595)</u>
Nonoperating revenues	
Federal grants	116,484
Intergovernmental - State on behalf	19,371
Transfers out	<u>(4,960)</u>
Total nonoperating revenues	<u>130,895</u>
Change in net position	11,300
Net position - beginning of year	<u>25,504</u>
Net position - end of year	<u><u>\$ 36,804</u></u>

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



Southgate Independent School District  
Statement of Cash Flows  
Proprietary Fund  
Year Ended June 30, 2019

	Food Service Fund
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	\$ 2,264
Cash paid for:	
Employees	(68,526)
Suppliers for goods and services	(44,280)
Other activities	(1,577)
Net cash used for operating activities	<u>(112,119)</u>
Cash flows from noncapital financing activities:	
Government grants	<u>135,855</u>
Net cash provided by noncapital financing activities	<u>135,855</u>
Cash flows from capital and related financing activities:	
Transfers out	<u>(4,960)</u>
Net cash flows used for capital and related financing activities	<u>(4,960)</u>
Net decrease in cash and cash equivalents	18,776
Cash and cash equivalents, beginning of year	<u>0</u>
Cash and cash equivalents, end of year	<u><u>\$ 18,776</u></u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (119,595)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation	4,454
Change in accounts payable	3,022
Net cash used for operating activities	<u><u>\$ (112,119)</u></u>
Non-cash items:	
On-behalf payments	\$ 19,371

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

Southgate Independent School District  
Statement of Fiduciary Net Position  
June 30, 2019

	Agency Funds
Assets:	
Cash and cash equivalents	<u>\$          7,455</u>
Total assets	<u><u>\$          7,455</u></u>
Liabilities:	
Due to student groups	<u>\$          7,455</u>
Total liabilities	<u><u>\$          7,455</u></u>

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

DRAFT  
Subject to Change

## NOTE 1 – ACCOUNTING POLICIES

### A. The Reporting Entity

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Board. The financial statements presented herein do not include funds or organizations, which although associated with the school system, have not originated with the Board; such as Band Boosters, Parent-Teacher Associations, and others. The financial statements of the District include those 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:

Southgate Independent Board of Education Finance Corporation. – In 1992 the Board resolved to authorize the establishment of the Southgate Independent Board of Education Finance Corporation (Corporation), ( a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

### B. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**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 statement of net position presents the financial condition of the governmental and business-type activities of the District at year end. The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

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

**Fund Financial Statements** – During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses related to water and sewer operations. All revenues not meeting these definitions are reported as nonoperating revenues and expenses.

#### **C. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

**Governmental Funds** – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflow, liabilities, and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

**General Fund** - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky. This is a major fund of the District

**Special Revenue Fund** – The special revenue fund accounts for proceeds of specific revenue sources (other than expendable trusts 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 included in this report. This is a major fund of the District

**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 used by Proprietary Funds).

Capital Outlay Fund – This Support Education Excellence in Kentucky (SEEK) fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified by the District’s facility plan.

Building Fund - This Facility Support Program of Kentucky (FSPK) fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission’s construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District’s facility plan.

Construction Fund – This fund accounts for proceeds from sales of bonds and other revenues used by the district for authorized construction. This is a major fund of the District. The District is committed to construction contracts in the amount of approximately \$600,000 for ongoing projects as of June 30, 2019.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, as required by state law.

#### Proprietary Fund Types (Enterprise Fund)

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

#### Fiduciary Fund Types (Agency Fund)

School Activity Fund – This fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

### D. Measurement Focus

**Government-wide Financial Statements** – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

**Fund Financial Statements** – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Like the government-wide financial statements, all proprietary funds are accounted for on a flow of

economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

#### **E. 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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Nonexchange Transactions** - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the 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, for which the District must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

**Deferred Inflows of Resources and Deferred Outflows of Resources** – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future operating period.

Property taxes not received within the available period and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows in the governmental fund financial statements.

**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. The measurement focus of governmental fund accounting is on the 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.

#### F. Property Taxes

Property taxes are levied in September on the assessed value listed as of the prior January 1 for all the 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, 2019, to finance the General Fund operations were \$1.061 per \$100 valuation for real property, \$1.061 per \$100 for business real property, and \$0.504 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of gross receipts derived from telephone communication services, cablevision services, electric power, water, and gas furnished within the District's boundaries.

#### G. 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. The District's infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the District's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25 – 50 Years
Land improvements	20 Years
Technology	5 Years
Vehicles	5 – 10 Years
General equipment	15 Years
Food service equipment	10 – 12 Years

#### **H. Interfund Balances**

On the fund financial statements, unpaid amounts for interfund services are reported as “due from/to other funds”. These amounts are eliminated in the governmental and business-type activity columns of the statement of net position, except any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

#### **I. 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 District’s past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is not reported.

#### **J. 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 GAAP basis are: (1) revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); and (2) expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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

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

#### **K. Cash and Cash Equivalents**

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

#### **L. 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 expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.



#### **M. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

#### **N. Fund Balance Classification**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Nonspendable** – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

**Restricted** – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

**Committed** – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of District Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless District Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of District Council.

**Unassigned** – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which

restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

**O. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component of "net investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**P. 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. Operating expenses can be tied specifically to the production of the goods and services, such as materials, labor, and direct overhead.

**Q. Interfund Activity**

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

**R. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

**R. Subsequent Events**

The Board has evaluated subsequent events for potential recognition and disclosure through November 11, 2019, the date the financial statements were available to be issued.

**NOTE 2 – 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 the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

At year end the carrying amount of the District's total cash and cash equivalents was \$1,696,844 which was covered by Federal Deposit Insurance Corporation (FDIC) insurance and by collateral agreements and collateral held by the pledging bank's trust department in the District's name

Cash and cash equivalents at June 30, 2019 consisted of the following:

	Book Balance	Bank Balance
General checking	\$ 1,555,418	\$ 1,686,389
School activity	7,455	7,455
	<u>\$ 1,562,873</u>	<u>\$ 1,693,844</u>

Breakdown per financial statements

Governmental funds	\$ 1,536,642
Proprietary fund	18,776
Agency fund	7,455
	<u>\$ 1,562,873</u>

*Custodial Credit Risk – Deposits.* For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned. The District maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2019, all of the District's deposits are insured by the FDIC or covered by security pledges.

SPACE INTENTIONALLY LEFT BLANK

SOUTHGATE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Balance 7/1/2018	Additions	Disposals	Balance 6/30/2019
<b>Governmental Activities</b>				
Land	\$ 9,750	\$ 0	\$ 0	\$ 9,750
Buildings and improvements	2,404,764	0	0	2,404,764
Technology equipmentmt	327,925	3,776	0	331,701
General equipment	70,126	0	0	70,126
Construction in progress	0	72,918	0	72,918
Total cost	2,812,565	76,694	0	2,889,259
Less Accumulated Depreciation				
Buildings and improvements	746,103	47,435	0	793,538
Technology equipmentmt	286,215	16,051	0	302,266
General equipment	21,432	4,686	0	26,118
Total accumulated depreciation	1,053,750	68,172	0	1,121,922
Governmental activities capital assets, net	\$ 1,758,815	\$ 8,522	\$ 0	\$ 1,767,337
<b>Business-type Activities</b>				
Technology equipment	\$ 1,545	\$ 0	\$ 0	\$ 1,545
Food service equipment	66,844		0	66,844
Total cost	68,389	0	0	68,389
Less Accumulated Depreciation				
Technology equipment	1,545	0	0	1,545
Food service equipment	43,133	4,454	0	47,587
Total accumulated depreciation	44,678	4,454	0	49,132
Business-type capital assets, net	\$ 23,711	\$ (4,454)	\$ 0	\$ 19,257

Depreciation was charged to the following functions:

	Governmental	Business-type
Instruction	\$ 50,594	\$
District administration	9,167	
School administration	594	
Plant operations	4,776	
Community service	3,040	
Food service		4,454
	\$ 68,171	\$ 4,454

**NOTE 5 – BONDED DEBT AND LEASED OBLIGATIONS**

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Southgate Independent School District Financial Corporation.

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2011	\$ 1,355,000	2.00% - 4.50%
2019	\$ 640,000	3.00% - 3.25%

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

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

SPACE INTENTIONALLY LEFT BLANK

SOUTHGATE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District and the Commission at June 30, 2019 for debt service (principal and interest) are as follows:

Fiscal Year Ending June 30	Series 2011 and 2019						Total Requirements
	District			Commission			
	Principal	Interest	Total	Principal	Interest	Total	
2020	48,703	31,090	79,793	41,297	29,840	71,137	230,723
2021	52,712	29,902	82,614	42,288	28,849	71,137	236,365
2022	51,220	27,844	79,064	43,780	27,355	71,135	229,263
2023	54,673	25,840	80,513	45,327	25,809	71,136	232,162
2024	58,071	23,692	81,763	46,929	24,207	71,136	234,662
2025	61,410	21,403	82,813	48,590	22,547	71,137	236,763
2026	59,663	18,969	78,632	50,337	20,800	71,137	228,401
2027	62,783	16,454	79,237	52,217	18,919	71,136	229,610
2028	65,832	13,857	79,689	54,168	16,969	71,137	230,515
2029	68,805	11,120	79,925	56,197	14,941	71,138	230,988
2030	71,625	8,158	79,783	58,375	12,761	71,136	230,702
2031	74,356	5,056	79,412	60,642	10,492	71,134	229,958
2032	7,220	1,812	9,032	27,780	8,100	35,880	53,944
2033	6,317	1,578	7,895	28,683	7,198	35,881	51,671
2034	5,385	1,372	6,757	29,615	6,266	35,881	49,395
2035	4,422	1,198	5,620	30,578	5,302	35,880	47,120
2036	8,427	1,054	9,481	31,573	4,308	35,881	54,843
2037	7,401	780	8,181	32,599	3,282	35,881	52,243
2038	6,343	540	6,883	33,657	2,224	35,881	49,647
2039	10,248	334	10,582	34,752	1,130	35,882	57,046
	\$ 785,616	\$ 242,053	\$ 1,027,669	\$ 849,384	\$ 291,299	\$ 1,140,683	\$ 3,196,021

The schedule of changes in the District's bond obligations for the year ended June 30, 2019 is as follows:

	Outstanding July 1, 2018	Borrowings	Repayments	Outstanding June 30, 2019	Amounts Expected to be Paid Within One Year
Bonds payable	<u>\$ 1,065,000</u>	<u>\$ 640,000</u>	<u>\$ 70,000</u>	<u>\$ 1,635,000</u>	<u>\$ 90,000</u>

**NOTE 6 – COMMITMENTS UNDER NONCAPITALIZED LEASES**

The District has no operating leases for equipment as of June 30, 2019.

---

**NOTE 7 – RETIREMENT PLANS**

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

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

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

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

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

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

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

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

**General information about the Teachers' Retirement System of the State of Kentucky (KTRS)**

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

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

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

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

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



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

**Contributions**—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

#### **Medical Insurance Plan**

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

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

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

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the

related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

The net pension liability for each plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

District's proportionate share of the CERS net pension liability	\$ 432,655
Commonwealth's proportionate share of the KTRS net pension liability associated with the District	4,894,985
	<u>\$ 5,327,640</u>

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.008% percent.

For the year ended June 30, 2019, the District recognized pension expense of \$54,288 related to CERS and \$384,605 related to KTRS. The Board also recognized revenue of \$384,605 for KTRS support provided by the Commonwealth. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow	Total Deferred Inflow	Net Deferral
Change in liability experience	\$ 14,112	\$ 6,333	
Change of assumptions	42,283	-	
Change in investment experience	20,119	25,307	
Change in proportionate share of contributions	13,391	11,305	
	89,905	<u>\$ 42,945</u>	<u>\$ 46,960</u>
Subsequent contributions	29,069		
Total	<u>\$ 118,974</u>		

The contributions subsequent to the measurement date of \$29,069 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The net deferral of \$46,950 will be recognized in pension expense as follows:

Year ending June 30	Net Deferral
2020	\$ 39,133
2021	17,269
2022	(7,120)
2023	(2,322)
	\$ 46,960

*Actuarial assumptions*—The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	KTRS
Inflation	2.30%	3.00%
Projected salary increases	3.05%	3.50% - 7.30%
Investment rate of return, net of investment expense and inflation	6.25%	7.50%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, 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 for two years for males and one year for females. The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015 adopted by the Board on November 19, 2016.

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

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

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	CERS		KTRS	
	Target Allocation	Long-term Expected Nominal Return	Target Allocation	Long-term Expected Nominal Return
US Equity	17.50%	4.73%	42.00%	4.40%
Non US Equity	17.50%	6.71%	20.00%	5.30%
Global Bonds	10.00%	3.00%	16.00%	1.50%
Credit Fixed	17.00%	4.59%		
Private Equity	10.00%	6.50%	6.00%	6.70%
Real Estate	5.00%	7.00%	5.00%	4.40%
Absolute Return	10.00%	5.00%		
Real Return	10.00%	5.00%	9.00%	3.60%
Cash	3.00%	1.50%	2.00%	0.08%
	<u>100.00%</u>		<u>100.00%</u>	

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

For KTRS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

	1% Decrease 5.25%	Current Rate 6.25%	1% Increase 7.25%
CERS	\$ 544,668	\$ 432,655	\$ 338,808
	6.50%	7.50%	8.50%
KTRS	\$ -	\$ -	\$ -

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

#### NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

**Plan Description** – As more fully described in Note 8, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

**Contributions** – As more fully described in Note 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2019, the employer’s contribution was 5.26% to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

**Benefits** – CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

##### Tier 1

Participation date Before July 1, 2003  
Insurance eligibility 10 years of service credit required  
Benefit Set percentage of single coverage health insurance based on service credit accrued at retirement

##### Tier 1

Participation date Before September 1, 2008 but after July 1, 2003  
Insurance eligibility 10 years of service credit required  
Benefit Set dollar amount based on service credit accrued, increased annually

Tier 2

Participation date After September 1, 2008 and before December 31, 2013

Insurance eligibility 15 years of service credit required

Benefit Set dollar amount based on service credit accrued,  
increased annually

Tier 3

Participation date After December 31, 2013

Insurance eligibility 15 years of service credit required

Benefit Set dollar amount based on service credit accrued,  
increased annually

*OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources* – At June 30, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$126,112 related to CERS and \$669,000 related to KTRS.

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the 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 entities, actuarially determined. The District's proportionate share at June 30, 2017 was 0.007% related to CERS and 0.017% related to TRS.

For the year ended June 30, 2018, the District recognized OPEB expense of \$92,503. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB – CERS from the following sources:

	Total		
	Deferred Outflow	Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 14,697	
Change of assumptions	25,187	291	
Change in investment experience	-	8,687	
Change in proportionate share of contributions	-	5,385	
	25,187	\$ 29,060	\$ (3,873)
Subsequent contributions	9,427		
Total	\$ 34,614		

The contributions subsequent to the measurement date of \$9,427 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The net deferral of \$(3,873) will be recognized in pension expense as follows:

Year ending June 30	Net Deferral
2020	\$ (580)
2021	(580)
2022	1,107
2023	(2,122)
2024	(1,119)
Thereafter	(579)
	<u>\$ (3,873)</u>

For the year ended June 30, 2018, the District recognized OPEB expense of \$92,503. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB – KTRS from the following sources:

	Deferred Outflow	Total Deferred Inflow	Net Deferral
Change in liability experience	\$ -	\$ 34,000	
Change of assumptions	9,000	-	
Change in investment experience	-	3,000	
Change in proportionate share of contributions	66,000	-	
	<u>75,000</u>	<u>\$ 37,000</u>	<u>\$ 38,000</u>
Subsequent contributions	-		
Total	<u>\$ 75,000</u>		

The net deferral of \$38,000 will be recognized in pension expense as follows:

Year ending June 30	Net Deferral
2020	\$ 6,000
2021	6,000
2022	6,000
2023	8,000
2024	7,000
Thereafter	5,000
	<u>\$ 38,000</u>

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

Non-hazardous and Hazardous

Inflation	2.30%
Salary increases	3.05%, average, including inflation

Investment rate of return 6.25%, net of Plan investment expense, including inflation  
Healthcare trend

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.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan's fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2018.

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

The target allocation and best estimates of arithmetic nominal real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Nominal Return
U.S. Equity	26.5%	9.56%
Non-U.S. Equity	26.5%	2.84%
Fixed Income	12.0%	6.53%
Real Return	8.0%	3.68%
Real Estate	5.0%	8.99%
Absolute	10.0%	3.89%
Private Equity	10.0%	9.74%



Cash Equivalent	2.0%	2.69%
Total	100%	

Discount Rate – The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year 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. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial 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.

*Sensitivity of the District’s Proportionate Share of the Net OPEB Discount Rate* – The following presents the District’s proportionate share of the net OPEB liability calculated using discount rates that are 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease 4.85%	Current Rate 5.85%	1% Increase 6.85%
CERS	\$ 163,800	\$ 126,112	\$ 94,010
	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
KTRS	579,676	452,872	34,418
Total	\$ 743,476	\$ 578,984	\$ 128,428

*Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate* – The following presents the District’s proportionate share of the net OPEB liability calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rate	1% Increase
CERS	\$ 93,892	\$ 126,112	\$ 164,091
KTRS	335,125	452,872	588,734
Total	\$ 429,017	\$ 578,984	\$ 752,825

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

**NOTE 10 – CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The District is subject to various legal actions in various stages 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 combined financial statements as a result of cases presently in progress.

**NOTE 11 – RISK MANAGEMENT**

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company. In addition, the District has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

Management estimates that the amount of actual or potential claims against the District as of June 30, 2019 will not materially affect the financial condition of the District. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded insurance coverage amounts in any of the past three fiscal years.

**NOTE 12 – 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. District management believes it is in compliance with the COBRA requirements.

**NOTE 13 – TRANSFER OF FUNDS**

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	\$ 2,461
Food Service	General	Operating	4,960
Capital Outlay	Debt Service	Debt Service	6,400
Building Fund	Debt Service	Debt Service	70,920
			<u>\$ 84,741</u>

**NOTE 14 – ON-BEHALF PAYMENTS**

For the year ended June 30, 2019 payments of \$746,203 were made by the Commonwealth of Kentucky on behalf of the District for insurance benefits, retirement benefits, technology, and debt service. The following amounts were recorded in the Statement of Activities and the Statement of Revenue, Expenditures, and Changes in Fund Balance:

Type	Fund
Insurance \$ 285,111	General \$ 691,577
Retirement 384,605	Debt service 32,255
Technology 41,232	Food service 19,371
Debt service 35,255	
<u>\$ 746,203</u>	<u>\$ 743,203</u>

Southgate Independent School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
General Fund  
Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
From local sources:				
Taxes:				
Property	\$ 1,020,523	\$ 1,020,523	\$ 1,088,915	\$ 68,392
Motor vehicle	56,070	56,070	59,390	3,320
Utilities	110,000	110,000	104,411	(5,589)
Earnings on investments	10,400	10,400	27,106	16,706
Other local revenue	0	0	11,358	11,358
Intergovernmental - State	454,776	454,776	535,844	81,068
Intergovernmental - State on behalf	440,882	440,882	691,577	250,695
Intergovernmental - Indirect federal	0	0	19,763	19,763
Total revenues	<u>2,092,651</u>	<u>2,092,651</u>	<u>2,538,364</u>	<u>445,713</u>
Expenditures:				
Instruction	1,477,748	1,477,748	1,510,304	(32,556)
Support services:				
Student	105,975	105,975	152,024	(46,049)
Instruction staff	101,816	101,816	131,138	(29,322)
District administrative	304,708	304,708	358,534	(53,826)
School administrative	158,493	158,493	219,376	(60,883)
Business support	24,481	24,481	41,232	(16,751)
Plant operation and maintenance	241,256	241,256	205,348	35,908
Building improvements	386,254	386,254	0	386,254
Other (contingency)	271,001	271,001	0	271,001
Total expenditures	<u>3,071,732</u>	<u>3,071,732</u>	<u>2,617,956</u>	<u>453,776</u>
Excess of Revenues Over (Under) Expenditures	(979,081)	(979,081)	(79,592)	899,489
Other financing sources (uses):				
Transfer in	0	0	4,960	4,960
Transfers out	(10,000)	(10,000)	(2,461)	7,539
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>2,499</u>	<u>12,499</u>
Net change in fund balances	(989,081)	(989,081)	(77,093)	911,988
Budgetary fund balance - beginning of year	978,581	978,581	1,004,463	25,882
Budgetary fund balance - end of year	<u>\$ (10,500)</u>	<u>\$ (10,500)</u>	<u>\$ 927,370</u>	<u>\$ 937,870</u>

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

Southgate Independent School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Special Revenue Fund  
Year Ended June 30, 2019

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues:				
From local sources:				
Other local revenue	\$ -	\$ -	\$ 8,862	\$ 8,862
Intergovernmental - State	223,310	223,310	171,477	(51,833)
Intergovernmental - Indirect federal	572,226	572,226	409,400	(162,826)
Total revenues	<u>795,536</u>	<u>795,536</u>	<u>589,739</u>	<u>(205,797)</u>
Expenditures:				
Instruction	797,639	797,639	618,754	178,885
Support services:				
Instruction staff	<u>3,140</u>	<u>3,140</u>	<u>3,140</u>	<u>0</u>
Total expenditures	<u>800,779</u>	<u>800,779</u>	<u>621,894</u>	<u>178,885</u>
Excess of Revenues Over (Under) Expenditures	(5,243)	(5,243)	(32,155)	(26,912)
Other financing sources (uses):				
Transfer in	<u>3,000</u>	<u>3,000</u>	<u>2,461</u>	<u>(539)</u>
Total other financing sources (uses)	<u>3,000</u>	<u>3,000</u>	<u>2,461</u>	<u>(539)</u>
Net change in fund balances	(2,243)	(2,243)	(29,694)	(27,451)
Budgetary fund balance - beginning of year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Budgetary fund balance - end of year	<u><u>\$ (2,243)</u></u>	<u><u>\$ (2,243)</u></u>	<u><u>\$ (29,694)</u></u>	<u><u>\$ (27,451)</u></u>

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

Southgate Independent School District  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2019

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	\$33,121	\$51,279	\$ 0	\$ 84,400
Receivables:				
Taxes				0
Accounts				0
Intergovernmental - federal				0
Total assets	<u>\$ 33,121</u>	<u>\$ 51,279</u>	<u>\$ 0</u>	<u>\$ 84,400</u>
Liabilities:				
Accounts payable				\$ 0
Cash deficit balance				0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Deferred inflows of resources:				
Unavailable taxes				0
Unearned revenue				0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:				
Restricted	33,121	51,279	0	84,400
Unassigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total fund balances	<u>33,121</u>	<u>51,279</u>	<u>0</u>	<u>84,400</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 33,121</u>	<u>\$ 51,279</u>	<u>\$ 0</u>	<u>\$ 84,400</u>

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

Southgate Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2019

	Capital Outlay Fund	Building Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property		\$ 55,425		\$ 55,425
Motor vehicle				0
Utilities				0
Earnings on investments	103	190		293
Other local revenue				0
Intergovernmental - State	16,689	14,170		30,859
Intergovernmental - State on behalf			35,255	35,255
Intergovernmental - Indirect federal				0
Total revenues	<u>16,792</u>	<u>69,785</u>	<u>35,255</u>	<u>121,832</u>
Expenditures:				
Instruction				0
Support services:				
Student				0
Instruction staff				0
District administrative				0
School administrative				0
Plant operation and maintenance				0
Debt service				
Principal			70,000	70,000
Interest			42,575	42,575
Total expenditures	<u>0</u>	<u>0</u>	<u>112,575</u>	<u>112,575</u>
Excess of revenues over (under) expenditures	<u>16,792</u>	<u>69,785</u>	<u>(77,320)</u>	<u>9,257</u>
Other financing sources (uses):				
Transfers in			77,320	77,320
Transfers out	<u>(6,400)</u>	<u>(70,920)</u>		<u>(77,320)</u>
Total other financing sources (uses)	<u>(6,400)</u>	<u>(70,920)</u>	<u>77,320</u>	<u>0</u>
Net change in fund balances	10,392	(1,135)	0	9,257
Fund balances - beginning of year	<u>22,729</u>	<u>52,414</u>	<u>0</u>	<u>75,143</u>
Fund balances - end of year	<u>\$ 33,121</u>	<u>\$ 51,279</u>	<u>\$ 0</u>	<u>\$ 84,400</u>

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

Southgate Independent School District  
Schedule of District's Proportionate Share of the Net Pension Liability  
County Employees Retirement System  
June 30, 2019

Last Ten Fiscal Years\*

	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
District's proportion of the net pension liability	0.007%	0.007%	0.007%	0.007%	0.008%
District's proportionate share of the net pension liability	\$ 432,655	\$ 434,959	\$ 329,589	\$ 288,667	\$ 276,336
District's covered employee payroll	\$ 179,217	\$ 206,867	\$ 101,809	\$ 117,069	\$ 172,689
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	241.41%	210.26%	323.73%	246.58%	160.02%
Plan fiduciary net position as a percentage of the total pension liability	53.54%	55.50%	53.32%	59.97%	66.80%
Contractually required contribution	\$ 29,069	\$ 39,677	\$ 19,018	\$ 19,972	\$ 32,621
Contributions in relation to the contractually required contribution	29,069	39,677	19,018	19,972	32,621
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 179,217</u>	<u>\$ 206,867</u>	<u>\$ 101,809</u>	<u>\$ 117,069</u>	<u>\$ 172,689</u>
Contributions as a percentage of covered-employee payroll	16.22%	19.18%	18.68%	17.06%	18.89%

\* Schedule is intended to show information for ten years. Additional years  
will be displayed as they become available.



Southgate Independent School District  
Schedule of Commonwealth of Kentucky's Proportionate Share of the  
Net Pension Liability - Kentucky Teachers Retirement System  
June 30, 2019

Last Ten Fiscal Years\*

	2018-19	2017-18	2016-17	2015-16	2014-15
Commonwealth of Kentucky's proportion of the net pension liability	0.03%	0.03%	0.03%	0.03%	0.04%
Commonwealth of Kentucky's proportionate share of the net pension liability	\$ 4,894,985	\$ 8,761,297	\$ 9,240,614	\$ 6,992,493	\$ 7,434,525
Plan fiduciary net position as a percentage of the total pension liability	35.22%	35.22%	35.22%	55.30%	45.59%
	2018-19	2017-18	2016-17	2015-16	2014-15
Statutorily required contribution	\$ 384,605	\$ 311,284	\$ 152,047	\$ 144,616	\$ 175,176
Contributions in relation to the statutorily required contrib	384,605	311,284	152,047	144,616	175,176
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -

\* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Southgate Independent School District  
Schedule of District's Proportionate Share of the Net OPEB Liability  
County Employees Retirement System  
June 30, 2019

Last Ten Fiscal Years\*

	2019	2018
District's proportion of the net OPEB liability	0.007%	0.007%
District's proportionate share of the net OPEB liability	\$ 149,389	\$ 149,389
District's covered employee payroll	\$ 14,161,818	\$ 14,161,818
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	1.05%	1.05%
Plan fiduciary net position as a percentage of the total pension liability	21.18%	21.18%
Contracually required contribution	\$ 8,557	\$ 8,557
Contributions in relation to the contractually required contribution	8,557	8,557
Contribution deficienc (excess)	\$ 0	\$ 0
District's covered employee payroll	\$ 311,164	\$ 311,164
Contributions as a percentage of covered-employee payroll	2.75%	2.75%

\* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Southgate Independent School District  
Schedule of District's and Commonwealth of Kentucky's  
Proportionate Share of the Net OPEB Liability - KTRS  
June 30, 2019

Last Ten Fiscal Years\*

	2019	2018
District's proportion of the net OPEB liability	0.017%	0.017%
Commonwealth of Kentucky's proportion of the net OPEB liability	0.014%	0.014%
Total proportion of the net OPEB liability	0.031%	0.031%
District's proportionate share of the net OPEB liability	\$ 669,000	\$ 610,000
Commonwealth of Kentucky's proportionate share of the net OPEB liability	576,000	498,000
Total proportionate share of the net OPEB liability	\$ 1,245,000	\$ 1,108,000
District's covered employee payroll	\$ 14,161,818	\$ 14,161,818
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	4.72%	4.31%
Plan fiduciary net position as a percentage of the total pension liability	21.18%	21.18%
District's contractually required contribution	\$ 29,321	\$ 29,321
Contributions in relation to the contractually required contribution	\$ 29,321	\$ 29,321
Contribution deficiency	\$ 0	\$ 0
District's covered employee payroll	\$ 13,850,654	\$ 13,850,654
District's contributions as a percentage of covered employee payroll	0.212%	0.212%

\* Schedule is intended to show information for ten years. Additional years  
will be displayed as they become available.

Southgate Independent School District  
Statement of Receipts, Disbursements, and Cash Balances  
Activity Funds  
Year Ended June 30, 2019

Fund Name	Cash Balance July 1, 2018	Receipts	Disbursements	Cash Balance June 30, 2019
Preschool	\$ 157	\$ 169	\$ 132	\$ 194
Kindergarten	482		98	384
First grade	556		98	458
Second grade	213		98	115
Third grade	196		98	98
Fourth grade	144	203	98	249
Fifth grade	35	1,165	610	590
Sixth grade	255		98	157
Seventh grade	10		10	0
Eighth grade	91	236	267	60
Eighth grade trip	236	987	1,223	0
Band	559	666	676	549
NKOA	-	6,250	6,248	2
Student needs	109	820	0	929
Library	166	1,476	1,258	384
Student council		1,028	400	628
Yearbook	(956)	956	0	0
Office	2,811	819	2,036	1,594
All school field trip		3,175	2,977	198
Student services	922	692	1,028	586
GNT		131	131	0
Dreamfest	(23)	23	0	0
Media		800	800	0
Art	219	172	117	274
GOTR	81	0	75	6
Total	\$ 6,263	\$ 19,768	\$ 18,576	\$ 7,455

Southgate Independent School District  
Schedule of Prior Year Audit Findings  
June 30, 2019

There were no audit findings in the prior year.

DRAFT  
Subject to Change



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

Members of the Board of Education  
Southgate Independent School District  
6 William Blatt Avenue  
Southgate, KY 41071

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Southgate Independent School District's basic financial statements and have issued our report thereon dated November 11, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated November 11, 2019.

Purpose of this Report

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

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky

November 11, 2019

DRAFT  
Subject to Change

Members of the Board of Education  
Southgate Independent School District  
6 William Blatt Avenue  
Southgate, KY 41071

In planning and performing our audit of the financial statements of Southgate Independent School District (District) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated November 11, 2019 on the financial statements of the District.

We will review the status of these comments during our next audit engagement.

**Maddox & Associates CPAs Inc.**

Fort Thomas, Kentucky  
November 11, 2019



PRIOR YEAR COMMENTS

2018-01 Activity Fund

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines that require the activity fund to be reconciled on a timely basis.

Condition: Activity fund account was not reconciled on a timely basis

Cause: Employee turnover.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that school personnel reconcile the activity fund on a timely basis.

Response: In the future school personnel will reconcile the activity fund on a timely basis to comply with Red Book guidelines.

CURRENT YEAR COMMENTS

2018-01 Activity Fund

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines that require the activity fund to be reconciled on a timely basis.

Condition: Activity fund account reconciliations were not signed and dated by the preparer or reviewer. Without this information it is not possible to determine if reconciliations were performed timely

Cause: Employee turnover.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that school personnel sign and date reconciliations of the activity fund on a timely basis.

Response: In the future school personnel will reconcile the activity fund on a timely basis to comply with Red Book guidelines.