



Kenton County School District | *It's about ALL kids.*

**THE KENTON COUNTY BOARD OF
EDUCATION**

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Dr. Henry Webb, Superintendent of Schools

KCSD ISSUE PAPER

DATE:

September 3, 2020

AGENDA ITEM (ACTION ITEM):

Receive: Revised Audited Financial Report for FY 2019

APPLICABLE BOARD POLICY:

4.9 Fiscal Management - Audits

HISTORY/BACKGROUND:

The Audited Financial Report for FY 2019 was submitted to KDE on November 15, 2019 and presented to the Board on December 2, 2019. The report was reviewed by KDE staff and the KY State Auditor's staff and found to need a few minor wording changes and additional information disclosed on the Internal Control Opinion Letter. Strothman & Co., the auditor, completed the revisions and is submitting the revised Audit Report at this time.

FISCAL/BUDGETARY IMPACT:

None

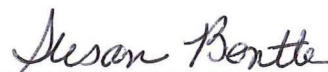
RECOMMENDATION:

Receive: Revised Audited Financial Report for FY 2019 as presented


CONTACT PERSON:

Susan Bentle

Principal



District Administrator



Superintendent

Use this form to submit your request to the Superintendent for items to be added to the Board Meeting Agenda.

Principal –complete, print, sign and send to your Director. Director –if approved, sign and put in the Superintendent's mailbox.

Kenton County Board of Education

Board Members: Carl Wicklund, Chairperson Karen L. Collins, Vice Chairperson Carla Egan Shannon Herold Jessica Jehn
"The Kenton County Board of Education provides *Equal Education & Employment Opportunities.*"

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Independent Auditors' Report

Members of the Board
Kenton County School District
Fort Wright, Kentucky

Report on the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (Unaudited) on pages 4 through 13 and the budgetary comparison information on pages 60 through 61 and the pension and other post-employment benefits liability and contributions information on pages 62 through 69 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 inquires 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 to 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 activity funds financial information on pages 69 through 77 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 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 the District's internal control over financial reporting and compliance.

Louisville, Kentucky
November 14, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**Kenton County School District
Management Discussion and Analysis
Fiscal Year Ended June 30, 2019
Unaudited**

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

FINANCIAL HIGHLIGHTS

- Kenton County Schools served 14,786 enrolled students during the 2018-19 fiscal year through 19 schools including 3 high schools, a technology academy, 4 middle schools and 11 elementary schools. More than half of the District's schools are operating at their student capacity.
- District facility activity during 2019 included continued progress on addition/renovation to the Scott High School building and grounds, Ft. Wright Elementary School and school entrance renovation for Hinsdale Elementary.
- The Board approved a Lease & Security Agreement with the Kentucky Interlocal School Transportation Association ("KISTA") resulting in the issuance of \$1.736 million in bonds to finance the purchase of 15 school buses.
- Kindergarten classes in all elementary schools were extended from half day to a full day of instruction. This change required the addition of 20 teachers and 20 instructional assistants to elementary school staff during the year.
- Net Position increased \$3.9 million reflecting scheduled reduction in debt, changes in pension and post-employment benefit accounts and increased revenues during 2019.
- Total Revenues were \$168 million for the year. General revenues accounted for \$149.3 million, 89 percent of the total, while program specific revenues, in the form of charges for services and sales, grants, and contributions, accounted for \$19.1 million or 11 percent of total revenues. The District incurred \$164.5 million in total expenses.
- Governmental Fund Revenues were \$161.8 million with \$131.7 million accounted for in the General Fund. Local tax revenues increased to \$64.5 million while state SEEK revenues increased from \$45.4 to \$ 45.7 million. Local tax, federal grant and state program revenues all experienced higher collections 2019.
- Governmental Fund Expenditures totaled \$173.8 million during 2019 with General Fund expenses comprising \$131.7 million of that total. Personnel costs increase each year as salary schedules reflecting a 1% increase and experience raise are implemented. Instruction expense increased with the addition of kindergarten staff and student support programs. Several facility maintenance projects are also reflected in annual fund expenses.
- The General Fund ended the year with a reserve balance of \$18.0 million which represents 15% of the non-construction budget for the year. \$3.9 million of the Total Fund Balance is either restricted or committed to capital/construction projects or operating obligations. The Unassigned Fund Balance at the end of the year is \$14.1 million.

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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide Financial Statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. This financial perspective is provided via the Statement of Net position and the Statement of Activities.

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. Net Position is one indication of financial health and position to support future operations. 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. Other non-financial factors, such as changes in the District's property tax base and the condition of school facilities, also contribute to evaluating the District's overall financial position.

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, the revenues and expenses reported in this statement for some items will result in cash flows in future fiscal periods.

The district-wide financial statements are divided into two categories, governmental activities and business-type activities. Governmental activities include functions of the District that are principally supported by property taxes and intergovernmental revenues and include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues. Business-type activities are those that charge a fee to assist in covering the cost of the service. Food Service is the only business-type activity reported in these financial statements. The district-wide financial statements can be found on pages 14 and 15 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Kentucky public school districts utilize a state mandated uniform system and chart of accounts with all financial transactions processed by the MUNIS administrative software. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds include food service operations. The District's funds include General, Special Revenue, District Activity, Capital Outlay, Building, Construction, Debt Service, Proprietary and Food Service. School activity funds maintained at each school are reflected as Fiduciary funds in this report. The basic governmental fund financial statements can be found on pages 16 through 24 of this report.

Notes to Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to financial statements can be found on pages 25 through 58 of this report.

Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)

DISTRICT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

The perspective of the Statement of Net Position is of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2019 and 2018.

Table 1
Kenton County School District
Net Position
June 30, 2019 and 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets						
Current Assets	\$ 23,361,788	\$ 34,895,108	\$ 2,021,083	\$ 1,864,061	\$ 25,382,871	\$ 36,759,169
Noncurrent Assets	239,287,171	233,223,103	681,665	683,556	239,968,836	233,906,659
Total Assets	262,648,959	268,118,211	2,702,748	2,547,617	265,351,707	270,665,828
Deferred Outflows of Resources						
Bond Refunding Savings	5,341,880	6,333,962			5,341,880	6,333,962
Pension & OPEB Contributions	16,614,218	18,506,403	1,639,980	1,928,635	18,254,198	20,435,038
Total Deferred Outflows	21,956,098	24,840,365	1,639,980	1,928,635	23,596,078	26,769,000
Total Assets and Deferred Outflows of Resources	\$ 284,605,057	\$ 292,958,576	\$ 4,342,728	\$ 4,476,252	\$ 288,947,785	\$ 297,434,828
Liabilities						
Current Liabilities	\$ 20,324,419	\$ 21,526,468	\$ 160,141	\$ 98,198	\$ 20,484,560	\$ 21,624,666
Noncurrent Liabilities	253,464,323	268,054,404	6,193,838	6,084,729	259,658,161	274,139,133
Total Liabilities	\$ 273,788,742	\$ 289,580,872	\$ 6,353,979	\$ 6,182,927	\$ 280,142,721	\$ 295,763,799
Deferred Inflows of Resources						
Pension & OPEB Contributions	\$ 7,922,594	\$ 4,858,928	\$ 608,395	\$ 507,244	\$ 8,530,989	\$ 5,366,172
Net Position						
Invested in Capital Assets, Net of Related Debt	\$ 59,564,071	\$ 40,358,563	\$ 681,665	\$ 683,556	\$ 60,245,736	\$ 41,042,119
Nonspendable - inventories	157,412	146,948			157,412	146,948
Restricted	1,339,374	13,180,539	(3,301,311)	(2,897,475)	(1,961,937)	10,283,064
Unrestricted	(58,167,136)	(55,167,274)			(58,167,136)	(55,167,274)
Total Net Position	\$ 2,893,721	\$ (1,481,224)	\$ (2,619,646)	\$ (2,213,919)	\$ 274,075	\$ (3,695,143)
Total Liabilities and Net Position	\$ 284,605,057	\$ 292,958,576	\$ 4,342,728	\$ 4,476,252	\$ 288,947,785	\$ 297,434,828

**Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)**

Due to state pension plan liabilities now reflected on the District's balance sheet, Net Position may not be the best indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 274,075 as of June 30, 2019. Instead, a better financial gauge may be net change in net position. Total net position increased \$3.9 million, during 2019. Governmental net position increased \$4.3 million due primarily to increases in tax and state SEEK transportation revenue. However, costs also increased by \$3.0 million in salary, benefits, facility maintenance expenses and food service costs. The District's financial position is the product of many financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The District's property tax base remains strong and increased by \$68 million providing a stable source of operating revenue. Two major tax revenues (real estate and motor vehicle) experienced increases during 2019 while KY SEEK transportation revenue increased \$650,000 in the General Fund. School building and facility additions and improvements continue each year in accordance with the District's Facility Plan.

Capital Assets

The largest portion of the District's net position resides in its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related outstanding 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 its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The complete renovation of Ft. Wright Elementary school was finished in August 2018 for the opening of the 2019 school year. The renovations involve the construction of ten additional classrooms which added significant student capacity for the overcrowded school. The renovation program was comprehensive and involved the replacement of roofing systems and all major mechanical systems. This significant investment will serve the students in Kenton County well for the next thirty years.

The renovation process continues at Scott High School which is the facility identified in the district facility plan with the greatest needs. Phase IV construction began in May 2018 and was completed by August 2019. This phase of construction involves the renovation of the former science classrooms on the second floor into English and social study classrooms. The first floor renovations involve the construction of a new band and choral room, new special education suite, a multiple purpose classroom, and an exterior courtyard.

The construction of a new office suite and secure vestibule designed entrance is now complete at Hinsdale Elementary. This new security entrance replaced the current entrance to improve access to the facility.

The Board of Education revised the original construction application that was established for security and safety upgrades at all school locations. The latest cost estimates for this project is \$17 million. This project involves the construction of a new secure vestibule entrance to be constructed at Ryland Elementary and River Ridge Elementary schools. The work also involves upgrades to all existing secure vestibule designs now in place at all other school locations. The upgrades to all existing secure entrance designs will reflect the latest technology in school security. This project also involves the construction of interior corridor wall systems and classroom doors for the open classroom pods at Hinsdale Elementary.

Each school location will have upgrades to existing security cameras or the addition of a new system in all locations that do not currently have a camera system. Most elementary schools do not have a security camera system. All school locations will be equipped with new door access controls for exterior and interior door hardware upgrades where necessary. Each school will receive a new visitor screening management system, emergency notification buttons, medical evacuation sleds, and vehicular identification system for the parent pick-up process taking place in elementary schools.

All work is scheduled to advertise for prospective bidders in January 2020. The project will be funding through a revenue bond issue in February, 2020.

**Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)**

Fifteen new buses were purchased through the Kentucky Intermodal School Transportation System bond program. The order included one 30 passenger special needs, seven 72 passenger and seven 84 passenger units to replace busses that were over ten years old. Approved by the Board in November, 2018, the new buses were delivered in June, 2019 and all are reflected in the Capital Assets Schedule as of June 30, 2019.

Debt

At June 30, 2019, the District had \$172.8 million in outstanding bonds. The bonds are being paid from the Debt Service Fund. A portion of this debt, \$23.3 million is serviced by the Kentucky School Facility Construction Commission. See Note E – Bonded Debt in the Notes to Financial Statements.

A new revenue bond issue is scheduled for February, 2020 to fund the school safety/security project described previously.

Participation in the KISTA bus lease/purchase program was approved by the Board and bonds were issued in March 2019 for the purchase of fifteen new buses for the District fleet. The total amount of bonds issued was \$1,736,350. The entire lease/bond debt of \$2,015,038 is reflected in liabilities at June 30, 2019 and will be serviced by the General Fund.

Statement of Activities (Changes In Net Position)

The Statement of Activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 2 presents a summary of revenue and expense for the fiscal years ended June 30, 2019 and 2018.

GOVERNMENTAL ACTIVITY

Governmental Revenues were \$4.1 million higher than 2018 with increases in General Revenue property tax revenue (\$2.5 million) and state grants/entitlements (\$2.1 million). Total expenses reflected an increase of \$2.3 million in 2019. This includes salary, benefit and pension expense for additional kindergarten instructional staff and facility maintenance costs. The 2019 fiscal year ended by adding \$4.3 million to net position from current year activities.

BUSINESS-TYPE ACTIVITY

The only business-type activity of the District is the food service operation. This program had revenues of \$6.4 million and expenditures of \$6.8 million during fiscal year 2019. The Food Service Program continues to offer students excellent nutrition through a variety of breakfast and lunch meal choices. Meals are prepared and served each school day and several weeks during summer instructional programs.

Several schools qualified and operated under the Community Eligibility Provision (CEP) program for the first time in 2019. With more than 40% of their students qualifying for free lunch benefits, all students in the CEP program schools qualify for free breakfast and lunch meals. Therefore, federal operating grant revenue increased and student charge revenues decreased in those schools. Operating expenses increased with fresh food cost increases and pension expenses. The food service operation is self-operating and funded without assistance from the General Fund. The business activity receives no support from tax revenues.

In accordance with Implementation of Government Accounting Standards Board Statement No. 68, *Accounting and Reporting for Pensions*, and Government Accounting Standards Board Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other than OPEBs*, food service financial results include provisions for deferred outflows and inflows related to both the state net pension and postemployment benefits other than OPEBs liabilities.

**Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)**

**Table 2
Kenton County School District
Changes In Net Position
June 30, 2019 and 2018**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Operating grants and contributions	\$ 6,083,149	\$ 6,793,017	\$ 4,018,001	\$ 3,497,321	\$ 10,101,150	\$ 10,290,338
Capital grants and contributions	5,932,876	5,381,583	361,773	364,193	6,294,649	5,745,776
Charges for services	1,092,707	1,014,784	1,624,950	1,836,619	2,717,657	2,851,403
Total Program Revenues	13,108,732	13,189,384	6,004,724	5,698,133	19,113,456	18,887,517
General Revenues:						
Taxes	64,504,319	62,040,773			64,504,319	62,040,773
Grants and entitlements	81,724,772	79,614,474	420,564	423,381	82,145,336	80,037,855
Earnings on investments	898,137	583,511	34,160	16,277	932,297	599,788
Miscellaneous	1,766,094	2,498,853	3,184	21,083	1,769,278	2,519,936
Total General Revenues	148,893,322	144,737,611	457,908	460,741	149,351,230	145,198,352
Total Revenues	162,002,054	157,926,995	6,462,632	6,158,874	168,464,686	164,085,869
Expenses:						
Instructional	88,047,966	87,779,546			88,047,966	87,779,546
Student Support	9,503,918	9,700,399			9,503,918	9,700,399
Instructional Support	4,987,902	5,365,888			4,987,902	5,365,888
District Administration	2,172,533	2,001,272			2,172,533	2,001,272
School Administration	9,973,669	9,896,706			9,973,669	9,896,706
Business Support	2,854,804	2,629,572			2,854,804	2,629,572
Plant Operations	19,992,786	17,804,146			19,992,786	17,804,146
Student transportation	12,869,360	12,636,651			12,869,360	12,636,651
Community Support	1,062,090	1,015,823			1,062,090	1,015,823
Interest - Long term debt	6,162,081	6,511,960			6,162,081	6,511,960
Food Service Operations			6,868,359	6,057,956	6,868,359	6,057,956
Total Expenses	157,627,109	155,341,963	6,868,359	6,057,956	164,495,468	161,399,919
Change in Net Position	\$ 4,374,945	\$ 2,585,032	\$ (405,727)	\$ 100,918	\$ 3,969,218	\$ 2,685,950

Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)

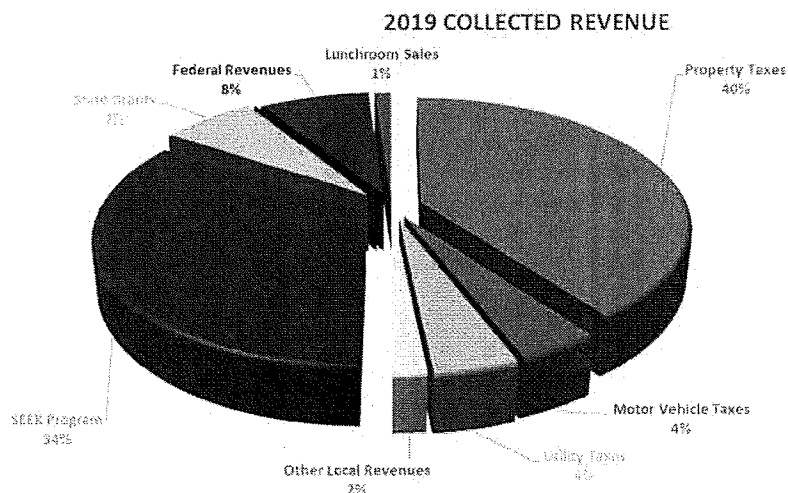
THE DISTRICT'S FUNDS

The District's governmental funds are accounted for using the modified accrual basis of accounting. Fund financial statements are included on pages 16 – 24. The District accounts include eight different funds with the General Fund reflecting the most activity. Total governmental fund revenues, including on-behalf payments, were \$161.8 million with expenditures of \$173.8 million. Table 3 reflects the 2019 and 2018 fund revenues by type. Chart 1 reflects the percentage for each collected revenue type.

Table 3
Kenton County School District
Revenues
June 30, 2019 and June 30, 2018

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Local Sources:						
Property Taxes	\$ 53,233,338	\$ 51,072,094			\$ 53,233,338	\$ 51,072,094
Motor Vehicle Taxes	5,539,244	5,366,858			5,539,244	5,366,858
Utility Taxes	5,731,737	5,601,821			5,731,737	5,601,821
Other Local Revenues	2,203,863	2,993,611	\$ 53,265	\$ 37,360	2,257,128	3,030,971
State Sources:						
SEEK Program	45,734,686	45,478,631			45,734,686	45,478,631
State Grants	8,889,241	8,043,126	56,509	59,063	8,945,750	8,102,189
Other State Revenues						
Federal Revenues	6,354,606	5,735,302	3,967,266	3,440,677	10,321,872	9,175,979
Lunchroom Sales			1,574,869	1,836,620	1,574,869	1,836,620
Other Revenues	1,281,618	718,447	390,160	361,773	1,671,778	1,080,220
Collected Revenue	128,968,333	125,009,890	6,042,069	5,735,493	135,010,402	130,745,383
State On-Behalf	32,846,750	32,712,032	420,564	423,381	33,267,314	33,135,413
Total Revenue	\$ 161,815,083	\$ 157,721,922	\$ 6,462,633	\$ 6,158,874	\$ 168,277,716	\$ 163,880,796

Chart 1
2019 Collected Fund Revenues



**Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)**

General Fund revenues increased to \$131.7 million from \$127.8 in 2018 due to a \$2.3 million increase in local property tax revenue. A local property tax rate increase in 2019 and higher motor vehicle tax collections added \$2.6 million revenue in 2019. The General Assembly raised the KY SEEK per pupil amount by \$19 beginning in 2019 and distributed additional transportation money to all KY school districts. These changes resulted in an additional \$1.1 million in SEEK revenue for the district. Other revenue items reflected in the General Fund include a \$1.0 million transfer from the Capital Outlay Fund and capital lease proceeds of \$1,736,350.

General Fund 2019 expenditures totaled \$131.7 million, an increase of \$3.8 million over 2018 with a \$1.1 million increase in Instructional expenditures including added staff for full day Kindergarten and student support programs. Facility repair projects totaled \$1.0 million as well. Lease and debt payments were higher in 2019 and will continue to rise with energy project bond obligations and new bus lease purchases. The 2019 salary schedules included a 1% increase for each position as well as the experience step increase of approximately 1.3%. Salary and benefits costs represent approximately 85% of the General Fund expenditures each year. The District is committed to hiring and retaining the most qualified personnel. The current compensation schedule is competitive with other Northern Kentucky districts as well as Ohio and Indiana. This has helped attract highly qualified applicants and retain staff who have been trained by the District.

Normal winter weather resulted in average snow removal and utility costs. The district participates in an energy conservation program that has earned national recognition for its success in lowering electricity usage in most school buildings. Fifteen new buses were purchased using the KISTA bus lease/purchase program and will be placed in service beginning the next school year. Replacement of the aging bus fleet have helped lower bus maintenance costs and provide reliable fleet vehicles.

The General Fund ended the year with a fund balance at June 30, 2019 of \$18.0 million. The General Fund receives approximately 95% of annual cash revenue from local taxes and state SEEK revenue which can vary with the local economic environment and state budget issues. The fund balance will be critical in maintaining instructional programs and facilities as state funding priorities could shift given the current state pension funding deficiencies.

The Construction Fund balance is \$836,000 reflecting the near completion of several current construction projects during the year. The state legislature issued school safety objectives in Senate Bill 1 during the 2018 general session but did not allocate funding for the specific requirements. Work began on assessment of all the district's schools in response to the requirements and will continue in 2020.

GENERAL FUND BUDGETING HIGHLIGHTS

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. In Kentucky the public school fiscal year is July 1 - June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the overall budget. A tentative budget is adopted by the Board by the end of May for the following year. A working budget is adopted by the end of September for each fiscal year utilizing new school year enrollment, tax assessments and rates and salaries for new employees/positions.

The most significant budgeted fund is the General Fund. By law the budget must have a minimum 2% contingency based budgets for all non-construction funds. The Board adopted a working budget for 2019 with \$11.4 million in contingency (11.5%). The beginning fund balance for the fiscal year was \$16.3 million. The 2019 General Fund budget is included in the Supplementary Information section of this report. It should be noted that state on-behalf revenues and expenditures of \$32.8 million are not budgeted but are included in the actual results column of the report.

For the General Fund, total budgeted revenues and other financing sources were \$97.2 million and actual revenues, excluding on-behalf payments were \$99.9 million. Local tax revenue collections, state SEEK and interest income revenues were all higher than budgeted amounts for the year.

General Fund budgeted expenditures, excluding contingency, were \$102 million while actual expenditures, excluding on-behalf totaled \$99.9 million. The favorable variances in actual revenue and expenditures resulted in a \$18.0 million fund balance at the end of the year versus a budgeted ending fund balance of \$11.4 million.

**Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)**

During the course of fiscal 2019, the Board amended its General Fund budget within expenditure types as needed. The Board uses a site-based budget. The budgeting systems are designed to control total site budgets, but provide flexibility for site management.

On-Behalf Payments

The District recorded on-behalf payments in the General Fund in 2019 totaling \$32.8 million as required by KDE. On-behalf payments represent amounts paid on behalf of the Kenton County School District by the Commonwealth of Kentucky for employee health insurance, Teachers' Retirement and Vocational Education. These revenues and expenditures are not budgeted but are required to be reflected in the annual financial fund reports as a revenue and expenditure. As a result, it should be noted that large variances between budgeted and actual amounts for the General Fund are the result of this inconsistency.

CURRENT ISSUES

Local taxes provide approximately 48% of annual fund revenue and are critical to the General Fund. Both property and motor vehicle assessed values experienced an increase for the 2019 tax year. The real estate market and business/industry activity in the County remain critical factors in sustaining local tax revenue. The district is relying more each year on local property tax revenue to fund improvements and new initiatives that are critical in the current educational environment.

The northern KY economic environment has grown with development in all three counties. Business and industry growth and development continues to be strong prompting a robust housing market and providing ample job opportunities for the population. While this growth has provided a steady property tax base it has also provided the district with challenges in filling vacant jobs since workers have many other employment options. The unemployment rate in the area is 3.5%, the lowest in decades. The District is reviewing various alternatives to address the labor shortage in several classified and professional positions as well as a professional development program for staff. The changes are designed to effectively compete in the local labor market, retain and develop current staff.

SEEK revenues account for another 34% of fund revenue and reflected a per pupil base revenue increase of \$19 in 2019 to the current \$4,000 per student. This is the first significant per pupil funding increase in 15 years. However, the General Assembly reduced direct financial support for preschool, teacher professional development and instructional resources in 2019 and future years. Rising property values will add to local revenue streams but continue to reduce the state SEEK contribution.

State operating grants provide funding for specialized instructional and safety programs. Funding for these programs is vulnerable as fluctuations in state revenue prompted state budget cuts and other important objectives for education in the state including school safety, charter schools, preschool and early intervention programs.

The financial position of the state's pension plans continues to affect the District's financial obligations in the near future. Both the Teachers' Retirement and County Employees Retirement Systems are underfunded at this time. The General Assembly passed pension legislation in the 2018 biennium but did not go into effect per a ruling by the KY Supreme Court. Future developments to address the underfunding may involve increased pension contribution rates for employees and/or employers as well as changes to state funding. The risk of losing experienced staff members due to retirement continues. The District has always paid its required contribution as determined by the plans. In accordance with the requirements of Governmental Accounting Standards Board Statements 68 and 75, the District has recorded its proportionate share of certain financial aspects of the pension plans in which its employees participate.

In February, 2019 the Board of Education approved a Memorandum of Agreement with the Boone County Board of Education for the collaborative development of the Ignite Institute. The program is a partnership designed to inspire STEAM learning and elevate educational opportunities for all students in the Northern Kentucky region. This new program will allow the district to merge the educational opportunities previously offered to high school students at the Kenton County Academies of Innovation and Technology (KCAIT) with Boone County and establish a full day program. The new program opened in August, 2019 in the facility formerly owned by Toyota "Roebbling Innovation

**Kenton County School District
Management Discussion and Analysis--Continued
Fiscal Year Ended June 30, 2019
Unaudited (Continued)**

Center" (and donated to Boone County Schools) which is located on the Kenton County and Boone County line. The new program includes Bio-Medical/Health Sciences, Engineering, Construction Technology, IT/Computer Science, Logistics, Design, and Education.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to Dr. Henry Webb, Superintendent, or Ms. Susan Bentle, Treasurer, at 859-344-8888, or by mail at 1055 Eaton Drive, Fort Wright, Kentucky 41017.

DISTRICT-WIDE FINANCIAL STATEMENTS

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-type Activities	TOTAL
Assets			
Cash and cash equivalents	\$ 16,463,705	\$ 1,671,468	\$ 18,135,173
Investments	3,000,000		3,000,000
Accounts receivable	3,740,671	86,101	3,826,772
Inventories	157,412	263,514	420,926
Land and other nondepreciable assets	46,399,290		46,399,290
Capital assets, net of accumulated depreciation	192,887,881	681,665	193,569,546
Total Assets	262,648,959	2,702,748	265,351,707
Deferred Outflows of Resources			
Deferred savings from refunding bonds	5,341,880		5,341,880
Deferred outflows from pension liability	10,782,166	1,239,426	12,021,592
Deferred outflows from OPEB liabilities	5,832,052	400,554	6,232,606
Total Deferred Outflows	21,956,098	1,639,980	23,596,078
Liabilities			
Accounts payable	3,067,043	70,945	3,137,988
Accrued interest payable	1,247,919		1,247,919
Unearned revenue	904,201	89,196	993,397
Net pension liability	40,836,696	4,694,240	45,530,936
Net OPEB liability	46,533,199	1,437,847	47,971,046
Current maturities of			
school building revenue bonds	14,085,000		14,085,000
capital lease obligations	1,020,256		1,020,256
Long-term maturities of			
school building revenue bonds	158,803,202		158,803,202
capital lease obligations	5,814,642		5,814,642
compensated absences	1,476,584	61,751	1,538,335
Total Liabilities	273,788,742	6,353,979	280,142,721
Deferred Inflows of Resources			
Deferred inflows from pension liability	2,986,355	343,286	3,329,641
Deferred inflows from OPEB liabilities	4,936,239	265,109	5,201,348
Total Deferred Inflows	7,922,594	608,395	8,530,989
Net Position			
Net investment in capital assets	59,564,071	681,665	60,245,736
Nonspendable fund balance - inventories	157,412		157,412
Restricted for			
Capital projects and construction	838,150		838,150
Grants and awards	21,909		21,909
District activities	479,315		479,315
Food service (deficit)		(3,301,311)	(3,301,311)
Unrestricted (deficit)	(58,167,136)		(58,167,136)
Total Net Position	\$ 2,893,721	\$ (2,619,646)	\$ 274,075

See Accompanying Notes to Financial Statements

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs	Total District-wide 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	\$ 88,031,978	\$ 151,733	\$ 6,002,728		\$ (81,877,517)		\$ (81,877,517)
Support services:							
Student	9,503,918				(9,503,918)		(9,503,918)
Instructional staff	4,987,902				(4,987,902)		(4,987,902)
District administrative	2,172,533				(2,172,533)		(2,172,533)
School administrative	9,973,669				(9,973,669)		(9,973,669)
Business support services	2,854,804				(2,854,804)		(2,854,804)
Plant operation and maintenance	19,992,786	69,145			(19,923,641)		(19,923,641)
Transportation	12,869,360	871,829			(11,997,531)		(11,997,531)
Community services	1,062,090		80,421		(981,669)		(981,669)
Other instructional	15,988				(15,988)		(15,988)
Facilities acquisition & construction				\$ 5,932,876	5,932,876		5,932,876
Interest	6,162,081				(6,162,081)		(6,162,081)
Total governmental activities	157,627,109	1,092,707	6,083,149	5,932,876	(144,518,377)		(144,518,377)
Business-type activities							
School food services	6,868,359	1,624,950	4,018,001	361,773		\$ (863,635)	(863,635)
Total business-type activities	6,868,359	1,624,950	4,018,001	361,773		(863,635)	(863,635)
Total activities	\$ 164,495,468	\$ 2,717,657	\$ 10,101,150	\$ 6,294,649	\$ (144,518,377)	\$ (863,635)	\$ (145,382,012)
General revenues:							
Taxes							
Property taxes							
					\$ 58,772,582		\$ 58,772,582
Utility taxes							
					5,731,737		5,731,737
State sources							
SEEK program revenues							
					44,442,124		44,442,124
On behalf revenues							
					32,846,750	\$ 420,564	33,267,314
Other state revenues and grants							
					4,435,898		4,435,898
Interest and investment earnings							
					898,137	34,160	932,297
Gain/(Loss) on disposition of capital asset:							
					39,217	3,184	42,401
Miscellaneous							
					1,726,877		1,726,877
Total general revenues					148,893,322	457,908	149,351,230
Change in net position					4,374,945	(405,727)	3,969,218
Net position, beginning of year					(1,481,224)	(2,213,919)	(3,695,143)
Net position, end of year					\$ 2,893,721	\$ (2,619,646)	\$ 274,075

See Accompanying Notes to Financial Statements

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

KENTON COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Capital Outlay Fund (Nonmajor)	Building Fund (Nonmajor)	District Activity Fund (Nonmajor)	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 14,104,383	\$ 77,785	\$ 1,792,972		\$ 2,048		\$ 486,517	\$ 16,463,705
Investments	3,000,000							3,000,000
Inventory	157,412							157,412
Accounts and grants receivable	2,694,536	1,032,554					13,581	3,740,671
Total Assets	<u>\$ 19,956,331</u>	<u>\$ 1,110,339</u>	<u>\$ 1,792,972</u>	<u>\$</u>	<u>\$ 2,048</u>	<u>\$</u>	<u>\$ 500,098</u>	<u>\$ 23,361,788</u>
Liabilities								
Accounts payable	\$ 1,866,752	\$ 222,638	\$ 956,870				\$ 20,783	\$ 3,067,043
Unearned revenue	16,500	887,701						904,201
Total Liabilities	<u>1,883,252</u>	<u>1,110,339</u>	<u>956,870</u>				<u>20,783</u>	<u>3,971,244</u>
Fund Balances								
Nonspendable	157,412							157,412
Restricted	21,909		836,102		\$ 2,048		479,315	1,339,374
Committed	1,215,040							1,215,040
Assigned	2,564,820							2,564,820
Unassigned	14,113,898							14,113,898
Total Fund Balances	<u>18,073,079</u>		<u>836,102</u>		<u>2,048</u>		<u>479,315</u>	<u>19,390,544</u>
Total Liabilities and Fund Balances	<u>\$ 19,956,331</u>	<u>\$ 1,110,339</u>	<u>\$ 1,792,972</u>	<u>\$</u>	<u>\$ 2,048</u>	<u>\$</u>	<u>\$ 500,098</u>	<u>\$ 23,361,788</u>

See Accompanying Notes to Financial Statements

KENTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

Total Governmental Fund Balances	\$ 19,390,544
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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 as assets in the governmental fund balance sheet.	239,287,171
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Deferred savings from refunding bonds are not financial resources and therefore are not reported as assets in the governmental funds balance sheet.	5,341,880
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Deferred outflows and inflows from pension are not financial resources and therefore are not reported as assets in the governmental funds balance sheet.	7,795,811
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Deferred outflows and inflows from OPEB are not financial resources and therefore are not reported as assets in the governmental funds balance sheet.	895,813
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Long-term liabilities, including bonds payable, are not due and payable in the governmental funds balance sheet. Long-term liabilities at year-end consist of:

Bonds & leases payable	(179,723,100)
Accrued interest - bonds payable	(1,247,919)
Compensated absences	(1,476,584)
Net pension liability	(40,836,696)
Net OPEB liability	(46,533,199)
	<u>(269,817,498)</u>

Net Position of Governmental Activities	\$ 2,893,721
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See Accompanying Notes to Financial Statements

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Capital Outlay Fund (Nonmajor)	Building Fund (Nonmajor)	District Activity Fund (Nonmajor)	Total Governmental Funds
Revenues								
Local sources								
Property taxes	\$ 39,699,126					\$ 13,534,212		\$ 53,233,338
Motor Vehicle taxes	5,539,244							5,539,244
Utilities taxes	5,731,737							5,731,737
Tuition and fees	151,733							151,733
Transportation Revenue	871,829							871,829
Other local revenues	411,938						\$ 687,942	1,099,880
Grants from local agencies and donors		\$ 80,421						80,421
State sources								
SEEK program	44,442,124				\$ 1,292,562			45,734,686
FSPK program						1,757,160		1,757,160
KSFCC allocation				\$ 2,883,154				2,883,154
Other state revenues	33,355,486	3,927,162						37,282,648
Federal sources - indirect	351,878	6,002,728						6,354,606
Interest Income on Investments	770,762		\$ 127,375					898,137
Other sources	383,481							383,481
Total Revenues	131,709,338	10,010,311	127,375	2,883,154	1,292,562	15,291,372	687,942	162,002,054
Expenditures								
Instruction	78,371,458	7,698,224					615,008	86,684,690
Student support services	9,181,662	183,365					7,505	9,372,532
Instructional staff support services	3,969,502	1,095,014					33,973	5,098,489
District administrative support services	2,156,199							2,156,199
School administrative support services	9,767,912	50,927						9,818,839
Business support services	2,656,719							2,656,719
Plant operations and maintenance	13,718,069	20,618					203,539	13,942,226
Transportation	10,945,862	42,930					5,882	10,994,674
Community services	50	1,108,288						1,108,338
Educational Specific		18,908						18,908
Building renovations			11,799,031					11,799,031

Continued

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Capital Outlay Fund (Nonmajor)	Building Fund (Nonmajor)	District Activity Fund (Nonmajor)	Total Governmental Funds
Expenditures (Continued)								
Debt Service								
Principal	834,345			13,855,000				14,689,345
Interest	144,071			5,339,636				5,483,707
Total Expenditures	<u>131,745,849</u>	<u>10,218,274</u>	<u>11,799,031</u>	<u>19,194,636</u>			<u>865,907</u>	<u>173,823,697</u>
Excess (deficit) of revenues over expenditures	(36,511)	(207,963)	(11,671,656)	(16,311,482)	1,292,562	15,291,372	(177,965)	(11,821,643)
Other financing sources (uses)								
Proceeds from capital lease	1,736,350							1,736,350
Transfers in	1,114,830	271,437		16,311,482				17,697,749
Transfers out	<u>(1,050,341)</u>	<u>(63,474)</u>			<u>(1,292,562)</u>	<u>(15,291,372)</u>		<u>(17,697,749)</u>
Total other financing sources (uses)	<u>1,800,839</u>	<u>207,963</u>		<u>16,311,482</u>	<u>(1,292,562)</u>	<u>(15,291,372)</u>		<u>1,736,350</u>
Net change in fund balances	1,764,328		(11,671,656)				(177,965)	(10,085,293)
Fund balances, beginning of year	<u>16,308,751</u>		<u>12,507,758</u>		<u>2,048</u>		<u>657,280</u>	<u>29,475,837</u>
Fund balances, end of year	<u>\$ 18,073,079</u>	<u>\$</u>	<u>\$ 836,102</u>	<u>\$</u>	<u>\$ 2,048</u>	<u>\$</u>	<u>\$ 479,315</u>	<u>\$ 19,390,544</u>

See Accompanying Notes to Financial Statements

KENTON COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Total Governmental Funds	\$	(10,085,293)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in this fund financial statements because they use current financial resources, but they are presented as assets in the statement of net position and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year as well as differences in gains and losses on capital asset sales		6,064,068
Capital lease proceeds are recorded as other financing sources in the fund financial statements but are additions to liabilities in the statement of net position.		(1,736,350)
Capital lease payments and bond payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.		14,689,345
Accrued bond interest payable is not reported as a liability in the fund financial statements but is recorded in the statement of net position		61,087
Bond premiums are not reported as a part of long-term debt in the fund financial statements but are recorded in the statement of net position		253,985
Capitalized savings from bond refundings are not reported in the fund financial statements but must be amortized over the remaining life of the bonds in the statement of activities.		(992,082)
Net Pension Liability is not reported as a liability in the fund financial statements but is recorded in the statement of net position		(4,028,255)
Net Pension Liability is not reported as a liability in the fund financial statements but is recorded in the statement of net position		(298,027)
Capital Lease Liability is not reported as a liability in the fund financial statements but is recorded in the statement of net position.		(65,540)
Noncurrent accrued sick leave is not reported as a liability in the fund financial statements but is recorded in the statement of net position		403,161
Multi-employer insurance trust liability is not reported as a liability in the fund financial statements but is recorded in the statement of net position		108,846

Change in Net Position of Governmental Activities	\$	<u>4,374,945</u>
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See Accompanying Notes to Financial Statements

PROPRIETARY FUND FINANCIAL STATEMENTS

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2019

	<u>Food Service</u>
Assets	
Cash and cash equivalents	\$ 1,671,468
Accounts receivable	86,101
Inventories	<u>263,514</u>
Total Current Assets	2,021,083
Noncurrent Assets	
Capital assets	3,038,435
Less: accumulated depreciation	<u>(2,356,770)</u>
Total Noncurrent Assets	681,665
Deferred Outflows of Resources	
Deferred outflows from pension	1,239,426
Deferred outflows from OPEB	<u>400,554</u>
Total Deferred Outflows	<u>1,639,980</u>
Total Assets	<u><u>\$ 4,342,728</u></u>
Liabilities	
Accounts payable	\$ 70,945
Unearned revenue	89,196
Long-term maturities of compensated absences	61,751
Net pension liability	4,694,240
Net OPEB liability	<u>1,437,847</u>
Total Liabilities	6,353,979
Deferred Inflows of Resources	
Deferred inflows from pension	343,286
Deferred inflows from OPEB	<u>265,109</u>
Total Deferred Inflows	608,395
Net Position	
Net investment in capital assets	681,665
Restricted (deficit)	<u>(3,301,311)</u>
Total Net Position (deficit)	<u>(2,619,646)</u>
Total Liabilities & Net Position	<u><u>\$ 4,342,728</u></u>

See Accompanying Notes to Financial Statements

KENTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2019

	Food Service
Operating revenues	
Lunchroom sales	\$ 1,574,869
Other operating revenues	50,081
Total operating revenues	1,624,950
Operating expenses	
Salaries and wages	3,660,357
Contract services	261,363
Materials and supplies	2,622,172
Depreciation	109,681
Other expenses	214,787
Total operating expenses	6,868,360
Operating loss	(5,243,410)
Non-operating revenues (expenses)	
Federal grants	3,967,266
Donated commodities	356,000
On-behalf revenues	420,564
State grants	56,509
Investment income	34,160
Gain on disposal of capital assets	3,184
Total non-operating revenues	4,837,683
Change in Net Position	(405,727)
Net Position, beginning of year	(2,213,919)
Net Position, end of year	\$ (2,619,646)

See Accompanying Notes to Financial Statements

KENTON COUNTY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

Cash Flows from Operating Activities

Cash received from:	
Lunchroom sales	\$ 1,575,417
Other activities	50,081
Cash paid to/for:	
Employees	(2,740,878)
Supplies	(2,688,423)
	<hr/>
Net cash used by operating activities	(3,803,803)

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets	(72,567)
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Cash Flows from Investing Activities

Investment income	34,160
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Cash Flows from Noncapital Financing Activities

Cash received from non-operating revenues	<hr/> 4,023,775
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Net increase in Cash and Cash Equivalents	181,565
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Balances - beginning of year	<hr/> 1,489,903
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Balances - end of year	<hr/> <hr/> \$ 1,671,468
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**Reconciliation of Operating Loss to Net Cash Used
by Operating Activities**

Operating Loss	\$ (5,243,410)
Adjustments to Reconcile Operating Loss to Net Cash	
Used by operating activities:	
Commodities used	356,000
On-behalf payments	420,564
Depreciation	109,681
Change in Assets and Liabilities	
Accounts receivable	(7,034)
Inventory	31,577
Accounts payable	22,322
Deferred revenue	7,582
Accrued sick leave	3,267
Pension deferrals and net liability	452,232
OPEB deferrals and net liability	43,416

Net Cash Used by Operating Activities	<hr/> <hr/> \$ (3,803,803)
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SCHEDULE OF NON-CASH TRANSACTIONS

Donated commodities received from federal government	\$ 356,000
On-behalf payments	\$ 420,564

See Accompanying Notes to Financial Statements

FIDUCIARY FUNDS FINANCIAL STATEMENT

Kenton County School District
Statement of Fiduciary Net Position
June 30, 2019

	<u>Agency Fund</u>
Assets	
Cash and Cash Equivalents	\$ 1,073,575
Accounts Receivable	<u>132</u>
Total Assets	<u><u>\$ 1,073,707</u></u>
Liabilities	
Accounts Payable	\$ 30,044
Due To Student Groups	<u>1,043,663</u>
Total Liabilities	<u><u>\$ 1,073,707</u></u>

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note A--Nature of Organization and Operations

The Kenton County Board of Education (the "Board"), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Kenton County School District (the "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 as a component unit in any other governmental "reporting entity". 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 Kenton County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Kenton County School District Finance Corporation--The Board authorized the establishment of the Kenton County School District Finance Corporation (the "Corporation") (a non-profit, non-stock, public corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Kenton County Board of Education also comprise the Corporation's Board of Directors.

Note B--Summary of Significant Accounting Policies

Basis of Presentation

District-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 District's financial activities, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

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

Continued

Note B--Summary of Significant Accounting Policies--Continued

Basis of Presentation--Continued

The District-Wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient for 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--The financial transactions of the District are reported in individual funds in the fund financial statements. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. The financial statements for governmental funds are a Balance Sheet, which generally includes only current assets and current liabilities, and a Statement of Revenues, Expenditures and Changes in Fund Balances, which reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources.

Proprietary funds are reported using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in 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 of the proprietary activities.

Fiduciary Funds are reported using the current financial resources measurement focus. Agency funds are not involved in the measurement of results of operations; therefore measurement focus is not applicable to them.

In the fund financial statements, governmental funds and agency funds are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when paid.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset is used.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Basis of Presentation--Continued

The District has the following funds:

I. Governmental Fund Types

Major Funds

- A. The General Fund is the primary operating fund of the District. It accounts for all activities except those legally or administratively required to be accounted for in other funds. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- B. 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 period as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. This is a major fund of the District.
- C. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- D. Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

Nonmajor Funds

- A. The Support Education Excellence in Kentucky ("SEEK") Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
- B. The Facility Support Program of Kentucky Fund ("FSPK") accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
- C. District Activity Funds are used to account for revenue and expenditures related to co-curricular and extra-curricular student activities. The funds have been restricted by the Board for specific purposes.

II. Proprietary Funds Types (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture ("USDA"). The Food Service fund is a major fund of the District.

III. Fiduciary Fund Type (Agency Funds)

The Agency Funds account for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education Publication, *Uniform Program of Accounting for School Activity Funds*.

Continued

Note B--Summary of Significant Accounting Policies--Continued

Basis of Presentation--Continued

Basis of Accounting and Financial Statement Presentation--The financial statements of the District have been prepared in accordance with generally accepted accounting principles ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for government accounting and financial reporting.

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

Accounts Receivable--Receivables consist of all revenues earned at year-end and likely received within 90 days from end of the fiscal period. Major receivable amounts consist of tax revenue earned through June 30, 2019 as well as federal and state grant reimbursement revenue.

Investments--In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value.

Inventories--Government Fund inventory consists of expendable transportation supplies and materials held for consumption and are stated at the lower of cost or market. Inventory accounted for in the Proprietary Fund consists of donated and purchased foods held for resale. Purchased food is valued at cost and U.S. Government donated commodities value is determined by the U.S. Department of Agriculture. All other supplies and materials are charged to expenses/expenditures when purchased. The Proprietary Fund inventories use the specific identification method and the Government Fund inventories use the first-in, first-out method.

Bond Issue Costs--Costs associated with the issuance of bond obligations are expensed as incurred.

Capital Assets--Governmental fund capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported as expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net position but are not reported in the governmental funds balance sheet. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net position and in the proprietary fund statement of net position.

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

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note B--Summary of Significant Accounting Policies--Continued

Basis of Accounting and Financial Statement Presentation--Continued

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

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

Deferred Savings on Bond Refundings--Deferred savings on bond refunding represents losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

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

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

Accrued Liabilities and Long-Term Obligations--All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables and accrued liabilities from proprietary funds are reported on the proprietary fund financial statements.

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

Continued

Note B--Summary of Significant Accounting Policies--Continued

Basis of Accounting and Financial Statement Presentation--Continued

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 experience of making termination payments. The entire compensated absence liability is reported on the district-wide financial statements.

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

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

Equity Classifications--In the district-wide financial statements, equity is classified as net position and displayed in the following three components:

- Net Investment in Capital Assets – Capital Assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of the capital assets.
- Restricted Net Position – Net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, or laws or regulations or 2) law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – All other net assets that do not meet the definition of "restricted" or "net investment in capital assets".

Continued

Note B--Summary of Significant Accounting Policies--Continued

Basis of Accounting and Financial Statement Presentation--Continued

Government Fund Balance Reserves--The District follows GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which defines fund balance categories to make the nature and extent of the constraints placed on the District's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance--Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance--Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance--Amounts constrained to specific purposes by the Board, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes the action to remove or change the constraint.

Assigned Fund Balance--Amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned Fund Balance--Amounts that are available for purpose; positive amounts are reported only in the General Fund.

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

Encumbrances--Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

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

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

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note B--Summary of Significant Accounting Policies--Continued

Basis of Accounting and Financial Statement Presentation--Continued

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

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.

Expenses/Expenditures--On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

Donated Commodities--The fair value of donated commodities received during the year is reported in the Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position as an expense and as donated commodities revenue (nonoperating revenue).

Taxes--Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the County. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The property tax rates assessed for the year ended June 30, 2019 were \$0.659 per \$100 valuation for real property and \$0.659 per \$100 valuation for tangible personal property. Motor vehicle tax was \$0.635 for \$100 valuation of motor vehicles.

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

Budgetary Process--The District's budgetary process accounts for certain transactions on a basis other than GAAP of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

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

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

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

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note B--Summary of Significant Accounting Policies--Continued

Basis of Accounting and Financial Statement Presentation--Continued

Recently Issued Accounting Standards--In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This standard has been adopted in the current period and did not have a significant impact on the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This standard has been adopted in the current period and did not have a significant impact on the financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This standard has been adopted in the current period and did not have a significant impact on the financial statements.

Note C--Cash, Cash Equivalents and Investments

District funds are required to be deposited and invested under the terms of a depository contract pursuant to Kentucky Revised Statutes ("KRS") 160.570 and 702 Kentucky Administrative Regulations ("KAR") 3:090. The depository bank holds for safekeeping with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may be lost. The District's cash deposits are covered by Federal Depository Insurance up to \$250,000 per financial institution, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

Cash equivalents are funds temporarily invested in securities with an original maturity of 90 days or less.

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

	Bank Balance	Book Balance
First Financial Bank	<u>\$22,094,851</u>	<u>\$19,208,748</u>
<u>Amounts per financial statements:</u>		
Governmental funds		\$16,463,705
Proprietary funds		1,671,468
Fiduciary funds		1,073,575
Total		<u>\$19,208,748</u>

Continued

**Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019**

Note C--Cash, Cash Equivalents and Investments--Continued

During the year, the District invested excess cash into short-term repurchase agreements, collateralized by U.S. Government securities and highly rated commercial paper instruments. These investments are either insured or securities are held by the pledging financial institution's trust department in the District's name. District policy limits investment in non U.S. government backed securities to no more than twenty percent of the total amount invested at any one time. Fiduciary funds utilize certificate of deposit instruments in Kenton County financial institutions at various interest rates and maturity dates. These amounts are included in the Cash and Cash Equivalents amounts on the fiduciary financial statements.

Kentucky statutes authorize the District to invest in the following:

1. Obligations of the United States Government and of its agencies and instrumentalities, repurchase agreements and specially approved AAA rated corporate bonds;
2. Bonds or certificates of indebtedness of the Commonwealth of Kentucky and of its agencies and municipalities;
3. Any savings and loan associations insured by an agency of the United States Government up to the amount insured;
4. Interest bearing deposits in national and state banks chartered in Kentucky and insured by an agency of the United States Government up to the amount so insured, and in larger amounts providing such bank shall pledge securities having a current quoted market value at least equal to any uninsured deposits.

As of June 30, 2019, the District had the following investments:

<u>Fund Type</u>	<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Moody's Rating</u>	<u>Maturity Date</u>	<u>Yield</u>
Government	U.S. Agency Note	\$2,000,000	\$2,000,000	AA+	23-Nov-21	1.500%
Government	U.S. Agency Note	\$1,000,000	\$1,000,000	AA+	13-Jul-20	1.240%

Fair Value Measurement - The District's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 — Investments reflected prices quoted in active markets.

Level 2 — Investments reflected priced that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 — Investments reflect prices based upon unobservable sources.

Investments by Fair Value Level:

	<u>Fair Value 6/30/2019</u>	<u>Quoted Prices in Active Markets for Identical Assets - Level 1</u>
Government		
U.S. Agency Notes	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note D--Capital Assets

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

	Balance June 30, 2018	Additions	Dispositions	Balance June 30, 2019
<u>Governmental activities</u>				
Cost				
Land	\$ 6,337,338			\$ 6,337,338
Construction in progress	28,116,285	\$ 11,967,514	\$ 21,847	40,061,952
Land improvements	4,842,734	662,327		5,505,061
Buildings & building improvements	283,701,946	1,083,159	612,868	284,172,237
Technology equipment	11,240,071	972,321	1,359,056	10,853,336
Vehicles	15,366,122	1,779,405	1,540,899	15,604,628
General equipment	3,564,910	23,077	74,155	3,513,832
Total assets at historical cost	\$ 353,169,406	\$ 16,487,803	\$ 3,608,825	\$ 366,048,384
	Balance June 30, 2018	Depreciation	Dispositions	Balance June 30, 2019
Accumulated depreciation				
Land improvements	\$ 2,786,475	\$ 163,097		\$ 2,949,572
Buildings & building improvements	99,887,479	7,327,124	\$ 129,010	107,085,593
Technology equipment	6,790,022	1,076,822	1,313,169	6,553,675
Vehicles	8,632,274	1,101,834	1,540,899	8,193,209
General equipment	1,850,053	196,973	67,862	1,979,164
Total Accumulated depreciation	\$ 119,946,303	\$ 9,865,850	\$ 3,050,940	\$ 126,761,213
Governmental Activities				
Depreciable capital assets	\$ 198,769,480			\$ 192,887,881
Non-depreciable capital assets	34,453,623			46,399,290
Capital Assets, net of accumulated depreciation	\$ 233,223,103			\$ 239,287,171
	Balance June 30, 2018	Additions	Dispositions	Balance June 30, 2019
<u>Business-Type activities</u>				
Cost				
Food service equipment	\$ 3,008,136	\$ 72,567	\$ 145,852	\$ 2,934,851
Vehicles	74,488	32,039	20,770	85,757
Technology equipment	21,756		3,929	17,827
Total assets at historical cost	\$ 3,104,380	\$ 104,606	\$ 170,551	\$ 3,038,435
	Balance June 30, 2018	Depreciation	Dispositions	Balance June 30, 2019
Accumulated depreciation				
Food service equipment	\$ 2,332,946	\$ 102,505	\$ 149,036	\$ 2,286,415
Vehicles	74,488	534	20,770	54,252
Technology equipment	13,390	6,642	3,929	16,103
Total accumulated depreciation	\$ 2,420,824	\$ 109,681	\$ 173,735	\$ 2,356,770
Business-Type activities				
Capital Assets, net of accumulated depreciation	\$ 683,556			\$ 681,665

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note D--Capital Assets--Continued

Depreciation expense for the year ended June 30, 2019 for governmental activities by function is summarized below:

Instruction	\$ 3,268,778
Student Support Services	355
Instructional staff support services	6,396
District administration support services	39,431
School Admin Support	16,261
Business support services	18,117
Plant operation and maintenance	5,459,436
Transportation	1,056,108
Community services	968
Total Depreciation Expense	<u>\$ 9,865,850</u>

Note E--Bonded Debt

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

Issue	Purpose of Issue	Original Issue	Interest Rate	Final Maturity	Amount Outstanding
2009B Revenue Bonds	Refinance 1999 bond obligations	\$ 3,635,000	2.0-3.5%	12/1/2019	\$ 295,000
2009C Revenue Bonds	Refinance 2000 bond obligations	6,355,000	1.2-3.6%	8/1/2020	1,550,000
2010 Refinancing Bonds	Improvements at Scott High School and Refinance 2002 bond obligations	19,855,000	0.5-2.5%	4/1/2022	6,090,000
2011 Revenue Bonds	Improvements at Scott High School	9,105,000	2.5-4.5%	5/1/2031	7,470,000
2012R Revenue Bonds	Refinance 2004 bond obligations	43,530,000	2.5%-6.5%	6/1/2024	21,560,000
2013R Revenue Bonds	Refinance 2005 bond obligations	30,545,000	2.0-3.0%	2/1/2025	22,880,000
2013 Revenue Bonds	Scott High School Renovations	12,005,000	2.0-3.125%	5/1/2033	9,865,000
2014 Conservation Bonds	Energy Conservation Improvements	4,170,000	1.0-4.0%	2/1/2034	3,310,000
2015A Refinancing Bonds	Refinance 2009D bond obligations	8,895,000	2.0-3.0%	9/1/2029	7,530,000
2015B Refinancing Bonds	Refinance 2006A, 2006B & 2006C bond obligations	14,445,000	2.0-3.0%	10/1/2026	12,335,000
2015C Revenue Bonds	Scott High School Renovations	17,320,000	3.0-3.625%	5/1/2035	14,810,000
2016R Refinancing Bonds	Refinance 2009 bond obligations	25,190,000	2.0-4.0%	2/1/2029	24,665,000
2016 Revenue Bonds	Ft. Wright School Renovations	19,400,000	2.0-3.25%	4/1/2036	17,675,000
2017 Conservation Bonds	Energy Conservation Improvements	5,125,000	2.0-3.55%	5/1/2037	4,740,000
2017R Refinancing Bonds	Refinance 2008 Conservation bonds	2,280,000	3.00%	4/1/2028	2,075,000
2018 Revenue Bonds	Scott High School Renovations, Transportation Bus Garage & School Entry Renovations	13,945,000	2.0-4.0%	4/1/2038	13,920,000
Total					170,770,000
Unamortized Bond Premium					2,118,202
Bonds Payable, Net					<u>\$ 172,888,202</u>

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note E--Bonded Debt--Continued

Bonds payable activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>30-Jun-18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>30-Jun-19</u>	<u>Amounts Due in</u> <u>One Year</u>
2009 Revenue Bonds	\$ 705,000		\$ (705,000)		
2009B Revenue Bonds	695,000		(400,000)	\$ 295,000	\$ 295,000
2009C Revenue Bonds	2,290,000		(740,000)	1,550,000	760,000
2010R Revenue Bonds	8,040,000		(1,950,000)	6,090,000	1,985,000
2011 Revenue Bonds	7,690,000		(220,000)	7,470,000	230,000
2012R Revenue Bonds	25,655,000		(4,095,000)	21,560,000	4,185,000
2013R Revenue Bonds	25,225,000		(2,345,000)	22,880,000	2,400,000
2013 Revenue Bonds	10,225,000		(360,000)	9,865,000	390,000
2014 Energy Bonds	3,485,000		(175,000)	3,310,000	180,000
2015A Refinancing Bonds	7,870,000		(340,000)	7,530,000	345,000
2015B Refinancing Bonds	13,145,000		(810,000)	12,335,000	825,000
2015C Revenue Bonds	15,465,000		(655,000)	14,810,000	675,000
2016R Refinancing Bonds	24,815,000		(150,000)	24,665,000	885,000
2016 Revenue Bonds	18,255,000		(580,000)	17,675,000	590,000
2017 Energy Bonds	4,845,000		(105,000)	4,740,000	110,000
2017R Refinancing Bonds	2,275,000		(200,000)	2,075,000	205,000
2018 Revenue Bonds	13,945,000		(25,000)	13,920,000	25,000
	<u>\$ 184,625,000</u>	<u>\$</u>	<u>\$ (13,855,000)</u>	<u>\$ 170,770,000</u>	<u>\$ 14,085,000</u>

The District, through the General Fund (including utility taxes) and the SEEK Capital Outlay Fund is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court and the Kenton County School District Finance Corporation to construct school facilities.

Bondholders are protected against default by a mechanism whereby the Commonwealth of Kentucky would withhold state SEEK payments and remit required debt service payments directly to the debt service paying agent.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission ("KSFCC"). The KSFCC was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the KSFCC for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal has been recorded in the financial statements.

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note E--Bonded Debt--Continued

The bonds may be called prior to maturity and redemption premiums are specified in each issue. As of June 30, 2019 the total bond principal and interest due was \$170,770,000 and \$38,486,737, respectively. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the KSFCC, at June 30, 2019 for debt service (principal and interest) are as follows:

	Kenton County Board of Education		Kentucky School Facility Construction Commission		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 11,977,559	\$ 4,359,801	\$ 2,107,441	\$ 656,367	\$ 14,085,000	\$ 5,016,168
2021	12,264,990	4,067,681	1,850,010	611,229	14,115,000	4,678,910
2022	12,568,808	3,777,147	1,871,192	569,268	14,440,000	4,346,415
2023	12,890,677	3,454,497	1,919,323	519,031	14,810,000	3,973,528
2024	13,238,826	3,127,641	1,971,174	467,180	15,210,000	3,594,821
2025-2029	54,587,948	10,062,247	6,097,052	1,701,048	60,685,000	11,763,295
2030-2034	21,677,685	3,510,381	5,472,315	834,919	27,150,000	4,345,300
2035-2038	8,251,696	662,311	2,023,304	105,989	10,275,000	768,300
	<u>\$147,458,189</u>	<u>\$33,021,706</u>	<u>\$23,311,811</u>	<u>\$5,465,031</u>	<u>170,770,000</u>	<u>\$38,486,737</u>
Plus Unamortized Bond Premiums					2,118,202	
Total School Revenue Bonds					<u>\$172,888,202</u>	

Note F--Capital Lease Obligations

The District leases several buses and office copiers under long-term capital leases. Future minimum lease payments are as follows:

Years Ending June 30	Amount
2020	\$ 1,203,549
2021	1,057,483
2022	1,029,239
2023	1,005,769
2024	979,258
2025-2028	2,386,013
Total	<u>7,661,311</u>
Less amounts representing interest	<u>826,413</u>
Present Value of Minimum Lease Payments	6,834,898
Capital lease obligations, due within one year	<u>(1,020,256)</u>
Capital lease obligations, due after one year	<u>\$ 5,814,642</u>
Leased property under capital leases at June 30, 2019 consists of:	
Equipment	\$ 9,694,349
Less accumulated depreciation	<u>2,959,534</u>
Net property under capital lease	<u>\$ 6,734,815</u>

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note G--Commitments Under Operating Leases

The district entered into a five-year operating lease for office and parking space on June 1, 2016. Annual lease payments for 2019 were \$108,144 and will continue at that rate through May, 2021. A second five-year operating lease was entered into for other office space on July 1, 2017. Annual lease payments under this lease during 2019 were \$148,368. In accordance with the terms of the lease, annual payments under the second lease increase three percent (3%) each year through June 30, 2022. Both leases contain an open-ended option to renew.

Minimum future lease payments as of June 30, 2019, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 260,952
2021	265,536
2022	<u>162,114</u>
Total	<u>\$ 688,602</u>

Note H--On-Behalf Payments

For the year ended June 30, 2019, total payments of \$35,729,905 were made for life insurance, health insurance, Teacher's Retirement System matching, administrative and technology fees by the Commonwealth of Kentucky (the "Commonwealth") on behalf of the District. This amount also includes \$2,883,154 related to the KSFCC debt service payments contributed by the Commonwealth. These payments were recognized as on-behalf payments and are recorded in the appropriate revenue and expense accounts on the District-wide statement of activities and in the governmental funds statement of revenues, expenditures and changes in fund balances. In addition, for the year ended June 30, 2019, total payments of \$420,564 for the items noted above were made by the Commonwealth on behalf of the District for the proprietary fund.

Note I--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 Non-Hazardous ("CERS") covers employees whose position does not require a college degree or teaching certification. The Teachers' Retirement System ("TRS") covers positions requiring teaching certification or otherwise requiring a college degree.

General information about the County Employees Retirement System Non-Hazardous

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. 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>.

Continued

**Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019**

Note I--Retirement Plans--Continued

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 of 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.

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

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

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.

Continued

**Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019**

Note I--Retirement Plans--Continued

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. Employees hired on or after July 1, 2008, will receive monthly benefits equal to the average of their top three salary years multiplied by a sliding scale rate from 1.7% up to 2.5% based on years of service up to 30 years. Beyond 30 years of service, the rate increases to 3.0%.

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

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

Contributions--Contribution rates are established by Kentucky Revised Statutes ("KRS"). Non-university employees are required to contribute 12.855% of their salaries to the System.

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

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 TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the CERS net pension liability	\$ 45,530,936
Commonwealth's proportionate share of the TRS net pension liability associated with the District	<u>254,678,297</u>
	<u>\$ 300,209,233</u>

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note I--Retirement Plans--Continued

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.

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 0.747597% percent.

For the year ended June 30, 2019, the District recognized pension expense of \$7,594,066 related to CERS and \$22,384,165 related to TRS. The District also recognized revenue of \$20,006,373 for TRS support provided by the Commonwealth.

At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,485,092	\$ 666,477
Changes of assumptions	4,449,697	
Net difference between projected and actual earnings on pension plan investments	2,117,222	2,663,164
Changes in proportion and differences between District contributions and proportionate share of contributions	856,001	
District contributions subsequent to the measurement date	<u>3,113,580</u>	
Total	<u>\$ 12,021,592</u>	<u>\$ 3,329,641</u>

An amount of \$3,113,580 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30:</u>	
2019	\$ 4,092,919
2020	2,149,407
2021	(419,583)
2022	(244,372)

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note I--Retirement Plans--Continued

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

	<u>CERS</u>	<u>TRS</u>
Inflation	3.25%	3.00%
Projected Salary increases	4.00%	3.50 – 7.30%
Investment rate of return, net of investment expense and inflation	7.50%	7.50%

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	17.50%	4.87%
International Equity	17.50%	6.71%
Global Bonds	4.00%	1.20%
Credit Fixed	24.00%	6.71%
Private Equity	10.00%	6.50%
Real Estate	5.00%	9.00%
Absolute Return	10.00%	5.00%
Real Return	10.00%	7.00%
Cash	2.00%	1.50%
Total	<u>100.0%</u>	

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note I--Retirement Plans--Continued

For TRS, 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 2011 through 2015, is outlined in a report dated November 19, 2016. the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	40.00%	4.20%
International Equity	22.00%	5.20%
Fixed Income	15.00%	1.20%
Additional Categories*	8.00%	3.30%
Real Estate	6.00%	3.80%
Private Equity	7.00%	6.30%
Cash	2.00%	0.90%
Total	<u>100.0%</u>	

** Includes High Yield, Non-US Development Bonds and Private Credit Strategies*

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 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at the actuarially determined contribution rates, adjusted by 95%, for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. The change in the discount rate from the 4.49% used in 2017 disclosure reports is considered a change in actuarial assumptions or other inputs under GASB 68.

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note I--Retirement Plans--Continued

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 57,319,733	\$ 45,530,936	\$ 35,654,827
TRS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	-	-	-

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

Note J--Post Employment Benefits Other Than Pensions

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

County Employee Retirement System Non-Hazardous OPEB Plan

Employees whose positions do not require a degree beyond a high school diploma are provided OPEBs through CERS, a cost-sharing multiple-employer defined benefit OPEB plan administered by the Kentucky Retirement System, an agency of the Commonwealth. The plan provides health insurance benefits to plan members. 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>.

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

Medical Insurance Plan

Plan description – Kentucky Revised Statute ("KRS") Section 61.645 requires CERS to provide post-employment healthcare benefits to eligible members and dependents. The CERS Non-hazardous Insurance Fund is a cost-sharing multiple-employer defined benefit Other Postemployment Benefits ("OPEB") plans for members that cover all regular full-time members employed in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. The plans provide for health insurance benefits to plan members. OPEB may be extended to beneficiaries of plan members under certain circumstances. 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.

Continued

**Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019**

Note J--Post Employment Benefits Other Than Pensions--Continued

Benefits provided--CERS health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. 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.

To be eligible for medical benefits, the member must have retired either for service or disability. The CERS Non-hazardous Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. For medical insurance purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before July 1, 2003
	Medical Benefit	Based on yrs of service and type of service KRS pays a percentage of the monthly contribution rate
	Participation date	July 1, 2003 - August 31, 2008
	Medical Benefit	At least 10 years of service \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted annually
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Medical Benefit	At least 15 years of service \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted by 1.5% annually
Tier 3	Participation date	After December 31, 2013
	Medical Benefit	September 1, 2008 - December 31, 2013 At least 15 years of service \$10 per month for each year of earned service without regard to a maximum dollar amount; adjusted by 1.5% annually

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

Contributions – Required contributions by the employee are based on the following tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

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

At June 30, 2019, the Kenton County School District reported a liability of \$13,273,046 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was 0.747575 percent.

The amount recognized by the District as its proportionate share of the OPEB liability was \$13,273,046 for employees participating in CERS as of June 30, 2019.

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,563,765. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 1,546,797
Changes of assumptions	\$ 2,650,824	30,667
Net difference between projected and actual earnings on pension plan investments		914,252
Changes in proportion and differences between District contributions and proportionate share of contributions	185,040	27,632
District contributions subsequent to the measurement date	1,002,807	
Total	<u>\$ 3,838,671</u>	<u>\$ 2,519,348</u>

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,002,807 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30:	
2019	\$ 75,698
2020	75,698
2021	75,698
2022	253,262
2023	(86,941)
Thereafter	(76,901)

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

Inflation	3.25%
Discount Rate	5.85%
Municipal Bond Index Rate	3.62%
Investment Rate of Return	7.50%
Projected Salary increases	4.00%
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of the assets is recognized
Healthcare trend rates:	
Under 65	7.50% at 1/1/2019 decreasing to 5.0% over a period of 5 years
Ages 65 and Older	5.50% at 1/1/2019 decreasing to 5.0% over a period of 2 years
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

Discount rate--For CERS, 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 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 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of CERS proportionate share of net OPEB 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:

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
CERS discount rate	4.85%	5.85%	6.85%
District's proportionate share of net OPEB liability	\$ 17,239,558	\$ 13,273,046	\$ 9,894,302

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

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of net OPEB liability	\$ 9,881,914	\$ 13,273,046	\$ 17,270,213

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

Teachers' Retirement System OPEB Plan

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

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

Medical Insurance Plan

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

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

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

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

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

At June 30, 2019, the Kenton County School District reported a liability of \$34,698,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plans relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the District's proportion was 1.000033 percent.

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

District's proportionate share of the TRS OPEB liability	\$ 34,698,000
Commonwealth's proportionate share of the TRS net OPEB liability associated with the District	<u>29,903,000</u>
	<u>\$ 64,601,000</u>

The amount recognized by the District as its proportionate share of the OPEB liability was \$34,698,000 for employees participating in TRS as of June 30, 2019.

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,628,822 and revenue of \$1,535,172 for support provided by the State. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		\$ 1,777,000
Change in assumptions	\$ 477,000	
Net difference between projected and actual earnings on OPEB plan investments		141,000
Changes in proportion and differences between District contributions and proportionate share of contributions		764,000
District contributions subsequent to the measurement date	<u>1,916,935</u>	
Total	<u><u>\$ 2,393,935</u></u>	<u><u>\$ 2,682,000</u></u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,916,935 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

<u>Year Ending June 30:</u>	
2020	\$ (432,000)
2021	(432,000)
2022	(432,000)
2023	(368,000)
2024	(380,000)
Thereafter	(161,000)

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

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

Inflation	3.00%
Discount Rate	8.00%
Municipal Bond Index Rate	3.89%
Investment Rate of Return	8.00%
Single Equivalent Interest Rate	8.00%
Real Wage Growth	0.50%
Projected Salary increases	3.50% - 7.20%
Healthcare trend rates:	
Under 65	7.75% for FY 2018 decreasing to 5.0% by FY 2024
Ages 65 and Older	5.75% for FY 2018 decreasing to 5.0% by FY 2021
Medicare Part B Premiums	0.00% for FY 2018 increasing to 5.00% by FY 2030
Mortality	RP-2000 Combined Mortality Table, projected to 2025 with Scale BB (set forward 2 years for males and 1 year for females)

TRS mortality rates were based on the RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for males and one year for females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table set forward two years for males and seven years for females is used for the period after disability retirement. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of recent plan experience done concurrently with the June 30, 2016 valuation.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.6%
Fixed Income	9.0%	1.2%
Real Estate	5.5%	3.8%
Private Equity	6.5%	6.3%
Cash	1.0%	0.9%
Other Categories	20.0%	3.3%
Total	<u>100.0%</u>	

Continued

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note J--Post Employment Benefits Other Than Pensions--Continued

Discount rate – For TRS, the discount rate used to measure the total OPEB liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that 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 8.0%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's proportionate share of net OPEB 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
TRS Discount Rate	7.00%	8.00%	9.00%
District's proportionate share of net OPEB liability	\$ 40,689,000	\$ 34,698,000	\$ 29,708,000

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

	<u>1% Decrease</u>	<u>Current Health Care Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of net OPEB liability	\$ 28,772,000	\$ 34,698,000	\$ 42,010,000

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

TRS Life Insurance Plan

TRS administers a Life Insurance Plan for eligible active and retired members per Kentucky Revised Statute 161.655. The TRS Life Insurance Plan is a cost-sharing multiple employer defined benefit plan with a special funding situation. The plan is entirely funded by the state. Changes to the Plan may be made by the TRS Board of Trustees and the General Assembly.

Benefit provided – The TRS Life Insurance Plan provides a life insurance benefit of \$5,000 payable for members who retire based on service or disability. Active members may receive a \$2,000 lump sum payable. The benefit is payable to the member's estate or to a party designated by the member.

Contributions – Three hundredths of one percent (.03%) of the gross payroll of participating members is contributed by the state.

Continued

Note J--Post Employment Benefits Other Than Pensions--Continued

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

At June 30, 2019, the District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support and the total portion of the net OPEB liability that was associated with the District were as follows:

State's proportionate share of the OPEB liability - Life Insurance	\$ 513,000
District's proportionate share of the net OPEB Liability - Life Insurance	-
	<u>\$ 513,000</u>

For the year ended June 30, 2019, the District recognized revenue of \$17,814 for support provided by the state. At June 30, 2019 the District did not have any net OPEB liability, deferred outflows or deferred inflows related to the collective net OPEB liability for life insurance Benefits.

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

Investment Rate of Return	7.50%, net of OPEB Plan Investment Expense, including inflation
Projected Salary Increases	3.50 - 7.20%, including inflation
Inflation Rate	3.00%
Real wage growth	0.50%
Wage Inflation	3.50%
Municipal Bond Index Rate	3.89%
Discount Rate	7.50%
Single Equivalent Interest Rate	7.50%, net of OPEB Plan Investment Expense, including inflation

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

The remaining actuarial assumptions (e.g. initial per capita costs, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2015 valuation.

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

Continued

Note J--Post Employment Benefits Other than Pensions—Continued

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long- Term Expected Real Rate of Return</u>
U.S. Equity	40.00%	4.20%
International Equity	23.00%	5.20%
Fixed Income	18.00%	1.20%
Real Estate	6.00%	3.80%
Private Equity	5.00%	6.30%
Other Additional Categories	6.00%	3.30%
Cash	2.00%	0.90%
Total	<u>100.0%</u>	

Discount rate – The discount rate used to measure the State's total OPEB liability for life insurance was 7.5%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Note K--Contingencies

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if 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 the programs.

**Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019**

Note L--Insurance and Related Activities

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

Note M--Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage.

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

Note N--Deficit Operating/Fund Balances

There are no funds of the District that currently have a deficit fund balance.

Note O--COBRA

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

Note P--Transfer of Funds

The following transfers were made during the year.

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special revenue	KETS General Fund Match	\$ 271,437
Operating	General	Debt service	Debt service	778,904
Operating	Capital Outlay	Debt service	Debt service	241,205
Operating	Capital Outlay	General Fund	Capital Funds Transfer	1,051,357
Operating	Building	Debt service	Debt service	15,291,372
Operating	Special Revenue	General Fund	Indirect Cost	63,474
Total				<u>\$ 17,697,749</u>

Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019

Note Q--Commitments

The Construction Fund cash balance at June 30, 2019 was \$ 1,792,972. The District has contract and materials purchase commitments on active construction projects in the following amounts:

Fort Wright Elementary School Renovation	\$ 1,433
Hinsdale Secure Vestibule	11,900
Scott High School Phases IV & V	1,239,649
Twenhofel Bus Garage - Phase I	10,456
School Security Enhancements	<u>1,500</u>
Total Construction Commitments	<u>\$ 1,264,938</u>

NOTE R--Recent GASB Pronouncements

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, the objective of this Statement is to improve the information that is disclosed in the notes to the financial statements relating to debt. This statement was adopted during the current year. It did not have a significant impact on the financial statements.

The GASB has issued several reporting standards that will become effective for fiscal year 2020 and later years' financial statements.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments.

Statement No. 85, *Omnibus 2017*, addresses practice issue that have been identified during implementation and application of certain GASB statements.

Statement No. 87, *Leases*, the objective of which is to better meet the information needs financial statement users by improving accounting and financial reporting for leases by governments.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, the objective of this Statement is to improve the information that is disclosed in the notes to the financial statements related to debt.

Statement No. 89, *Accounting for Interest Incurred before the End of a Construction Period*, this Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources management focus. Thus, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, the primary objective of this statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information of certain component units.

Statement No. 91, *Conduit Debt Obligations*, the primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

The District is currently evaluating the impact that will result from adopting these GASB standards and is therefore unable to disclose the impact that adopting these standards will have on the District's financial position and the results of its operations when the standards are adopted.

**Kenton County School District
Notes to Financial Statements--Continued
Year Ended June 30, 2019**

Note S--Subsequent Events

In preparing these financial statements, management of the District has evaluated events and transactions for potential recognition or disclosure through November 14, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Budget and Actual
General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From local sources				
Property taxes	\$ 37,300,000	\$ 39,024,798	\$ 39,699,126	\$ 674,328
Motor vehicle taxes	5,400,000	5,400,000	5,539,244	139,244
Utilities taxes	5,650,000	5,650,000	5,731,737	81,737
Tuition and fees	185,000	185,000	151,733	(33,267)
Earnings on investments	300,032	300,032	770,762	470,730
Other local revenues	1,126,500	1,126,500	1,443,441	316,941
State sources				
SEEK	43,241,861	43,549,473	44,442,124	892,651
On-behalf revenues			32,846,750	32,846,750
Restricted state revenues	511,500	511,500	508,736	(2,764)
Federal - indirect	250,000	250,000	351,878	101,878
Total Revenues	93,964,893	95,997,303	131,485,531	35,488,228
Expenditures				
Instruction	56,978,754	56,453,451	78,371,458	(21,918,007)
Support services:				
Student	6,553,639	6,957,407	9,181,662	(2,224,255)
Instruction staff	2,721,269	2,956,728	3,969,502	(1,012,774)
District administration	2,339,104	2,240,589	2,156,199	84,390
School administration	6,902,924	7,050,471	9,767,912	(2,717,441)
Business	1,969,080	2,321,562	2,656,719	(335,157)
Plant operation and maintenance	12,194,875	12,999,541	13,718,069	(718,528)
Student transportation	8,460,847	8,988,945	10,945,862	(1,956,917)
Community service activities	2,718	2,718	50	2,668
Debt service	978,416	978,416	978,416	
Contingency	9,672,041	11,431,575		11,431,575
Total Expenditures	108,773,667	112,381,403	131,745,849	(19,364,446)
Deficit of revenues over expenditures	(14,808,774)	(16,384,100)	(260,318)	16,123,782
Other Financing Sources (Uses)				
Proceeds from sale of fixed assets			39,217	39,217
Proceeds from Bond Sale (Leases)			1,736,350	1,736,350
Operating transfers in	1,381,166	1,276,148	1,299,420	23,272
Operating transfers out	(1,053,904)	(1,053,904)	(1,050,341)	3,563
Total Other Financing Sources	327,262	222,244	2,024,646	1,802,402
Net Change in Fund Balance	(14,481,512)	(16,161,856)	1,764,328	
Fund Balance, July 1, 2018			16,308,751	
Fund Balance, June 30, 2019	\$ (14,481,512)	\$ (16,161,856)	\$ 18,073,079	

See Independent Auditors' Report

KENTON COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Budget and Actual
Special Revenue Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
Other local revenues		\$ 119,939	\$ 80,421	\$ (39,518)
State sources				
Restricted state revenues	\$ 4,133,653	4,234,871	3,927,162	(307,709)
Federal - indirect	5,663,092	6,021,078	6,002,728	(18,350)
Total Revenues	9,796,745	10,375,888	10,010,311	(365,577)
Expenditures				
Instruction	6,833,252	7,506,931	7,698,224	(191,293)
Support services:				
Student	360,110	300,332	183,365	116,967
Instruction staff	1,057,267	1,161,743	1,095,014	66,729
School administration	323,430	61,312	50,927	10,385
Plant operation and maintenance		96,344	20,618	75,726
Student transportation			42,930	(42,930)
Community service activities	1,109,807	1,136,863	1,108,288	28,575
Education Specific	335,074	327,948	18,908	309,040
Total Expenditures	10,018,940	10,591,473	10,218,274	373,199
Deficit of revenues over expenditures	(222,195)	(215,585)	(207,963)	7,622
Other Financing Sources (Uses)				
Operating transfers in	275,000	271,437	271,437	
Operating transfers out	(52,805)	(55,852)	(63,474)	7,622
Total Other Financing Sources (Uses)	222,195	215,585	207,963	7,622
Net Change in Fund Balance				
Fund Balance, July 1, 2018				
Fund Balance, June 30, 2019	\$	\$	\$	

See Independent Auditors' Report

Schedule of the District's Proportionate Share of the Net Pension Liability

**County Employees Retirement System Non-Hazardous

Kenton County Board of Education

June 30, 2019

	2014-15	2015-16	2016-17	2017-18	2018-19
District's proportion of the net pension liability	0.7483600%	0.7137440%	0.7175922%	0.730802%	0.747597%
District's proportionate share of the net pension liability	\$ 24,280,000	\$ 30,687,590	\$ 35,331,499	\$ 42,776,088	\$ 45,530,936
District's covered employee payroll	\$ 16,656,667	\$ 16,968,535	\$ 17,847,065	\$ 18,445,837	\$ 19,064,764
Plan fiduciary net position as a percentage of the total pension liability	66.801030%	59.970000%	55.500000%	53.300000%	53.540000%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District's Proportionate Share of the Net Pension Liability
 **Teachers Retirement System
 Kenton County Board of Education
 June 30, 2019

	2014-15	2015-16	2016-17	2017-18	2018-19
District's proportion of the net pension liability	None	None	None	None	None
District's proportionate share of the net pension liability	\$0	\$0	\$0	\$0	\$0
Commonwealth's proportion of the net pension liability associated with the District	1.9568%	1.9559%	1.9466%	1.9495%	1.9912%
Commonwealth's proportionate share of the net pension liability associated with the District	<u>\$ 402,114,109</u>	<u>\$ 455,140,342</u>	<u>\$ 574,248,216</u>	<u>\$ 526,022,122</u>	<u>\$ 254,678,297</u>
Total	<u>\$ 402,114,109</u>	<u>\$ 455,140,342</u>	<u>\$ 574,248,216</u>	<u>\$ 526,022,122</u>	<u>\$ 254,678,297</u>
District's covered employee payroll	\$ 57,147,377	\$ 61,049,646	\$ 61,542,779	\$ 62,415,878	\$ 63,929,795
District's proportionate share of the net pension liability	None	None	None	None	None
Commonwealth's proportionate share of the net pension liability as a percentage of the District's covered payroll	703.64%	745.52%	933.09%	842.77%	398.37%
Plan fiduciary net position as a percentage of the total pension liability	45.5907%	55.3000%	54.6000%	39.8300%	59.3000%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District Contributions

**County Employees Retirement System Non-Hazardous

Kenton County Board of Education

June 30, 2019

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Contractually required contributions	\$ 2,944,080	\$ 2,943,161	\$ 3,365,129	\$ 3,425,254	\$ 3,113,580
Contributions in relation to the contractually required contributions	<u>2,944,080</u>	<u>2,943,161</u>	<u>3,365,129</u>	<u>3,425,254</u>	<u>3,113,580</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 16,656,667	\$ 16,968,535	\$ 17,847,065	\$ 18,445,837	\$ 19,064,764
Contributions as a percentage of covered-employee payroll	17.675%	17.345%	18.855%	18.569%	16.332%

Note: This schedule is intended to show information for ten years. Additional years
will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District Contributions
 **Teachers Retirement System
 Kenton County Board of Education
 June 30, 2019

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
Contractually required contributions	\$ 1,285,651	\$ 2,252,504	\$ 2,238,476	\$ 2,267,256	\$ 2,377,760
Contributions in relation to the contractually required contributions	<u>1,285,651</u>	<u>2,252,504</u>	<u>2,238,476</u>	<u>2,267,256</u>	<u>2,377,760</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 57,147,377	\$ 61,049,646	\$ 61,542,779	\$ 62,415,878	\$ 63,929,795
Contributions as a percentage of covered-employee payroll	2.2497%	3.6896%	3.6373%	3.6325%	3.7193%

Note: This schedule is intended to show information for ten years. Additional years
 will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District's Proportionate Share of the Net OPEB Liability

**County Employees Retirement System Non-Hazardous

Kenton County School District

June 30, 2019

	<u>2017-18</u>	<u>2018-19</u>
District's proportion of the net OPEB liability	0.730802%	0.747575%
District's proportionate share of the net OPEB liability	\$ 14,691,620	\$ 13,273,046
District's covered employee payroll	\$ 18,537,507	\$ 19,064,764
Plan fiduciary net position as a percentage of the total pension liability	52.40%	57.62%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District's Proportionate Share of the Net OPEB Liability

**Teachers Retirement System - Medical Insurance Fund

Kenton County School District

June 30, 2019

	<u>2017-18</u>	<u>2018-19</u>
District's proportion of the net OPEB liability	1.025238%	1.000033%
District's proportionate share of the net OPEB liability	\$ 36,558,000	\$ 34,698,000
Commonwealth's proportion of the net OPEB liability associated with the District	0.837475%	0.861820%
Commonwealth's proportionate share of the net OPEB liability associated with the District	<u>29,863,000</u>	<u>29,903,000</u>
Total	<u>\$ 66,421,000</u>	<u>\$ 64,601,000</u>
District's covered employee payroll	\$ 62,415,878	\$ 63,929,795
District's proportionate share of the net OPEB liability	\$ 36,558,000	\$ 34,698,000
Commonwealth's proportionate share of the net OPEB liability as a percentage of the District's covered payroll	47.85%	46.77%
Plan fiduciary net position as a percentage of the total pension liability	21.18%	25.50%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District OPEB Contributions

**County Employees Retirement System Non-Hazardous

Kenton County School District

June 30, 2019

	<u>2017-18</u>	<u>2018-19</u>
Contractually required contributions	\$ 871,263	\$ 1,002,807
Contributions in relation to the contractually required contributions	<u>871,263</u>	<u>1,002,807</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 18,537,507	\$ 19,064,764
Contributions as a percentage of covered-employee payroll	4.700%	5.260%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Independent Auditors' Report

Schedule of the District OPEB Contributions

**Teachers Retirement System - Medical Insurance Fund

Kenton County School District

June 30, 2019

	<u>2017-18</u>	<u>2018-19</u>
Contractually required contributions	\$ 1,823,422	\$ 1,916,935
Contributions in relation to the contractually required contributions	<u>1,823,422</u>	<u>1,916,935</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
District's covered payroll	\$ 60,780,735	\$ 63,897,822
Contributions as a percentage of covered-employee payroll	3.0000%	3.0000%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See Independent Auditors' Report

OTHER SUPPLEMENTARY INFORMATION

ACTIVITY FUNDS FINANCIAL INFORMATION

Kenton County School District
Combining Statement of Fiduciary Net Position
June 30, 2019

	Dixie Heights High School	Scott High School	Simon Kenton High School	Kenton County Academies of Innovation and Technology	Turkey Foot Middle School	Twenhofel Middle School	Woodland Middle School
Assets							
Cash	\$ 84,972	\$ 112,555	\$ 299,288	\$ 1,753	\$ 46,866	\$ 146,225	\$ 30,160
Accounts Receivable	25	107					
Total Assets	<u>\$ 84,997</u>	<u>\$ 112,662</u>	<u>\$ 299,288</u>	<u>\$ 1,753</u>	<u>\$ 46,866</u>	<u>\$ 146,225</u>	<u>\$ 30,160</u>
Liabilities							
Accounts Payable	\$ 4,082	\$ 522	\$ 19,798			\$ 5,209	
Due to Student Groups	80,915	112,140	279,490	\$ 1,753	\$ 46,866	141,016	\$ 30,160
Total Liabilities	<u>\$ 84,997</u>	<u>\$ 112,662</u>	<u>\$ 299,288</u>	<u>\$ 1,753</u>	<u>\$ 46,866</u>	<u>\$ 146,225</u>	<u>\$ 30,160</u>

Continued

Kenton County School District
Combining Statement of Fiduciary Net Position - Continued
June 30, 2019

	Summit View Academy	Northern Kentucky Youth Development Center	Beechgrove Elementary	J.A. Caywood Elementary	Fort Wright Elementary	Kenton Elementary	Piner Elementary
Assets							
Cash	\$ 99,801	\$ 324	\$ 18,056	\$ 11,862	\$ 11,407	\$ 21,314	\$ 29,151
Accounts Receivable							
Total Assets	\$ 99,801	\$ 324	\$ 18,056	\$ 11,862	\$ 11,407	\$ 21,314	\$ 29,151
Liabilities							
Accounts Payable	\$ 366					\$ 60	
Due to Student Groups	99,435	\$ 324	\$ 18,056	\$ 11,862	\$ 11,407	21,254	\$ 29,151
Total Liabilities	\$ 99,801	\$ 324	\$ 18,056	\$ 11,862	\$ 11,407	\$ 21,314	\$ 29,151

Continued

Kenton County School District
Combining Statement of Fiduciary Net Position - Continued
June 30, 2019

	R.C. Hinsdale Elementary	River Ridge Elementary	Ryland Heights Elementary	Taylor Mill Elementary	White's Tower Elementary	Totals
Assets						
Cash	\$ 7,441	\$ 29,969	\$ 60,778	\$ 34,857	\$ 26,796	\$ 1,073,575
Accounts Receivable						132
Total Assets	<u>\$ 7,441</u>	<u>\$ 29,969</u>	<u>\$ 60,778</u>	<u>\$ 34,857</u>	<u>\$ 26,796</u>	<u>\$ 1,073,707</u>
Liabilities						
Accounts Payable					\$ 7	\$ 30,044
Due to Student Groups	\$ 7,441	\$ 29,969	\$ 60,778	\$ 34,857	26,789	1,043,663
Total Liabilities	<u>\$ 7,441</u>	<u>\$ 29,969</u>	<u>\$ 60,778</u>	<u>\$ 34,857</u>	<u>\$ 26,796</u>	<u>\$ 1,073,707</u>

See Independent Auditors' Report

Kenton County School District
Combined Statement of Revenues, Expenses and Changes in Due To Student Groups - Activity Funds
Year Ended June 30, 2019

	Dixie Heights High School	Scott High School	Simon Kenton High School	Kenton County Academies of Innovation and Technology	Turkey Foot Middle School	Twenhofel Middle School	Woodland Middle School
Revenues from student activities	\$ 346,683	\$ 320,874	\$ 711,915	\$ 6,531	\$ 183,661	\$ 213,683	\$ 86,642
Non-instructional expenses	355,273	309,436	723,110	7,011	189,796	188,750	85,882
Excess (deficit) of revenue over expenditures	(8,590)	11,438	(11,195)	(480)	(6,135)	24,933	760
Due to student groups, June 30, 2018	89,505	100,702	290,685	2,233	53,001	116,083	29,400
Due to student groups, June 30, 2019	<u>\$ 80,915</u>	<u>\$ 112,140</u>	<u>\$ 279,490</u>	<u>\$ 1,753</u>	<u>\$ 46,866</u>	<u>\$ 141,016</u>	<u>\$ 30,160</u>

Continued

Kenton County School District
Combined Statement of Revenues, Expenses and Changes in Due To Student Groups - Activity Funds - Continued
Year Ended June 30, 2019

	Summit View Academy	Northern Kentucky Youth Development Center	Beechgrove Elementary	J.A. Caywood Elementary	Fort Wright Elementary	Kenton Elementary	Piner Elementary
Revenues from student activities	\$ 256,132		\$ 67,118	\$ 49,469	\$ 49,661	\$ 57,195	\$ 52,210
Non-instructional expenses	247,908	\$ 22	70,308	47,332	46,559	57,331	51,117
Excess (deficit) of revenue over expenditures	8,224	(22)	(3,190)	2,137	3,102	(136)	1,093
Due to student groups, June 30, 2018	91,211	346	21,246	9,725	8,305	21,390	28,058
Due to student groups, June 30, 2019	<u>\$ 99,435</u>	<u>\$ 324</u>	<u>\$ 18,056</u>	<u>\$ 11,862</u>	<u>\$ 11,407</u>	<u>\$ 21,254</u>	<u>\$ 29,151</u>

Continued

Kenton County School District
Combined Statement of Revenues, Expenses and Changes in Due To Student Groups - Activity Funds - Continued
Year Ended June 30, 2019

	R.C. Hinsdale Elementary	River Ridge Elementary	Ryland Heights Elementary	Taylor Mill Elementary	White's Tower Elementary	Totals
Revenues from student activities	\$ 67,362	\$ 101,367	\$ 100,211	\$ 39,192	\$ 63,275	2,773,181
Non-instructional expenses	75,091	101,862	55,071	39,096	57,246	2,708,201
Excess (deficit) of revenue over expenditures	(7,729)	(495)	45,140	96	6,029	64,980
Due to student groups, June 30, 2018	15,170	30,464	15,638	34,761	20,760	978,683
Due to student groups, June 30, 2019	<u>\$ 7,441</u>	<u>\$ 29,969</u>	<u>\$ 60,778</u>	<u>\$ 34,857</u>	<u>\$ 26,789</u>	<u>\$ 1,043,663</u>

See Independent Auditor's Report

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due To Student Groups -
Scott High School
Year Ended June 30, 2019

Activity	Due To Student Group June 30, 2018	Recpt/JV	Disb/JV	Transfers, Net	Due To Student Group June 30, 2019
Academic Team	\$ 561	\$ 1,266	\$ (1,147)		\$ 680
Athletics	5,674	108,773	(101,130)	\$ 1,675	14,992
Athletics/Concession	1,675			(1,675)	
Awareness Acceptance Al.	10				10
Band (Marching Band)		37,169	(28,912)		8,257
Fastpitch/Softball	1,279	9,294	(7,575)		2,998
Boys Soccer	7,123		(6,070)		1,053
Volleyball	831	179	(490)	540	1,060
Girls Soccer	6,143	1,511	(7,329)		325
Boys Golf	1,148				1,148
Cross Country	2,082	10,674	(10,092)		2,664
Girls Golf	86	89	(160)		15
Girls Basketball	2,572	10,869	(11,011)	(540)	1,890
Swimming & Diving	2,019	7,031	(3,953)		5,097
Boys Tennis	877				877
Boys Track	1,005	1,576	(1,000)		1,581
Girls Tennis	96				96
Bowling	126				126
Girls Track	717	1,010	(700)		1,027
Dance Team	924		(222)		702
Archery	1,387	8,335	(9,722)		
Class of 2018	6,409		(6,409)		
Class of 2019	4,214	8,369	(13,623)	2,000	960
Class of 2020	1,513	19,108	(10,798)	1,500	11,323
Class of 2021	1,198	335	(205)	1,000	2,328
Class of 2022				500	500
CBI	539	3,375	(3,018)		896
College & Career Events		150	(121)		29
Creative Writing Club	564				564
Drama	3,169	12,958	(13,465)		2,662
Fund 21/Ath. Admissions		11,113	(11,113)		
Fund 21/Student Fees		12,062	(11,879)		183
Fund 21/Donations		150			150
Fund 21/Other Student Act.		293	(293)		
Fund 21/Ath. Other Activity		12,746	(12,746)		
Family Assistance	1,460	812	(284)	631	2,619
Fellowship Christian Students	14				14
Flower Fund	35	70	(77)		28
Forensics	574				574
French Honor Society	251			(251)	
German Club	98			(98)	
German National Honor Society	41	32	(66)	224	231
Janie Fund	631			(631)	
Key Club	2			(2)	
Junior Statesman	1,345	3,980	(2,524)		2,801
Math Club	15				15
Military Academy	110	464	(446)		128
National Art HS	580		(50)		530
National Honor Society	640		(579)	2	63
Field Trips	3,734		(749)		2,985
Scott Student Support	2,762	5,514	(13,462)	6,525	1,339
Scott Swimming Pool		4,370	(1,850)		2,520
SHS Scholarship Fund	22,871	13,508	(14,000)		22,379
SHS Teacher Scholarship	1,229			(1,229)	
NHHS	65	41	(63)	126	169
Science Club		100			100
Student Council	7,018	12,119	(1,745)	(10,000)	7,392
STLP	297			(297)	
Summer School	300				300
Teacher Support	2,689	1,429	(358)		3,760
Totals	\$ 100,702	\$ 320,874	\$ (309,436)	\$	\$ 112,140

See Independent Auditors' Report

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due To Student Groups -
Dixie Heights High School
Year Ended June 30, 2019

Activity	Due To Student Group June 30, 2018	Recpt/JV	Disb/JV	Transfers, Net	Due To Student Group June 30, 2019
Academic Team	\$ 1	\$ 676	\$ (505)		\$ 172
Admissions - Athletic		2,062	(2,062)		
AMC Competition		85	(166)	\$ 81	
Art Club	307	79	(109)	150	427
Athletics, General	15,147	132,346	(132,524)		14,969
Band	33				33
BETA Club	987	540	(393)		1,134
Bowling Fund Raising	22				22
Boys Golf Fund Raising	2				2
Brandon Stamm Mem Scholarship		500	(500)		
CBI - Community Based Edu	96	367	(71)	(95)	297
Cheerleading Fund Raising	21				21
Choir Club	195	1,748	(1,934)		9
Dixie's Big Give		454	(454)		
Donations		100	(100)		
Dixie Scholars Club		2,844	(2,531)		313
Drama Club	5,219	12,279	(14,732)		2,766
Drug Free Club	11	165	(30)		146
Faculty	816	808	(698)		926
Faculty Flower Fund	123	257	(240)		140
FBLA Club	75	6,367	(6,442)		
FEA Club	6				6
Fees		62,575	(62,550)		25
Football Fund Raising	26				26
Forensics Team	30	8,173	(7,920)		283
Gaming Club	9				9
German NHS	130		(56)		74
Girls BK Fund Raising	36				36
Girls Soccer Fund Raising	425				425
Ham Radio Tech Club	279				279
IMPACT Club	4,171				4,171
Janie Fund	199		(245)	46	
JC Ruf Scholarship	43				43
Jr Class Dance/Activities	14,836	23,665	(27,406)	300	11,395
Mock Trial Team		1,890	(1,832)		58
NHS Club	1,040	3,448	(2,484)		2,004
Odyssey of the Mind Team	343	210	(335)		218
Other Athletic Activities		21,475	(21,475)		
Other Dist/Stu Act Income		183	(183)		
Random Acts of Kindness		1,394	(1,253)		141
S.T.L.P. Club	697		(70)		627
Scott Scholarship		13,508	(13,508)		
Social Norms Club	104				104
Softball Fundraising	604				604
Spanish NHS	1,104	600	(320)		1,384
Sr Class Dance/Activities	2,428	17,705	(20,148)	540	525
Student Council	6,345	14,148	(14,662)	(780)	5,051
Student Enrichment	24,709	14,146	(13,931)	(196)	24,728
Volleyball Fund Raising	170				170
Yearbook Club	2,413	551	(1,145)	50	1,869
Youth Service Center	6,303	1,335	(2,259)	(96)	5,283
Totals	\$ 89,505	\$ 346,683	\$ (355,273)	\$	\$ 80,915

See

Independent Auditors' Report

Kenton County School District
Statement of Revenues, Expenditures and Changes in Fund Balance and Due To Student Groups -
Simon Kenton High School
Year Ended June 30, 2019

Activity	Due To Student Group June 30, 2018	Recpt/JV	Disb/JV	Transfers, Net	Due To Student Group June 30, 2019
Academic Team		\$ 1,100	\$ (1,260)	\$ 160	
Art Club	\$ 264	466	(475)	(20)	\$ 235
Athletic	18,837	155,425	(164,130)	(563)	9,569
Spirit Shop	4,132	4,257	(3,062)	1,143	6,470
Bridge Club	1,137	622	(128)		1,631
Choir Club	857	7,868	(10,703)	1,978	
Junior Class of 2020	1,775	14	(31)		1,758
Soph Class of 2021	797	1,194	(1,949)		42
Fresh Class of 2022		13	(32)	19	
Class of 2019	1,325	43,418	(47,310)	2,568	1
Community Based Class	3,081	1,732	(1,985)		2,828
Community Based Transport	1,253				1,253
Deb Fehler Memorial	425		(229)		196
Drama Club	3,323	5,106	(6,519)	(804)	1,106
Field Trips	2,299	12,086	(11,692)	22	2,715
Fine Arts Support Fund	2,641		(1,115)		1,526
Fire Fund	27,100				27,100
First Priority		105	(98)		7
French Club	49	136		(35)	150
Freshman Academy	7,430	3,015	(2,555)	(396)	7,494
Pioneer Pride	2,507	3,277	(2,825)	(380)	2,579
FBLA	52	2,659	(2,664)		47
Future Farmers of America	4,555	12,782	(15,169)	(120)	2,048
Faculty Fund	4,260	1,339	(1,628)		3,971
Greenhouse	6,955	3,718	(1,687)	(2,000)	6,986
Nat'l Art Honor Society	12	143	(71)		84
NHS	1,761	3,137	(3,350)	(320)	1,228
Rising Sun		4,000	(1,000)		3,000
Science Club	212	1,185	(892)	(169)	336
Robert Roden Scholarship	400		(200)		200
Scholarship	16,013	1,400	(4,150)		13,263
Scott Scholarship	37,663	13,509	(10,933)		40,239
Strides for Stephanie	7,221		(4,000)		3,221
Homecoming	21,939	15,995	(7,166)	(419)	30,349
Spanish Club	94			(94)	
Summer School	1,332		(162)		1,170
Student Incentives	7,033	29,929	(9,601)	(5,510)	21,851
AP Testing Fund	18,217	33,000	(1,497)	(15,000)	34,720
Yearbook	4,449		(250)	(20)	4,179
Youth Service Center	6,153	2,253	(3,845)	108	4,669
Archery Team	4,971	4,517	(8,149)	(1,320)	19
Baseball	6,771	35,216	(33,271)	(7,940)	776
Bass Fishing Team	2,239	4,275	(2,600)		3,914
Bowling Team	3,985	1,359	(1,588)	(21)	3,735
Basketball - Boys	15,204	51,756	(57,070)	(3,120)	6,770
Basketball - Girls	4,786	17,420	(17,883)	300	4,623
Cheerleading		83,500	(82,844)	385	1,041
Cross Country	4,253	7,608	(7,151)	(1,420)	3,290
Dance Team	582	3,386	(1,657)		2,311
Football	8,003	41,188	(55,852)		(6,661)
Golf - Boys		2,281	(2,281)		
Golf - Girls	585	449	(575)		459
Hall of Fame	15,566		(23)		15,543
Soccer - Boys	874		(511)		363
Soccer - Girls	364	1,400	(1,583)		181
Softball	3,986	400	(2,313)	(20)	2,053
Swimming	166	5,216	(3,744)	(20)	1,618
Tennis - Boys & Girls	303	4,125	(3,788)	(20)	620
Adaptive Track	358	500	(546)		312
Track - Boys & Girls	136	9,033	(8,867)		302
Fund 21 - Admissions		600	(600)		
Fund 21-Ath Admissions		22,314	(22,314)		
Fund 21-Other Dist-Stu Ac		20,789	(39,089)	18,300	
Fund 21-Other Ath Act		29,700	(44,448)	14,748	
Totals	\$ 290,685	\$ 711,915	\$ (723,110)	\$	\$ 279,490

See Independent Auditors' Report

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**KENTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Child Nutrition Cluster				
National School Lunch Program	10.555	7750002		\$ 3,007,277
National School Lunch Program - Food Commodities	10.555	7750002		356,000
School Breakfast Program	10.553	7760005		923,083
Summer Food Service Program	10.559	7740023		<u>36,906</u>
Total Child Nutrition Cluster				<u>4,323,266</u>
Total U.S. Department of Agriculture passed through Kentucky Department of Education				<u>\$ 4,323,266</u>
U.S. DEPARTMENT OF EDUCATION				
Title I Grants to Local Educational Agencies	84.010A	3100002 - 18		\$ 296,414
Title I Grants to Local Educational Agencies	84.010A	3100002 - 19		<u>1,540,725</u>
Program Total				1,837,139
Career and Technical Education - Basic Grants to States	84.048	4621132 - 18		5,006
Career and Technical Education - Basic Grants to States	84.048	4621132 - 19		<u>130,985</u>
Program Total				135,991
Title I-State Agency Program for Neglected and Delinquent Children & Youth	84.013	313D		24,448
Title I-State Agency Program for Neglected and Delinquent Children & Youth	84.013	313E		<u>5,265</u>
Program Total				29,713

Continued

KENTON COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued
Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Through Grantor's Number	Passed Through to Subrecipients	Federal Expenditures
Special Education Cluster (IDEA)				
Special Education Preschool Grants (IDEA Preschool)	84.173A	3800002 -18		26,552
Special Education Preschool Grants (IDEA Preschool)	84.173A	3800002 -19		73,010
Special Education - Grants to States (IDEA, Part B)	84.027A	3810002 - 18		658,510
Special Education - Grants to States (IDEA, Part B)	84.027A	3810002 - 19		<u>2,747,365</u>
Total Special Education Cluster (IDEA)				3,505,437
Supporting Effective Instruction State Grants	84.367A	3230002 - 17		1,693
Supporting Effective Instruction State Grants	84.367A	3230002 - 18		26,158
Supporting Effective Instruction State Grants	84.367A	3230002 - 19		<u>380,525</u>
Program Total				408,376
English Language Acquisition State Grants	84.365A	3300002 - 19		<u>46,669</u>
Program Total				46,669
Title IV Cluster				
Student Support & Academic Enrichment Grant (Part A)	84.424A	3420002 - 18		21,717
Student Support & Academic Enrichment Grant (Part A)	84.424A	3420002 - 19		<u>17,685</u>
Program Total				<u>39,402</u>
Total U.S. Department of Education passed through Kentucky Department of Education				<u>\$ 6,002,727</u>
Total Federal Expenditures			<u>\$</u>	<u>\$ 10,325,993</u>

See Notes to Schedule of Expenditures
of Federal Awards and Independent Auditors' Report

Kenton County School District
Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

Note A – Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Kenton County School District and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance").

Note B – Food Distribution

Nonmonetary assistance is reported in the Schedule at the fair value of the commodities received and disbursed. During the fiscal year ended June 30, 2019 the District received \$356,000 in donated food commodities.

Note C – Indirect Cost Rate

The District has not elected to use the 10% de minimis indirect costs rate as allowed under the Uniform Guidance.

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

**Independent Auditors' 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***

**Independent Auditors' 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
Kenton County School District
Fort Wright, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kenton County School District (the "District") as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a significant deficiency in internal control, described in the accompanying schedule of findings, and questioned costs as item 2019-01 that we considered to be a significant deficiency.

Compliance and Other Matters

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

In addition, the results of our tests disclosed no material instances of noncompliance with specific statutes or regulations identified in the *Kentucky Public School District's Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Louisville, Kentucky
November 14, 2019

**Independent Auditors' Report on Compliance For
Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

**Independent Auditors' Report on Compliance For
Each Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

Members of the Board
Kenton County School District
Fort Wright, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Kenton County School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* (date August 2019) that could have a direct and material effect on its major federal program for the year ended June 30, 2019. The District's major federal program is identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of the federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and the Kentucky Public School Districts' Audit Contract and Requirements prescribed by the Kentucky State Committee for School District Audits. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of this Report

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

Louisville, Kentucky
November 14, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Schedule of Findings and Questioned Costs

Kenton County School District

Year Ended June 30, 2019

Section I – Summary of Audit Results

1. The Independent Auditors' Report expresses an unmodified opinion on the financial statements of the Kenton County School District (the "District").
2. A significant deficiency relating to the audit of the financial statements was noted. No material weaknesses relating to the audit of the financial statements were reported.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control relating to the audit of the major federal award program are reported.
5. The auditors' report on compliance for the major federal program of the District expresses an unmodified opinion.
6. There were no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) of the Uniform Guidance.
7. The program tested as major program is as follows:

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number
U.S. DEPARTMENT OF AGRICULTURE	
Child Nutrition Cluster	
National School Lunch Program	10.555
National School Lunch Program - Food Commodities	10.555
School Breakfast Program	10.553
Summer Food Service Program	10.559

8. The threshold used for distinguishing Type A programs was \$750,000.
9. The District qualified to be audited as a low-risk auditee.

Schedule of Findings and Questioned Costs--Continued

Kenton County School District

Year Ended June 30, 2019

Section II--Findings – Financial Statement Audit

Item 2019-1 – Data Encryption

Condition & Criteria: HIPAA (45 CFR 164.312(a)(2)(iv) and 45 CFR 164.312(e)(2)(ii)) require the encryption of student information when stored on disk, on tape, on USB drives, and on any non-volatile storage. This is called encryption of data at rest. Currently, student health information potentially rests on devices which are issued by the school and are not encrypted.

Cause: No school-issued devices are encrypted.

Effect: This is potentially a HIPAA violation and should be addressed.

Recommendation: We recommend that encryption software be selected and deployed on devices which might contain relevant HIPAA-protected data.

Management's Response: Management agrees with the recommendation regarding encryption of student health information stored on district-issued devices. The Technology Department has chosen the Microsoft Windows 10 data encryption system resident on all district-issued devices for this purpose. District employees have received direction to encrypt any and all files containing private data, including HIPAA-protected data, and specific directions on using the encryption system.

Section III--Findings and Questioned Costs – Major Federal Program Audit

There are no findings or questioned costs related to the major federal program which are required to be reported in accordance with the Uniform Guidance.

SCHEDULE OF PRIOR AUDIT FINDINGS

Schedule of Prior Audit Findings

Kenton County School District

Year Ended June 30, 2019

Section II--Findings – Financial Statement Audit

There were no findings related to the financial statements which were required to be reported in accordance with *Government Auditing Standards*.

Section III--Findings and Questioned Costs – Major Federal Program Audit

There were no findings or questioned costs related to the major federal program which were required to be reported in accordance with the Uniform Guidance.