

SIMPSON COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year Ended June 30, 2020

SIMPSON COUNTY SCHOOL DISTRICT

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, 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 Simpson County School District as of and for the year ended June 30, 2020, and the related notes to the 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2020, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2020, the District adopted Governmental Accounting Standards Board Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 14, budgetary comparison information on pages 63 to 64, schedule of proportionate share of the net pension and OPEB liabilities on pages 65 to 69 and schedule of contributions on pages 70 to 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Simpson County School District's basic financial statements. The combining financial statements, school schedules 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 purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, school schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with accounting standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2020, on our consideration of Simpson County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Simpson County School District's internal control over financial reporting and compliance.



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
December 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS



**SIMPSON COUNTY SCHOOL DISTRICT
FRANKLIN, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2020**

As management of the Simpson County Public 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, 2020. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District was \$6,222,549. The ending General Fund balance was \$6,654,373.
- The majority of General Fund revenues were derived from state sources (63.1%) and local taxes (36.0%). Regular instruction, student support services, instructional support services and school administration account for 78% of the General Fund expenditures. Pupil Transportation expenditures were 5%, maintenance and operations 10%, business functions 3%, and central office support, non-instructional, and fund transfers making up the remaining 4%.
- One continued concern is the impact of unfunded mandates without the compensating increase in SEEK which causes a reflection in the growth of expenses each year. SEEK is an acronym for Support Educational Excellence in Kentucky and is the state formula for funding schools. Salaries and benefits are recurring expenses that will continue to be an issue to the district to maintain quality employees without the State support of proper funding of mandates which can cause a drain on our resources.
- There is a noticeable difference reported between the budgetary and the actual revenue and expenditures due to reporting requirements mandated by the Kentucky Department of Education's (KDE) implementation of GASB regulations. The state's contribution for items including pension, technology, health care costs, operation costs and debt service totaled \$8,431,169 for all funds and is included in the district's revenues and expenditures. These are recorded within the audit as "On-Behalf Payments".
- The Capital Outlay and Facility Support Program of Kentucky (FSPK) Fund remained at a minimum due to utilization of restricted funds for renovations and improvement of facilities.
- There were two facility improvement and building projects finalized during the 2019-2020 school year in the Simpson County School District. The District has completed the roofing project at the Franklin-Simpson Middle School. In addition, the District finished installing a new security camera system at the Franklin-Simpson High School converting the District to one virtual server with all district cameras on a single platform. The District is in the process of hiring an Architectural/Engineering Firm for planning and design services on miscellaneous improvements to Franklin Elementary and Simpson Elementary; an Alternative School addition; and a Fine Arts addition at the Franklin-Simpson High School.

Notes to Financial Statements:

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 25 of this report.

Reporting the School District as a Whole

One of the most important questions asked about the School District is “How did we do financially during the current fiscal year?” The *Statement of Net Position* and the *Statement of Activities*, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets and deferred outflows and liabilities and deferred inflows* using the *accrual basis of accounting*, which is similar to the accounting, used by most private-sector companies. These bases of accounting consider all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky’s SEEK funding formula and its adjustments, the School District’s property tax base, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt are also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District’s food service and daycare services are reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$1,154,807 as of June 30, 2020. This was a decrease of \$153,451 over the previous year.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The amount of capital assets, net related of debt was \$13,501,094. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. 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. Fund accounting is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The proprietary fund consists of the school food fund, community education, enrichment and the daycare fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Simpson County School District are the general fund and special revenue (grants).

Governmental Funds - Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Position and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match. The proprietary fund is our food service operations and daycare program.

Fiduciary Funds – The schools' activity funds and District scholarship accounts (or agency funds) are the District's fiduciary funds. The fiduciary fund liabilities at yearend total \$315,139 (a decrease of \$16,957 from the previous year).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position for the period ending June 30, 2019 and June 30, 2020

Description	Governmental 2020	Governmental 2019	Business-type 2020	Business-type 2019	Total 2020	Total 2019
Current and Other Assets	\$ 7,769,845	\$ 7,176,596	\$ 580,642	\$ 351,112	\$ 8,350,487	\$ 7,527,708
Capital Assets	27,067,025	28,252,116	97,335	123,256	27,164,360	28,375,372
Total Assets	34,836,870	35,428,712	677,977	474,368	35,514,847	35,903,080
Deferred Outflows	4,444,768	3,734,132	599,576	577,994	5,044,344	4,312,126
Long-term Debt	31,426,807	32,077,107	2,340,240	2,285,335	33,767,047	34,362,442
Other Liabilities	2,541,502	2,719,894	1,622	3,343	2,543,124	2,723,237
Total Liabilities	33,968,309	34,797,001	2,341,862	2,288,678	36,310,171	37,085,679
Deferred Inflows	2,854,513	1,587,626	239,700	233,643	3,094,213	1,821,269
Net Position						
Net investment in capital assets	13,403,759	13,045,961	97,335	123,256	13,501,094	13,169,217
Restricted	336,469	236,490	-	-	336,469	236,490
Unrestricted	(11,281,412)	(10,504,234)	(1,401,344)	(1,593,215)	(12,682,756)	(12,097,449)
Total Net Position	\$ 2,458,816	\$ 2,778,217	\$ (1,304,009)	\$ (1,469,959)	\$ 1,154,807	\$ 1,308,258

Changes in Net Position for June 30, 2019 and June 30, 2020

Description	Governmental 2020	Governmental 2019	Business-type 2020	Business-type 2019	Total 2020	Total 2019
REVENUES:						
Program revenues:						
Charges for services	\$ 195,050	\$ 194,372	\$ 230,587	\$ 294,710	\$ 425,637	\$ 489,082
Operating grants and contributions	5,113,524	4,694,774	2,349,627	1,941,674	7,463,151	6,636,448
Capital grants and contributions	1,153,543	1,194,113	-	-	1,153,543	1,194,113
General revenues:						
Property taxes	7,963,237	7,319,766	-	-	7,963,237	7,319,766
Motor vehicle taxes	732,246	735,745	-	-	732,246	735,745
Utility taxes	1,549,493	1,658,225	-	-	1,549,493	1,658,225
Revenue in lieu of taxes	520,910	442,207	-	-	520,910	442,207
Unmined minerals tax	-	1,503	-	-	-	1,503
Investment earnings	234,242	221,525	3,579	3,362	237,821	224,887
State and formula grants	7,877,446	7,863,145	-	-	7,877,446	7,863,145
Miscellaneous	68,037	91,022	-	-	68,037	91,022
Total revenues	25,407,728	24,416,397	2,583,793	2,239,746	27,991,521	26,656,143
EXPENSES						
Program Activities						
Instruction	12,954,944	11,979,306	-	-	12,954,944	11,979,306
Student support	1,605,422	1,484,591	-	-	1,605,422	1,484,591
Instructional staff support	1,104,778	1,044,812	-	-	1,104,778	1,044,812
District administrative support	797,466	666,070	-	-	797,466	666,070
School administrative support	2,017,507	1,961,664	-	-	2,017,507	1,961,664
Business support	1,067,068	977,001	-	-	1,067,068	977,001
Plant operation and maintenance	3,418,582	3,340,791	-	-	3,418,582	3,340,791
Student transportation	1,772,903	1,718,406	-	-	1,772,903	1,718,406
Community service activities	473,942	431,386	-	-	473,942	431,386
Other	41,195	10,656	-	-	41,195	10,656
Interest costs	473,322	505,815	-	-	473,322	505,815
Business-type Activities:						
Food service	-	-	2,313,505	2,234,336	2,313,505	2,234,336
Daycare	-	-	104,338	320,904	104,338	320,904
Total expenses	25,727,129	24,120,498	2,417,843	2,555,240	28,144,972	26,675,738
Increase (decrease) in net position	(319,401)	295,899	165,950	(315,494)	(153,451)	(19,595)
Net position, beginning	2,778,217	2,482,318	(1,469,959)	(1,154,465)	1,308,258	1,327,853
Net position, ending	\$ 2,458,816	\$ 2,778,217	\$ (1,304,009)	\$ (1,469,959)	\$ 1,154,807	\$ 1,308,258

- The District's total revenues were \$27,991,521 and the total expenses were \$28,144,972. Expenses exceeded revenues by \$153,451.
- State and formula grants account for 28% and operating grants and contributions account for 27% of total revenues. SEEK funds accounted for 36% and local property taxes accounted for 25% of general fund revenues.
- Instruction was the major expense category and accounted for 62% of the total expenditures.

**Financial Analysis of the District Funds
(Table 3)
Cost of Services**

Description	Total 2020	Total 2019	Net 2020	Net 2019
Instruction	\$ 12,954,944	\$ 11,979,306	\$ (8,283,020)	\$ (7,547,616)
Support Services	11,783,726	11,193,335	(11,573,744)	(11,051,172)
Community Services & Other	515,137	442,042	(75,319)	(116,093)
Facilities acquisition and construction	-	-	575,952	618,235
Interest costs	473,322	505,815	91,119	59,407
Total Expenses	\$ 25,727,129	\$ 24,120,498	\$ (19,265,012)	\$ (18,037,239)

- The General Fund’s fund balance showed an increase in fund balance of \$431,824. This reflects an increase in revenues from all sources while actual expenditures were less than budgeted amounts.
- The Special Revenue fund balance showed a decrease of \$7,401. Projects in the Special Revenue fund are zeroed at year-end with the exception of the KETS Technology project(s).
- Construction fund and other governmental funds showed a net increase in fund balance of \$68,127. This consists mainly of construction funds that are restricted funds to be used for construction and renovation projects outlined by the District Facility Plan.
- Other Proprietary Funds, Food Service and Day Care had an increase in funds of \$56,532 and \$108,890, respectively.
- The District’s General Fund total revenues (not including on-behalf receipts) for the fiscal year ended June 30, 2020, were \$20,756,487. This is \$516,126 more than was budgeted in the final working budget.
- Expenditures were less than budgeted by \$4,120,790. The main reason is that contingencies of \$3,772,107 were budgeted and not intended to be spent.
- The Final Budget and the Original Budget differ primarily because the Original (Tentative) Budget is prepared by the end of May for the next school year and the Final Budget (prepared in September) contains Board approved amendments and final salary allocations.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not expended at the end of the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2020, the District had invested \$55,388,015 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The accumulated depreciation was a total of \$28,223,655. There is \$79,227 of construction in progress throughout the district at

June 30, 2020. The following Table 4 shows capital assets, net of depreciation at June 30, 2019 and 2020 and Table 5 shows changes in capital assets for the years ended June 30, 2019 and 2020.

Category	Governmental 2020	Governmental 2019	Business-type 2020	Business-type 2019	Total 2020	Total 2019
	2020	2019	2020	2019	2020	2019
Land and land improvements	\$ 1,022,079	\$ 1,084,871	\$ -	\$ -	\$ 1,022,079	\$ 1,084,871
Buildings and improvements	23,666,254	24,751,847	-	-	23,666,254	24,751,847
Technology	567,921	544,992	5,756	7,439	573,677	552,431
Vehicles	1,113,165	1,103,324	-	-	1,113,165	1,103,324
General equipment	618,379	314,902	91,579	115,817	709,958	430,719
Total	26,987,798	27,799,936	97,335	123,256	27,085,133	27,923,192
Construction in progress	79,227	452,180	-	-	79,227	452,180
Total	\$ 27,067,025	\$ 28,252,116	\$ 97,335	\$ 123,256	\$ 27,164,360	\$ 28,375,372

Category	Governmental 2020	Governmental 2019	Business-type 2020	Business-type 2019	Total 2020	Total 2019
	2020	2019	2020	2019	2020	2019
Beginning balance	\$ 28,252,116	\$ 28,986,252	\$ 123,256	\$ 151,478	\$ 28,375,372	\$ 29,137,730
Additions	892,530	932,613	1,351	-	893,881	932,613
Retirements	(374,072)	(3,947)	-	-	(374,072)	(3,947)
Depreciation	(1,703,549)	(1,662,802)	(27,272)	(28,222)	(1,730,821)	(1,691,024)
Ending balance	\$ 27,067,025	\$ 28,252,116	\$ 97,335	\$ 123,256	\$ 27,164,360	\$ 28,375,372

BUDGETARY IMPLICATIONS

A fundamental principle of finance is a balanced budget. It is important not to spend more than is received. Unknown circumstances sometimes arise that require expenses in a year that exceed revenues. It is extremely important that the district continue to budget very conservatively. The district received approximately 36% of its general fund revenue through the state funding formula (SEEK). There have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 25% of the general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-eighth months of the school year. This means the general fund's beginning fund balance must be used to absorb much of the first five months of expenditures in the school year. Provisions must always be made to have a significant fund beginning balance to start each year. The General Fund has an ending fund balance of \$6,654,373 being brought forward as a beginning balance for next year to continue to effectively maintain quality programs. Some of this surplus is already obligated due to the recurring increase cost of salaries.

By law the budget must have a minimum 2% contingency, but it is recommended that a higher contingency be maintained. The beginning fund balance for the 2020-2021 fiscal year is \$6,654,373 (comprised of nonspendable, restricted, committed, assigned and unassigned funds). Significant Board action that impacts the finances include the approval of a 1% raises for the 2020-2021 school year. The district currently participates in over thirty federal and state grants. All federal funds received by Simpson County are restricted for specific purposes. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant upfront and then apply for reimbursement. At year-end, the District's General Fund was not due any amount from other funds. The district must continue to monitor the grants constantly and get

reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements. In addition, decisions about allocation of funds held in reserve for annual expense must always consider the implication of recurring expense. Personnel expenses are a classic example of recurring expense. Also, additional contingency is required due to the age of the district's buildings where unanticipated major repairs could arise to maintain up-to-date facilities and a good learning environment for all students. Simpson County Schools has made a continuous effort to increase pay raises above the state minimum requirement to compete more with surrounding districts in attracting the best and talented educators.

DISTRICT CHALLENGES FOR THE FUTURE

The economy continues to be an area of concern for all types of organizations and individuals, including our school system. Though there are many indicators pointing to an improved economy in the private sectors, governmental programs including education continue to struggle for funding. Pension reform is still a hot topic for our school district. We will have to watch these developments closely as there could be some significant financial implications. Additionally, the state budget included cuts to many educational programs including textbooks/instructional materials, professional development, preschool, and the Kentucky Teacher Internship Program (KTIP) which have adversely impacted our local budget. Though the Federal government passed the new Every Student Succeeds Act, the investment in education funding has not changed much for our district from the federal level. The Simpson Co. Board of Education chose to take the compensating rate this year and lowered taxes by 1.3 cents. The board felt it was the only option with the current state of our economy dealing with the COVID-19 pandemic. Simpson County Schools receive less revenue per pupil than most districts in Kentucky, our local efforts have improved our revenue standing within Kentucky. However, it will be important that we get back on schedule by taking the 4% tax rate. This is important as our students deserve the same opportunities and resources other kids receive. With this important investment in our youth, we can continue our march forward of providing our students in Simpson County with a world-class, high quality education that is second to none.

Our vision is to be the best school system in the state of Kentucky that empowers our students to graduate life-ready – academically and socially prepared for college and/or careers! To that end, our mission is simple – to develop all children to their fullest potential and prepare them for the next level of life! We are proud that our school system is among the upper echelon of all school districts in Kentucky. Franklin Simpson High School continues to shine among high schools with some of the highest college and career readiness rates in the state! Additionally, US News and World Reports named FSHS as one of the Best High Schools in America! Simpson Co. Schools have maintained a strong presence in the education of our students in the midst of the pandemic. Simpson Co. schools have provided every student with a Chromebook and internet access to any student that has requested or needed it. We will continue to work toward a personalized learning plan that ensures high expectations and compassion for every student!

Just like we do for our students, we have very high expectations and compassion for every employee in our school system. Our SCS Team works extremely hard to achieve our vision and mission, focusing our efforts on five fundamental questions that drive the work in our schools:

1. ***Do we have a clear plan for building positive, professional relationships with students, their families and one another?***
2. ***Do we have clear procedures for making sure we are teaching the standards that we expect all students to know and be able to do in order to graduate college and/or career ready?***
3. ***Do we have clear procedures for making sure our students have learned the standards?***
4. ***Do we have clear procedures for making sure we “fix it” when students struggle learning and meeting the standards?***

5. *Do we have clear procedures for providing enrichments and “stretch” learning for students who are already meeting or exceeding the standards?*

We will maintain a sharp focus on these guiding questions in our work throughout the 2020-2021 school year and beyond!

Some specific initiatives we are implementing to improve student achievement and help us meet our student achievement goals include the following:

We have a process, including a monitoring system, to align and continuously renew the district curriculum. Data, including classroom assessment results, should be used to identify gaps in the curriculum as it is implemented.

- We will continue to refine and renew the district curriculum through on-going planned sessions to further develop our resources, curricular units and assessments around each content standard, specifically the new common core standards in reading and math, as well as the new standards in science and social studies.
- We have implemented district-wide learning checks and common assessments to monitor student progress on the district curriculum. We have planned these learning checks to occur at least quarterly.
- We are implementing Pre/Post testing in Reading, Language and Math in Grades K-8 for all students to measure individual student growth over the year. We are using the STAR Enterprise Assessment to provide diagnostic information that will help teachers deliver targeted instruction to meet individual learner needs.
- At the high school level, we are implementing Pre/Post assessment using the ACT series to help ensure every graduate is ready for post-secondary training. Additionally, we have ramped up our Advanced Placement course offerings and implemented a partnership with the Franklin Center of Southcentral Community and Technical College to offer dual credit college courses for students. We also have dual-credit partnerships with WKU and other post-secondary partners. Through these and other programs, students at FSHS earned over 900 hours of college credit last year!
- Our Professional Learning Community (PLC) Work will bring teachers together in collegial work groups to analyze student work and results on classroom assessments and use the data to inform instruction, share and celebrate successful strategies, as well as identify students who need remediation or enrichment in an area. Ultimately, we want to achieve common formative and summative assessments in like courses/content areas that are aligned to the district curriculum and use the results from these assessments to inform instruction and identify students for interventions/enrichments...

We will use a variety of methods to gauge the status of the existing district and school cultures. Results of the methods will be used to determine strategies to implement that foster a culture conducive to performance excellence. All staff should be held responsible for the success of all students.

- We will continue monitoring student attendance, discipline reports, grade distributions, drop-out rates.... We will more closely monitor staff attendance as an indicator as well.
- We will implement surveys of staff, students and parents to gauge our culture and performance perceptions among stakeholders. We will use this information to monitor our culture and develop strategies for improving it on behalf of our students.

We will execute effective use of planning time using the most current curriculum standards to develop lesson plans and units of study.

- We will continue our work with *Thoughtful Education and other high-yield strategies*, refining our efforts to design effective lessons and units of study around the district curriculum using research-based instructional strategies and engaging resources. We will use time during the work-day for job embedded staff development to work on this and other important initiatives for raising student achievement. One important initiative that ties together the curriculum,

instruction and assessment is the development of a growth mindset with our staff to always be striving to improve their delivery of instruction.

Our business is a people business. The adults we have working with our students is critical to our success. Therefore, it's essential to our mission to attract and retain the very best educators possible in order to enhance the instructional program for all students. This requires competitive salaries/benefits and up-to-date resources and facilities. We have upgraded all of our recruitment, assessment and selection systems to improve our ability to attract and hire the very best. We are continuing our new teacher induction program with plans to further develop a career development program for staff at all levels of experience.

We are continuing our support and work with teachers who are working on the prestigious and rigorous National Board Teacher Certification Program. The National Board for Professional Teaching Standards was established in 1987 to advance quality teaching and learning by developing a national vocabulary of teaching standards and recognizing accomplished teaching through administering a voluntary program of National Board Teacher Certification. Today, National Board Teacher Certification is not only a rare, highly-regarded professional distinction, but is also shown by research to have a positive impact on student achievement. We continue to support our teachers in this program and others to inspire growth and development over an entire career.

In addition to the NBTC program, our Board of Education started an innovative Doctoral Scholarship for two Simpson County teachers! Both teachers graduated in 2018, opening up the scholarships for two new candidates. Also, we have five teachers in the principal preparation program at WKU through a closed cohort partnership with Warren County and Bowling Green Independent Schools!

In our quest to provide our students, staff and visitors with high quality school facilities, we have completed improvements to almost every school building in our district over the past 15 years. Our current District Facilities Plan approved in the spring of 2019 has as its top priority a new performing arts center for the high school. We completed the construction of the first phase of this project with a new band room and chorus room which opened in January 2014. This music suite was a great addition to the new competition gym/physical education/student wellness center at FSHS in June of 2011. We sincerely hope the General Assembly will consider measures to address adequate facility funds in a manner that will be equitable for school districts across the state. An adequate and equitable funding system would provide the resources necessary to do all of our priority one projects in our current District Facilities Plan. The Local Planning Committee completed the process of developing a new District Facility Plan to submit to the Simpson County Board of Education and the Kentucky Board of Education in the spring of 2019. On this new plan SCS will be looking to build classroom additions at Simpson Elementary, new alternative learning center at the high school, restroom renovation at Franklin Elementary and the Fine Arts center at the high school.

School district funding continues to be a serious issue facing our state and community. Though our school system has consistently ranked in the bottom 5% to 33% of the state in total per pupil funding, we have operated our district efficiently and wisely, which has allowed us to maintain a healthy budget. Consequently, we have been able to maintain most of our programs and services for students without making any major cuts. We have implemented serious "belt tightening" strategies to help us maintain critical programs for our students. These strategies have allowed us to invest a greater proportion of our budget in the instructional areas at a rate well-above the state benchmark. Some key areas we must keep our focus on to maximize our funding are:

- **Improving student attendance** – we need students to be at school in order to teach them. At the same time, our funding mechanism is dependent on student attendance rates. We need our students to attend school every day possible. Good student attendance will improve learning results and our financial outlook. In recent years, we are achieving record-breaking attendance rates!

- ✓ **Reducing substitute costs** by improving staff attendance. Just like our students, we need our staff present every day possible to deliver on our mission while saving on the cost of providing a substitute.
- ✓ **Initiating a district-wide Energy Savings Program and Promotion** to encourage saving energy by turning off lights, computers, SMART boards and projectors when not in use. SCS continues to be creative in our summer cleaning procedures to save money. COVID-19 forced us to revamp that procedure, but we hope to be able to implement some phase of that cost reduction process this summer. We recently approved an Energy Management Specialist job description and stipend to help us save even more energy and instill an awareness and commitment to energy efficiency among every person in our school system!
- ✓ **Selling our surplus equipment** – we scour the district for unused items and sell/auction these items to help us raise revenues and remove clutter at the same time!

Making progress in the above-mentioned initiatives can help us improve our financial outlook and be better able to provide our students and staff with the needed resources to help us achieve our vision/mission for all students. Though we still operate with less revenue per student than most school districts, our rate of return on investment is quite impressive when you consider our excellent performance results! Ultimately, we are going to work hard to ensure the funds we have are targeted toward helping our students learn and be successful in life!

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, inquiries should be directed to Tim Schlosser, Superintendent or Amanda Spears, Chief Financial Officer (270) 586-8877, 430 South College St., Franklin, KY, 42134.

BASIC FINANCIAL STATEMENTS

SIMPSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2020

	Governmental Activities	Business-Type Activities	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 7,252,251	\$ 467,375	\$ 7,719,626
Inventory		57,314	57,314
Prepaid expenses	3,089		3,089
Receivables:			
Taxes-current	65,763		65,763
Taxes-delinquent	25,587		25,587
Other receivables	22,102	1,102	23,204
Intergovernmental-State	215		215
Intergovernmental-Indirect Federal	400,838	54,851	455,689
Total Current Assets	7,769,845	580,642	8,350,487
<u>Noncurrent Assets</u>			
Non-depreciable capital assets	686,208		686,208
Depreciable capital assets, net of accumulated depreciation	26,380,817	97,335	26,478,152
Total Noncurrent Assets	27,067,025	97,335	27,164,360
Total Assets	34,836,870	677,977	35,514,847
Deferred Outflows of Resources			
Deferred amount on debt refundings	497,015		497,015
TRS OPEB Medical Ins Fund	874,000		874,000
CERS Pension	2,187,204	426,643	2,613,847
CERS OPEB	886,549	172,933	1,059,482
Total Deferred Outflows of Resources	4,444,768	599,576	5,044,344
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	287,392	1,622	289,014
Accrued payroll and related expenses	150,861		150,861
Unearned revenue	498,860		498,860
Bond obligations	1,275,000		1,275,000
Capital lease obligations	78,069		78,069
Compensated absences	88,631		88,631
KSBIT	14,676		14,676
Interest payable	148,013		148,013
Total Current Liabilities	2,541,502	1,622	2,543,124
<u>Noncurrent Liabilities</u>			
Bond obligations	12,684,312		12,684,312
Capital lease obligations	117,216		117,216
TRS OPEB Medical Ins Fund	6,371,000		6,371,000
Net pension liability - CERS	9,682,371	1,888,675	11,571,046
Net OPEB liability - CERS	2,314,966	451,565	2,766,531
Compensated absences	256,942		256,942
Total Noncurrent Liabilities	31,426,807	2,340,240	33,767,047
Total Liabilities	33,968,309	2,341,862	36,310,171
Deferred Inflows of Resources			
Deferred gain on bonds	5,682		5,682
TRS OPEB Medical Insurance Fund	1,620,000		1,620,000
CERS Pension	391,200	76,309	467,509
CERS OPEB	837,631	163,391	1,001,022
Total Deferred Inflows of Resources	2,854,513	239,700	3,094,213
<u>Net Position</u>			
Net investment in capital assets	13,403,761	97,335	13,501,096
Restricted	336,469		336,469
Unrestricted	(11,281,414)	(1,401,344)	(12,682,758)
Total Net Position	\$ 2,458,816	\$ (1,304,009)	\$ 1,154,807

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

FUND FINANCIAL STATEMENTS

SIMPSON COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2020

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 6,925,780	\$ 130,376	\$ 196,095	\$ 7,252,251
Receivables:				
Taxes - current	65,763			65,763
Taxes - delinquent	25,587			25,587
Other receivables	6,201	7,612	8,289	22,102
Intergovernmental - State		215		215
Intergovernmental - Indirect Federal	13,572	387,266		400,838
Prepays	3,089			3,089
Total Assets	\$ 7,039,992	\$ 525,469	\$ 204,384	\$ 7,769,845
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ 220,082	26,609	\$ 40,701	\$ 287,392
Accrued payroll and related expenses	150,861			150,861
KSBIT	14,676			14,676
Unearned revenue		498,860		498,860
Total Liabilities	385,619	525,469	40,701	951,789
Fund Balances				
Nonspendable	3,089			3,089
Restricted	172,786		163,683	336,469
Committed	1,478,942			1,478,942
Assigned	709,407			709,407
Unassigned	4,290,149			4,290,149
Total Fund Balances	6,654,373	-	163,683	6,818,056
Total Liabilities and Fund Balances	\$ 7,039,992	\$ 525,469	\$ 204,384	\$ 7,769,845

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

SIMPSON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

June 30, 2020

Total fund balance per fund financial statements	\$ 6,818,056
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	27,067,025
Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	497,015
Governmental funds do not record deferred outflows of resources for pensions and OPEB as those are reported on the statement of net position as deferred outflows of resources.	3,947,753
Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized gains on refundings are reported on the statement of net position as deferred inflows of resources.	(5,682)
Governmental funds do not record deferred intflows of resources for pensions and OPEB as those are reported on the statement of net position as deferred intflows of resources.	(2,848,831)
Bonds payable (net of discounts/premiums)	(13,959,312)
Capital lease obligations	(195,285)
Interest payable	(148,013)
Net pension liability - CERS	(9,682,371)
Net OPEB liability - CERS	(2,314,966)
Net OPEB liability - TRS MIF	(6,371,000)
Compensated absences	(345,573)
Net position for governmental activities	<u>\$ 2,458,816</u>

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

SIMPSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2020

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 7,145,908	\$ -	\$ 817,329	\$ 7,963,237
Motor vehicle	732,246			732,246
Utilities	1,549,493			1,549,493
Revenue in lieu of taxes	520,910			520,910
Tuition and fees		1,959		1,959
Earnings on investments	234,172	70		234,242
Other local revenues	75,214	663,431	187,873	926,518
Intergovernmental - State	17,958,795	1,396,893	1,134,113	20,489,801
Intergovernmental - Indirect Federal	258,389	2,751,266		3,009,655
Total Revenues	28,475,127	4,813,619	2,139,315	35,428,061
Expenditures:				
Instruction	17,323,105	4,321,934	187,081	21,832,120
Support services:				
Student	1,493,111	96,315		1,589,426
Instruction staff	1,100,517			1,100,517
District administrative	698,999			698,999
School administrative	1,861,795	38,978		1,900,773
Business	909,587	25,984		935,571
Plant operation and maintenance	2,860,295	19,084		2,879,379
Student transportation	1,501,938	29,621		1,531,559
Community service activities		398,623		398,623
Other non-instruction	113,073	47,475		160,548
Facilities acquisition and construction			(13,773)	(13,773)
Debt service:				
Principal			1,525,000	1,525,000
Interest			396,986	396,986
Total Expenditures	27,862,420	4,978,014	2,095,294	34,935,728
Excess (Deficit) of Revenues over Expenditures	612,707	(164,395)	44,021	492,333
Other Financing Sources (Uses):				
Proceeds from disposal of capital assets	217			217
Transfers in	181,796	156,994	1,386,057	1,724,847
Transfers out	(362,896)		(1,361,951)	(1,724,847)
Total Other Financing Sources (Uses)	(180,883)	156,994	24,106	217
Net Change in Fund Balances	431,824	(7,401)	68,127	492,550
Fund Balance, July 1, 2019	6,222,549	7,401	95,556	6,325,506
Fund Balance, June 30, 2020	\$ 6,654,373	\$ -	\$ 163,683	\$ 6,818,056

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

SIMPSON COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2020

Net change in total fund balances per fund financial statements	\$ 492,550
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(1,183,972)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	1,630,580
In the statement of activities, only the gain (loss) on disposal of capital assets is reported, whereas in the governmental funds, the proceeds for the disposal increased financial resources.	(1,120)
The difference between actuarial pension and OPEB amounts and actual amounts are recorded as adjustments in the statement of activities.	(1,102,596)
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(154,843)</u>
Change in net position of governmental activities	<u><u>\$ (319,401)</u></u>

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

SIMPSON COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2020

	Food Service Fund	Daycare Fund	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 391,360	\$ 76,015	\$ 467,375
Receivables - Intergovernmental Indirect Federal	54,851		54,851
Receivables - Other	1,102		1,102
Inventory	57,314		57,314
Total Current Assets	504,627	76,015	580,642
<u>Noncurrent Assets</u>			
Capital assets, net of accumulated depreciation	96,860	475	97,335
Total Noncurrent Assets	96,860	475	97,335
Total Assets	601,487	76,490	677,977
Deferred Outflows of Resources			
CERS Pension	356,560	70,083	426,643
CERS OPEB	144,526	28,407	172,933
Total Deferred Outflows of Resources	501,086	98,490	599,576
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	1,093	529	1,622
Total Current Liabilities	1,093	529	1,622
<u>Noncurrent Liabilities</u>			
Net pension liability - CERS	1,578,429	310,246	1,888,675
Net OPEB liability - CERS	377,388	74,177	451,565
Total Noncurrent Liabilities	1,955,817	384,423	2,340,240
Total Liabilities	1,956,910	384,952	2,341,862
Deferred Inflows of Resources			
CERS Pension	63,774	12,535	76,309
CERS OPEB	136,551	26,840	163,391
Total Deferred Inflows of Resources	200,325	39,375	239,700
<u>Net Position</u>			
Net investment in capital assets	96,860	475	97,335
Unrestricted	(1,151,522)	(249,822)	(1,401,344)
Total Net Position	\$ (1,054,662)	\$ (249,347)	\$ (1,304,009)

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

SIMPSON COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2020

	Food Service Fund	Daycare Fund	Total
Operating Revenues:			
Lunchroom sales	\$ 34,860	\$ -	\$ 34,860
Other operating revenues	45,012		45,012
Tuition and fees		150,715	150,715
Total Operating Revenues	79,872	150,715	230,587
Operating Expenses:			
Salaries and wages	1,071,291	80,207	1,151,498
Materials and supplies	950,123	17,781	967,904
Depreciation	27,219	53	27,272
Other operating expenses	264,872	6,297	271,169
Total Operating Expenses	2,313,505	104,338	2,417,843
Operating income (loss)	(2,233,633)	46,377	(2,187,256)
Non-Operating Revenues (Expenses):			
Federal grants	2,055,986		2,055,986
Donated commodities	91,620		91,620
State on-behalf payments	122,640	25,448	148,088
State grants	16,340	37,593	53,933
Interest income	3,579		3,579
Total Non-Operating Revenues (Expenses)	2,290,165	63,041	2,353,206
Changes in net position	56,532	109,418	165,950
Net Position, July 1, 2019	(1,111,194)	(358,765)	(1,469,959)
Net Position June 30, 2020	\$ (1,054,662)	\$ (249,347)	\$ (1,304,009)

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

SIMPSON COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2020

	Food Service Fund	Daycare Fund	Total
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 34,860	\$ -	\$ 34,860
Other activities	43,910		43,910
Tuition and fees		150,715	150,715
Cash paid to/for:			
Employees	(802,384)	(161,646)	(964,030)
Supplies	(874,534)	(17,846)	(892,380)
Other activities	(264,872)	(6,297)	(271,169)
Net Cash Used by Operating Activities	(1,863,020)	(35,074)	(1,898,094)
Cash flows from Non-Capital Financing Activities			
Federal grants	2,040,883		2,040,883
State grants	16,340	37,593	53,933
Net Cash Provided by Non-Capital Financing Activities	2,057,223	37,593	2,094,816
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(823)	(528)	(1,351)
Net Cash Used by Capital and Related Financing Activities	(823)	(528.00)	(1,351)
Cash Flows from Investing Activities			
Receipt of interest income	3,579		3,579
Net increase in cash and cash equivalents	196,959	1,991	198,950
Balances, beginning of year	194,401	74,024	268,425
Balances, end of year	\$ 391,360	\$ 76,015	\$ 467,375
Reconciliation of operating income (loss) to net cash used by operating activities:			
Operating income (loss)	\$ (2,233,633)	\$ 46,377	\$ (2,187,256)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	27,219	53	27,272
State on-behalf payments	122,640	25,448	148,088
Donated commodities	91,620		91,620
GASB 68 pension adjustment	145,959	(73,766)	72,193
GASB 75 OPEB adjustment	308	(33,121)	(32,813)
Change in assets and liabilities:			
Other receivables	(1,102)		(1,102)
Inventory	(14,375)		(14,375)
Accounts payable	(1,656)	(65)	(1,721)
Net cash used by operating activities	\$ (1,863,020)	\$ (35,074)	\$ (1,898,094)
Schedule of non-cash transactions:			
Donated commodities received from federal government	\$ 91,620	\$ -	\$ 91,620
State on-behalf payments	\$ 122,640	\$ 25,448	\$ 148,088
CERS pension	\$ 145,959	\$ (73,766)	\$ 72,193
CERS OPEB	\$ 308	\$ (33,121)	\$ (32,813)

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

SIMPSON COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2020

	<u>Agency Fund - School Activity</u>	<u>Agency Fund - Scholarship</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 207,796	\$ 107,343	\$ 315,139
Total Assets	<u>\$ 207,796</u>	<u>\$ 107,343</u>	<u>\$ 315,139</u>
Liabilities			
Accounts payable	\$ 1,764	\$ -	\$ 1,764
Due to student groups	206,032		206,032
Due to recipients		<u>107,343</u>	<u>107,343</u>
Total Liabilities	<u>\$ 207,796</u>	<u>\$ 107,343</u>	<u>\$ 315,139</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Simpson County School District (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Simpson County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Simpson County School District. 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.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component unit reportable within the accompanying financial statements is the Simpson County School District Finance Corporation, (the "Corporation"). The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Boosters, Parent-Teacher Associations, etc.

Blended Component Unit - Simpson County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Simpson County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

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

The Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Funds are accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income:

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (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 periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) The District Activity Fund is a Special Revenue Fund type and is used to account for funds received at the school level.
- (D) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law.

Proprietary Funds

Proprietary Funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses include salaries, benefits, supplies and other items. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has two Proprietary Funds.

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund of the District.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Daycare Fund accounts for the daycare operations of the District. Amounts have been recorded for on-behalf payments for retirement and health insurance paid by the State of Kentucky. This is a major fund of the District.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

- A. The Agency Fund – School Activity accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Agency Fund – Scholarship is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments for which the District acts as an agent.

BASIS OF ACCOUNTING

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

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources - Revenues from State sources for current operations are primarily from the Support Education Excellence in Kentucky ("SEEK"), administered by the Kentucky Department of Education ("KDE"). The District files reports on average daily attendance ("ADA") student membership with the KDE. The KDE accumulates information from these reports and calculates the allocation of SEEK funds to the District. After review and verification of ADA reports and supporting documentation, the KDE may adjust subsequent fiscal period allocations of SEEK funding. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

Property Taxes - On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

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

C. BUDGETARY POLICIES

Budgetary Process

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

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

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are considered to be demand deposits, money market funds, and other investments with an original maturity of 90 days or less.

F. INVENTORIES

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds, which record inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

G. PREPAID ITEMS

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

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. All capital assets, except for technology items greater than \$5,000 are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

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

I. LONG-TERM DEBT

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts are amortized over the life of the bonds and shown as an offset of bonds payable while deferred amounts on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method and shown as deferred outflows of resources.

J. COMPENSATED ABSENCES

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. ACCOUNTING ESTIMATES

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

L. PENSION AND OPEB PLANS

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

M. NET POSITION

Net position is divided into three components:

1. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
2. Restricted net position – consist of net position that is restricted by the District's creditors (for example, through debt covenants), by grantors (federal, state and local) and by other contributors.
3. Unrestricted – all other net position is reported in this category.

N. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In May 2020, the GASB issued Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement was effective upon issuance. For the postponement dates, see individual standard descriptions below.

Recently Issued Accounting Pronouncements

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. This statement was effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2019, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In August 2018, the GASB issued Statement 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This statement is effective for periods beginning after December 15, 2018, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In May 2019, the GASB issued Statement 91, *Conduit Debt Obligations*. This statement is effective for periods beginning after December 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2020, the GASB Issued Statement 92, *Omnibus 2020*. This statement is effective for periods beginning after June 15, 2020, but was delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 93, *Replacement of Interbank Offered Rates*. This statement is effective, except for paragraphs 11b, 13, and 14 for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021. These dates were delayed by one year with the issuance of GASB 95. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2020, the GASB issued Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The requirements in (1) paragraph 4 of the Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of the Statement are effective immediately. The requirements in paragraphs 6–9 of the Statement are effective for fiscal years beginning after June 15, 2021. All other requirements of the Statement are effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 2 – PROPERTY TAXES

Property Tax Revenues – Property taxes are normally 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 usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

Property Taxes

The property tax rates assessed for the year ended June 30, 2020, to finance operations were \$.548 per \$100 valuation for real property, \$.548 per \$100 valuation for business personal property and \$.546 per \$100 valuation for motor vehicles. The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

NOTE 3 – DEPOSITS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2020, \$8,926,963 of the District's bank balance of \$9,197,244 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Grants	\$ 156,994
General	Nonmajor Governmental	Operations	22,752
General	Nonmajor Governmental	Debt Service	183,150
Nonmajor Governmental	Nonmajor Governmental	Debt Service	1,174,395
Nonmajor Governmental	General	COFT	94,007
Nonmajor Governmental	General	BFFT	87,789
Nonmajor Governmental	Nonmajor Governmental	Internal	5,760
			<u>\$ 1,724,847</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 5 - CAPITAL ASSETS

Capital asset activity for governmental activities for the fiscal year ended June 30, 2020, was as follows:

Governmental Activities	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Capital Assets Not Being Depreciated:				
Land	\$ 606,981	\$ -	\$ -	\$ 606,981
Construction in progress	452,180		(372,953)	79,227
Total Capital Assets Not Being Depreciated	1,059,161	-	(372,953)	686,208
Capital Assets Being Depreciated:				
Land improvements	2,326,360		(86,508)	2,239,852
Buildings and improvements	43,933,865			43,933,865
Technology equipment	2,370,101	257,421	(195,858)	2,431,664
Vehicles	3,090,994	243,034		3,334,028
General equipment	1,744,054	392,075	(3,500)	2,132,629
Total Capital Assets Being Depreciated at Historical Cost	53,465,374	892,530	(285,866)	54,072,038
Less Accumulated Depreciation For:				
Land improvements	1,848,470	62,792	(86,508)	1,824,754
Buildings and improvements	19,182,018	1,085,593		20,267,611
Technology equipment	1,825,109	233,373	(194,739)	1,863,743
Vehicles	1,987,670	233,193		2,220,863
General equipment	1,429,152	88,598	(3,500)	1,514,250
Total accumulated depreciation	26,272,419	1,703,549	(284,747)	27,691,221
Total Other Capital Assets, net	27,192,955	(811,019)	(1,119)	26,380,817
Governmental Activities Capital Assets - Net	\$ 28,252,116	\$ (811,019)	\$ (374,072)	\$ 27,067,025

Depreciation was charged to governmental functions as follows:

Function	Amount
Instruction	\$ 1,130,807
Instructional staff	381
District administration	29,608
School administration	6,704
Business support	1,089
Plant	335,723
Transportation	199,237
	<u>\$ 1,703,549</u>

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 5 - CAPITAL ASSETS – CONTINUED

Capital asset activity for business-type activities for the fiscal year ended June 30, 2020, was as follows:

Business-Type Activities	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Capital Assets Being Depreciated:				
Technology equipment	\$ 57,377	\$ 1,351	\$ (766)	\$ 57,962
Food service equipment	571,807	-		571,807
Totals at historical cost	629,184	1,351	(766)	629,769
Less Accumulated Depreciation For:				
Technology equipment	49,938	3,034	(766)	52,206
Food service equipment	455,990	24,238		480,228
Total accumulated depreciation	505,928	27,272	(766)	532,434
Business-Type Activities Capital Assets - Net	\$ 123,256	\$ (25,921)	\$ -	\$ 97,335

NOTE 6 – 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 purchases commercial insurance.

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

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 7 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2020, is as follows:

Description	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Revenue bonds	\$ 15,535,000	\$ -	\$ (1,525,000)	\$ 14,010,000	\$ 1,275,000
Capital leases	300,865	-	(105,580)	195,285	78,069
	15,835,865	-	(1,630,580)	14,205,285	1,353,069
Less Discounts and Premiums	(54,566)	-	3,878	(50,688)	-
Total Bonds and Leases Payable	15,781,299	-	(1,626,702)	14,154,597	1,353,069
Other Liabilities:					
KSBIT	29,352		(14,676)	14,676	14,676
Compensated absences	267,066	131,277	(52,770)	345,573	88,631
Total Other Liabilities	296,418	131,277	(67,446)	360,249	103,307
Total Governmental Activities Long-Term Liabilities	\$ 16,077,717	\$ 131,277	\$ (1,694,148)	\$ 14,514,846	\$ 1,456,376

The debt service fund is primarily responsible for paying the bond obligations through funding from the General, Capital Outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences and KSBIT.

Bond Liabilities

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

Issue Date	Proceeds	Rate
2007	\$ 2,150,000	3.50% - 3.80%
2012R	7,450,000	1.00% - 2.25%
2013	1,735,000	1.60% - 4.00%
2014R	4,680,000	1.00% - 3.45%
2015R	4,100,000	2.00% - 2.25%
2015	670,000	2.90%
2016	1,115,000	2.00% - 3.125%

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

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

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

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2020, for debt service (principal and interest) are as follows:

Year	Principal	Interest	Participation	District's Portion
2021	\$ 1,275,000	\$ 361,751	\$ 465,580	\$ 1,171,171
2022	1,300,000	336,834	469,690	1,167,144
2023	1,330,000	309,366	468,716	1,170,650
2024	1,355,000	280,956	467,729	1,168,227
2025	1,385,000	250,203	466,729	1,168,474
2026-2030	5,280,000	724,069	1,290,721	4,713,348
2031-2035	1,930,000	146,056	306,780	1,769,276
2036	155,000	3,839	20,373	138,466
	<u>\$ 14,010,000</u>	<u>\$ 2,413,074</u>	<u>\$ 3,956,318</u>	<u>\$ 12,466,756</u>

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Capital Lease Liabilities

The following is an analysis of the leased property under capital lease by class. These assets are included in capital assets and are depreciated:

Classes of Property

Buses	
Gross amount of assets	\$ 952,920

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2020:

<u>Description</u>	<u>Year</u>	<u>Amount</u>
	2021	\$ 82,883
	2022	71,288
	2023	33,540
	2024	<u>17,085</u>
Total minimum lease payments		204,796
Less: Amount representing interest		<u>(9,511)</u>
Present Value of Net Minimum Lease Payments		<u>\$ 195,285</u>

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS

Plan Descriptions

The Simpson County School District participates in the Teachers' Retirement System of the State of Kentucky (TRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. TRS, which qualifies as a special funding situation under GASB 68, and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. TRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The TRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. TRS' report may be obtained at www.trs.ky.gov. CERS' report may be obtained at www.kyret.ky.gov.

TRS

Retirement Plan

Benefits Provided

For Members Before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to 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 members (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 members 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, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS – CONTINUED

For Members On or After July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or
- 2.) Complete twenty-seven (27) years of Kentucky service, or
- 3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27 years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Contributions

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.855 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2020, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2020. 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.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS – CONTINUED

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

At June 30, 2020, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was \$55,834,158.

The net pension liability was measured as of June 30, 2019, 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 was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2019, the District's proportion was .4092 percent.

For the year ended June 30, 2020, the District recognized pension expense of negative \$5,837,029 and revenue of negative \$5,837,029 (\$4,201,834 in the governmental funds and negative \$10,038,863 in government-wide activities) for support provided by the State. At June 30, 2020, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

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:

Inflation	3.00 percent
Salary increases	3.50 – 7.30 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study prepared for the period July 1, 2010 – June 30, 2015, submitted to and adopted by the Board on September 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.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS – CONTINUED

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	40%	4.2%
International Equity	22%	5.2%
Fixed Income	15%	1.2%
Other	8%	3.3%
Real Estate	6%	3.8%
Private Equity	7%	6.3%
Cash	2%	0.9%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that Employer contributions will be made at the Actuarially Determined Contribution rates 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 periods of projected benefit payments to determine the total pension liability.

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 7.50 percent, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

Description	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
System's net pension liability (in thousands)	\$ 17,269,491	\$ 14,294,885	\$ 10,373,915

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS – CONTINUED

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued TRS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CERS

Benefits Provided

The system provides for retirement, disability, and death benefits to system members. Retirement benefits may be extended to beneficiaries of members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

Contributions

For the fiscal year ended June 30, 2020, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2020, was 19.30 percent of annual creditable compensation. Contributions to the pension plan from the District were \$831,543.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS – CONTINUED

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

At June 30, 2020, the District reported a liability of \$11,571,046 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2019, the District's proportion was 0.164524 0.162649 percent, which was an increase of .001875 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$2,044,722. At June 30, 2020, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 295,444	\$ 48,891
Changes in actuarial assumptions	1,171,121	
Difference between projected and actual investment earnings	222,119	408,649
Changes in proportion and differences between employer contributions and proportionate share of contributions	93,620	9,969
Contributions paid to CERS subsequent to the measurement date	831,543	
	<u>\$ 2,613,847</u>	<u>\$ 467,509</u>

The amount reported as deferred outflows for District contributions subsequent to the measurement date of \$831,543 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2021	\$ 843,627
2022	325,706
2023	132,228
2024	13,234
	<u>\$ 1,314,795</u>

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION 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:

Inflation	2.30 percent
Salary increases	3.30 percent to 10.30%, varies by service, including inflation
Investment rate of return	6.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018 and adopted by the Board on April 18, 2019.

The long-term expected return on plan assets 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.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 8 – PENSION PLANS – CONTINUED

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	18.8%	4.30%
Non-U.S. Equity	18.8%	4.80%
Private Equity	10.0%	6.65%
Specialty Credit/High Yield	15.0%	2.60%
Core Bonds	13.5%	1.35%
Cash	1.0%	20.00%
Real Estate	5.0%	4.85%
Opportunistic	3.0%	2.97%
Real Return	15.0%	4.10%
	100%	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 year closed amortization period of the unfunded actuarial accrued liability. The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CERS Comprehensive Annual Financial Report.

Sensitivity Of The District's Proportionate Share Of The Net Pension Liability To Changes In The Discount Rate

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

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	\$ 14,472,097	\$ 11,571,046	\$ 9,153,049

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position, which has been determined on the same basis as that used by the plan, is available in the separately issued CERS financial report. The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching contributions are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Descriptions

The Simpson County School District participates in the Teachers' Retirement System of the State of Kentucky (TRS), a component unit of the Commonwealth of Kentucky which includes certified employees and the County Employees' Retirement System (CERS), a component unit of the Commonwealth of Kentucky which includes all other employees, both of which are cost-sharing multiple-employer defined benefit plans. TRS, which qualifies as a special funding situation for the Life Insurance Fund under GASB 75, and CERS provide other post-employment benefits to plan members and beneficiaries. TRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The TRS and CERS issue a publicly available financial reports that include financial statements and required supplementary information. TRS' report may be obtained at www.trs.ky.gov. CERS' report may be obtained at www.kyret.ky.gov.

TRS

General Information about the 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 www.trs.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 TRS plans:

Medical Insurance Fund

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

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

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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, 2020, the District reported a liability of \$6,371,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the District's proportion was .393463 percent, which was a decrease of .005503 percent from its proportion measured as of June 30, 2018.

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

District's proportionate share of the net OPEB liability	\$	6,371,000
State proportionate share of the net OPEB liability associated with the District		<u>5,145,000</u>
Total	\$	<u><u>11,516,000</u></u>

For the year ended June 30, 2020, the District recognized OPEB expense of \$262,000 and revenue of \$306,094 for support provided by the Commonwealth. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 834,726
Changes in actuarial assumptions	818,642	5,474
Difference between projected and actual investment earnings	18,223	141,100
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,532	19,721
Contributions paid to CERS subsequent to the measurement date	205,085	
	\$ 1,059,482	\$ 1,001,021

Of the total amount reported as deferred outflows of resources related to OPEB, \$205,085 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30	OPEB Expense Amount
2021	\$ (22,187)
2022	(22,187)
2023	16,881
2024	(57,955)
2025	(52,479)
Thereafter	(8,697)
	\$ (146,624)

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

Investment rate of return	8.00%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.50 – 7.20%, including inflation
Inflation rate	3.00%
Real Wage Growth	0.50%
Wage Inflation	3.50%
Healthcare cost trend rates	
Under 65	7.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2024
Ages 65 and Older	5.50% for FY 2019 decreasing to an ultimate rate of 5.00% by FY 2021
Medicare Part B Premiums	2.63% for FY 2019 with an ultimate rate of 5.00% by 2031
Municipal Bond Index Rate	3.50%
Discount Rate	8.00%
Single Equivalent Interest Rate	8.00%, net of OPEB plan investment expense, including inflation

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 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.

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	30 Year Expected Geometric Real Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	9.0%	1.2%
Real Estate	6.5%	3.8%
Private Equity	8.5%	6.3%
Other	17.0%	3.2%
Cash (LIBOR)	1.0%	0.9%
	<u>100.0%</u>	

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

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

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

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Description	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 7,547,000	\$ 6,371,000	\$ 5,386,000

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.

Description	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 5,186,000	\$ 6,371,000	\$ 7,828,000

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

Life Insurance Fund

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

Benefits provided – TRS provides a life insurance benefit of five thousand dollars payable for members who retire based on service or disability. TRS provides a life insurance benefit of two thousand dollars payable for its active contributing members. The life insurance benefit is payable upon the death of the member to the member's estate or to a party designated by the member.

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

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

At June 30, 2020, 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 was \$0 and the Commonwealth's total portion of the net OPEB liability that was associated with the District was \$120,000.

For the year ended June 30, 2020, the District recognized OPEB expense of \$5,054 and revenue of \$5,054 for support provided by the Commonwealth. At June 30, 2020, the District reported no deferred outflows of resources and deferred inflows of resources related to the OPEB.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – 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:

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	3.50%
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, 2018 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.

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	30 Year Expected Geometric Real Rate of Return
U.S. Equity	40.0%	4.3%
International Equity	23.0%	5.2%
Fixed Income	18.0%	1.2%
Real Estate	6.0%	3.8%
Private Equity	5.0%	6.3%
Other	6.0%	3.2%
Cash (LIBOR)	2.0%	0.9%
	<u>100%</u>	

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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

Sensitivity Of The Net OPEB Liability To Changes In The Discount Rate

The District has no proportional share of the net OPEB liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 7.50 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
System's net OPEB liability (in thousands)	\$ 45,921	\$ 31,072	\$ 18,868

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

CERS

Plan description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

Benefits provided – For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003, and before September 1, 2008, are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased by the CPI prior to July 1, 2009, and by 1.5% annually from July 1, 2009.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Contributions – For the fiscal year ended June 30, 2020, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2020, was 4.76 percent of annual creditable compensation. Contributions to the pension plan from the District were \$205,085.

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

At June 30, 2020, the District reported a liability of \$2,766,531 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2019, the District's proportion was 0.164483 percent, which was an increase of .00184 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$301,829. At June 30, 2020, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 834,726
Changes in actuarial assumptions	818,642	5,474
Difference between projected and actual investment earnings	18,223	141,100
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,532	19,721
Contributions paid to CERS subsequent to the measurement date	205,085	
	\$ 1,059,482	\$ 1,001,021

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Of the total amount reported as deferred outflows of resources related to OPEB, \$205,085 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year Ending June 30	OPEB Expense Amount
2021	\$ (22,187)
2022	(22,187)
2023	16,881
2024	(57,955)
2025	(52,479)
Thereafter	<u>(8,697)</u>
	<u>\$ (146,624)</u>

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

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% to 10.30%, varies by service
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Municipal Bond Index Rate	3.13%
Discount Rate	5.68%

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2018 and adopted by the Board on April 18, 2019.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	18.8%	4.30%
Non-U.S. Equity	18.8%	4.80%
Private Equity	10.0%	6.65%
Specialty Credit/High Yield	15.0%	2.60%
Core Bonds	13.5%	1.35%
Cash	1.0%	20.00%
Real Estate	5.0%	4.85%
Opportunistic	3.0%	2.97%
Real Return	15.0%	4.10%
	<u>100%</u>	

The projection of cash flows used to determine the discount rate of 5.68% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.13%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 28, 2019. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the CAFR.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Sensitivity Of The District's Proportionate Share Of The Net OPEB Liability To Changes In The Discount Rate

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.68%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.68%) or 1-percentage-point higher (6.68%) than the current rate:

Description	1% Decrease (4.68%)	Current Discount Rate (5.68)	1% Increase (6.68%)
District's proportionate share of the net OPEB liability	\$ 3,706,012	\$ 2,766,531	\$ 1,992,459

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.

Description	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	\$ 2,057,482	\$ 2,766,531	\$ 3,626,334

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

DEFERRED COMPENSATION

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 10 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2020, there were \$3,089 of nonspendable fund balances related to prepaid items.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2020, the District had \$172,786 restricted for sick leave in the General Fund, \$59,199 restricted for future school activities in the District Activity Fund, \$34,721 restricted for capital projects in the SEEK Capital Outlay Fund, \$44,028 restricted for capital projects in the FSPK Fund, \$25,714 restricted for capital projects in the Construction Fund and \$21 restricted for debt service in the Debt Service Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following General Fund commitments at June 30, 2020: \$481,172 for future construction and \$997,770 for a minimum fund balance policy.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount of \$260,820 was assigned related to encumbrances at June 30, 2020 in the General Fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The amount assigned in the General Fund was \$709,407 (\$200,000 for unemployment, \$406,611 for future CTE and \$102,796 for other operational items).

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. To maintain balances above this level, they recommend reserving at least 5%. On June 30, 2020, the Board had committed \$997,770 of funds to ensure fund balance remains above these levels. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

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

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

The District also has construction commitments for on-going projects at June 30, 2020.

NOTE 12 – DEFICIT FUND BALANCE/NET POSITION

The Food Service Fund and Daycare Fund had a deficit net position at June 30, 2020 in the amounts of \$1,054,662 and \$249,347. The deficit net position is a result of the recording of the net pension liability for CERS as part of GASB Statement 68 and the net OPEB liability for CERS as part of GASB Statement 75.

The following fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net position:

Fund	Amount
Special Revenue Fund	\$ 7,401

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 13 – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2020 were as follows:

<u>Description</u>	<u>Amount</u>
Health	\$ 3,287,911
Life	5,116
Admin	42,249
HRA	158,463
TRS Pension	4,201,834
TRS OPEB	311,148
Technology	99,607
Debt Service	564,441
Less: Federal Reimbursement	<u>(239,600)</u>
Total on-behalf	<u>\$ 8,431,169</u>

Recorded as follows:

General Fund	\$ 7,718,640
Food Service Fund	122,640
Daycare Fund	25,448
Debt Service Fund	<u>564,441</u>
	<u>\$ 8,431,169</u>

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2020

NOTE 14 – OPERATING LEASES

The District has an operating lease for copiers that began in fiscal year 2018 and ends in fiscal year 2021. The lease term is 48 months and calls for a monthly payment of \$5,608. The amount paid in fiscal year 2020 was \$67,293.

REQUIRED SUPPLEMENTARY INFORMATION

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 6,501,996	\$ 7,236,704	\$ 7,145,908
Motor vehicle	692,136	705,658	732,246
Utilities	1,550,000	1,620,000	1,549,493
Revenue in lieu of taxes	438,651	440,000	520,910
Unmined minerals	1,000	1,000	-
Earnings on investments	160,000	200,000	234,172
Other local revenues	27,000	62,000	75,214
Intergovernmental - State	10,400,882.00	9,874,999	17,958,795
Intergovernmental - Indirect Federal	100,000	100,000	258,389
Total Revenues	<u>19,871,665</u>	<u>20,240,361</u>	<u>28,475,127</u>
Expenditures:			
Instruction	11,582,700	11,807,547	17,323,105
Support services:			
Student	1,008,173	1,022,419	1,493,111
Instruction staff	762,438	767,658	1,100,517
District administrative	583,037	614,127	698,999
School administrative	1,310,386	1,304,194	1,861,795
Business	703,049	703,686	909,587
Plant operation and maintenance	2,799,701	2,808,056	2,860,295
Student transportation	1,340,322	1,351,703	1,501,938
Other non-instruction	2,639,903	3,885,180	113,073
Total Expenditures	<u>22,729,709</u>	<u>24,264,570</u>	<u>27,862,420</u>
Excess (Deficit) of Revenues over Expenditures	(2,858,044)	(4,024,209)	612,707
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	3,000	3,000	217
Transfers in		181,796	181,796
Transfers out	(344,956)	(315,982)	(362,896)
Total Other Financing Sources (Uses)	<u>(341,956)</u>	<u>(131,186)</u>	<u>(180,883)</u>
Net Change in Fund Balances	(3,200,000)	(4,155,395)	431,824
Fund Balance, July 1, 2019	<u>3,200,000</u>	<u>4,155,395</u>	<u>6,222,549</u>
Fund Balance, June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,654,373</u>

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$7,718,640.

SIMPSON COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year Ended June 30, 2020

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Earnings on investments	\$ -	\$ -	\$ 70
Tuition and fees			1,959
Other local revenues	4,000	853,246	663,431
Intergovernmental - State	1,417,311	1,396,743	1,396,893
Intergovernmental - Indirect Federal	<u>2,325,777</u>	<u>3,297,891</u>	<u>2,751,266</u>
Total Revenues	<u>3,747,088</u>	<u>5,547,880</u>	<u>4,813,619</u>
Expenditures:			
Instruction	3,359,855	5,040,819	4,321,934
Support services:			
Student	103,368	105,121	96,315
School administrative	38,339	39,007	38,978
Business	30,075	30,075	25,984
Plant operation and maintenance	14,051	15,951	19,084
Student transportation	30,839	29,583	29,621
Community service activities	332,366	372,681	398,623
Other non-instruction		<u>47,475</u>	<u>47,475</u>
Total Expenditures	<u>3,908,893</u>	<u>5,680,712</u>	<u>4,978,014</u>
Excess (Deficit) of Revenues over Expenditures	(161,805)	(132,832)	(164,395)
Other Financing Sources (Uses):			
Transfers in	<u>161,805</u>	<u>132,832</u>	<u>156,994</u>
Total Other Financing Sources (Uses)	<u>161,805</u>	<u>132,832</u>	<u>156,994</u>
Net Change in Fund Balances	-	-	(7,401)
Fund Balance, July 1, 2019	<u>-</u>	<u>-</u>	<u>7,401</u>
Fund Balance, June 30, 2020	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET PENSION LIABILITY

June 30, 2020

Last 10 Years *

	2020	2019	2018
Proportion of the net pension liability	0.164524%	0.162649%	0.163166%
Proportionate share of the net pension liability	\$ 11,571,046	\$ 9,905,820	\$ 9,550,608
Covered payroll	\$ 4,174,047	\$ 4,077,800	\$ 4,024,830
Proportionate share of the net pension liability as percentage of covered payroll	277.2%	242.9%	237.3%
Plan fiduciary net position as a percentage of the total pension liability	50.45%	53.54%	53.30%
	2017	2016	2015
Proportion of the net pension liability	0.162875%	0.162639%	0.161299%
Proportionate share of the net pension liability	\$ 8,019,348	\$ 6,992,722	\$ 5,233,000
Covered payroll	\$ 3,894,942	\$ 3,778,484	\$ 3,730,579
Proportionate share of the net pension liability as percentage of covered payroll	205.9%	185.1%	140.3%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

* Fiscal year 2015 was the first year of implementation, therefore, only six years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE CERS NET OPEB LIABILITY

June 30, 2020

Last 10 Years *

	2020	2019	2018
Proportion of the net OPEB liability	0.164483%	0.162643%	0.163166%
Proportionate share of the net OPEB liability	\$ 2,766,531	\$ 2,887,695	\$ 3,280,195
Covered payroll	\$ 4,174,047	\$ 4,077,800	\$ 4,024,830
Proportionate share of the net OPEB liability as percentage of covered payroll	66.28%	70.82%	81.50%
Plan fiduciary net position as a percentage of the total OPEB liability	60.44%	57.62%	52.39%

* Fiscal year 2018 was the first year of implementation, therefore, only three years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET PENSION LIABILITY

June 30, 2020

Last 10 Years *

	2020	2019	2018
Proportion of the net pension liability	0.409200%	0.405400%	0.402800%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State proportionate share of the net pension liability associated with the District	55,834,158	53,080,664	108,683,795
Total	\$ 55,834,158	\$ 53,080,664	\$ 108,683,795
Covered payroll	\$ 13,098,920	\$ 12,771,497	\$ 12,525,923
District's proportionate share of the net pension liability as a percentage of covered payroll	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	58.80%	59.30%	39.80%
	2017	2016	2015
Proportion of the net pension liability	0.403200%	0.394800%	0.383600%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State proportionate share of the net pension liability associated with the District	118,935,585	91,869,523	78,836,294
Total	\$ 118,935,585	\$ 91,869,523	\$ 78,836,294
Covered payroll	\$ 12,616,544	\$ 12,313,546	\$ 11,972,374
District's proportionate share of the net pension liability as a percentage of covered payroll	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total pension liability	35.20%	42.50%	45.59%

* Fiscal year 2015 was the first year of implementation, therefore, only six years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET OPEB LIABILITY
- MEDICAL INSURANCE FUND

June 30, 2020

Last 10 Years *

	2020	2019	2018
Proportion of the net OPEB liability	0.393463%	0.387960%	0.384260%
District's proportionate share of the net OPEB liability	\$ 6,371,000	\$ 7,230,000	\$ 7,542,000
State proportionate share of the net OPEB liability associated with the District	5,145,000	6,231,000	6,160,000
Total	<u>\$ 11,516,000</u>	<u>\$ 13,461,000</u>	<u>\$ 13,702,000</u>
Covered - employee payroll	\$ 12,766,667	\$ 12,310,951	\$ 11,920,518
District's proportionate share of the net OPEB liability as percentage of covered payroll	49.90%	58.73%	63.27%
Plan fiduciary net position as a percentage of the total OPEB liability	32.60%	25.50%	21.20%

* Fiscal year 2018 was the first year of implementation, therefore, only three years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE TRS NET OPEB LIABILITY
- LIFE INSURANCE FUND

June 30, 2020

Last 10 Years *

	2020	2019	2018
Proportion of the net OPEB liability	0.384684%	0.379128%	0.375577%
District's proportionate share of the net OPEB liability	\$ -	\$ -	\$ -
State proportionate share of the net OPEB liability associated with the District	120,000	107,000	82,000
Total	<u>\$ 120,000</u>	<u>\$ 107,000</u>	<u>\$ 82,000</u>
Covered payroll	\$ 13,098,920	\$ 12,771,497	\$ 12,525,923
District's proportionate share of the net OPEB liability as percentage of covered payroll	0.0%	0.0%	0.0%
Plan fiduciary net position as a percentage of the total OPEB liability	73.40%	75.00%	80.00%

* Fiscal year 2018 was the first year of implementation, therefore, only three years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS PENSION

June 30, 2020

Last 10 Years *

	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ 831,543	\$ 677,030	\$ 590,465
Contribution in relation to the actuarially determined contributions	831,543	677,030	590,465
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 4,308,512	\$ 4,174,047	\$ 4,077,800
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%
	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 561,463	\$ 483,752	\$ 481,756
Contribution in relation to the actuarially determined contributions	561,463	483,752	481,756
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 4,024,830	\$ 3,894,942	\$ 3,778,484
Contributions as a percentage of covered payroll	13.95%	12.42%	12.75%

* Fiscal year 2015 was the first year of implementation, therefore, only six years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS TO TRS PENSION

June 30, 2020

Last 10 Years *

	2020		2019		2018	
Contractually required contribution (actuarially determined)	\$	-	\$	-	\$	-
Contribution in relation to the actuarially determined contributions		-		-		-
Contribution deficiency (excess)	\$	-	\$	-	\$	-
Covered payroll	\$	13,336,919	\$	13,098,920	\$	12,771,497
Contributions as a percentage of covered payroll		0.00%		0.00%		0.00%
	2017		2016		2015	
Contractually required contribution (actuarially determined)	\$	-	\$	-	\$	-
Contribution in relation to the actuarially determined contributions		-		-		-
Contribution deficiency (excess)	\$	-	\$	-	\$	-
Covered payroll	\$	12,525,923	\$	12,616,544	\$	12,313,546
Contributions as a percentage of covered payroll		0.00%		0.00%		0.00%

* Fiscal year 2015 was the first year of implementation, therefore, only six years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS TO CERS OPEB

June 30, 2020

Last 10 Years *

	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ 205,085	\$ 219,555	\$ 191,657
Contribution in relation to the actuarially determined contributions	205,085	219,555	191,657
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 4,308,512	\$ 4,174,047	\$ 4,077,800
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%

* Fiscal year 2018 was the first year of implementation, therefore, only three years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS TO TRS MEDICAL INSURANCE FUND

June 30, 2020

Last 10 Years *

	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ 391,000	\$ 383,000	\$ 369,000
Contribution in relation to the actuarially determined contributions	391,000	383,000	369,000
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 13,033,333	\$ 12,766,667	\$ 12,310,951
Contributions as a percentage of covered payroll	3.00%	3.00%	3.00%

* Fiscal year 2018 was the first year of implementation, therefore, only three years are s

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS TO TRS - LIFE INSURANCE FUND

June 30, 2020

Last 10 Years *

	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ -	\$ -	\$ -
Contribution in relation to the actuarially determined contributions	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Covered payroll	\$ 13,336,919	\$ 13,098,920	\$ 12,771,497
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%

* Fiscal year 2018 was the first year of implementation, therefore, only three years are shown.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2020

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2014 – The assumed investment rate of return was decreased from 7.75% to 7.50%. The assumed rate of inflation was reduced from 3.50% to 3.25%. The assumed rate of wage inflation was reduced from 1.00% to 0.75%. Payroll growth assumption was reduced from 4.50% to 4.00%. The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2015 and 2016 – No changes.

2017 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

2018 – No changes.

2019 – Salary rates were increased from 3.05% average to 3.30 percent to 10.30%, varies by service. Annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 to 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2017 – The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization of unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%. For the Non-Hazardous Plan, the single discount rate changed from 6.89% to 5.84%. For the Hazardous Plan, the single discount rate changed from 7.37% to 5.96%.

2018 – No changes

2019 – The discount rate was changed from 5.85% to 5.68% . Annual salary increases and annual rates of retirement, disability, withdrawal and mortality were updated based on the 2018 experience study and the percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2020

TRS PENSION

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2020.

Changes of assumptions (as of June 30 of the year measurement date):

2014 – In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions. Beginning with the 2014 valuation, the interest smoothing methodology is no longer used. In 2014, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 5.16% to 5.23%.

2015 – The calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 5.23% to 4.88%. In the 2016 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience.

2016 – The Assumed Salary Scale, Price Inflation, and Wage Inflation were adjusted to reflect a decrease. In addition, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.88% to 4.20%.

2017 – The calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.20% to 4.49%.

2018 – The calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.49% to 7.50%.

2019 – No changes

TRS OPEB

Changes of benefit terms.

2018 – MIF – With the passage of House Bill 471, the eligibility for non-single subsidies (NSS) for the KEHP-participating members who retired prior to July 1, 2010 is restored, but the State will only finance, via its KEHP "shared responsibility" contributions, the costs of the NSS related to those KEHP-participating members who retired on or after July 1, 2010.

LIF – No changes

2019 and 2020 – No changes for MIF or LIF

Changes of assumptions (as of June 30 of the year measurement date):

2017 – No changes for MIF or LIF

2018 – MIF updated the health care trend rates. No changes for the LIF

2019 – No changes for MIF or LIF

SUPPLEMENTARY INFORMATION

SIMPSON COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2020

	District Activity Fund	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:						
Cash and cash equivalents	\$ 51,139	\$ 34,721	\$ 44,028	\$ 66,186	\$ 21	\$ 196,095
Receivables	8,289					8,289
Total Assets	<u>\$ 59,428</u>	<u>\$ 34,721</u>	<u>\$ 44,028</u>	<u>\$ 66,186</u>	<u>\$ 21</u>	<u>\$ 204,384</u>
Liabilities and Fund Balances:						
Liabilities						
Accounts payable	\$ 229	\$ -	\$ -	\$ 40,472	\$ -	\$ 40,701
Total Liabilities	<u>229</u>	<u>-</u>	<u>-</u>	<u>40,472</u>	<u>-</u>	<u>40,701</u>
Fund Balances						
Restricted	59,199	34,721	44,028	25,714	21	163,683
Total Fund Balances	<u>59,199</u>	<u>34,721</u>	<u>44,028</u>	<u>25,714</u>	<u>21</u>	<u>163,683</u>
Total Liabilities and Fund Balances	<u>\$ 59,428</u>	<u>\$ 34,721</u>	<u>\$ 44,028</u>	<u>\$ 66,186</u>	<u>\$ 21</u>	<u>\$ 204,384</u>

SIMPSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2020

	District Activity Fund	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues						
From local sources:						
Property taxes	\$ -	\$ -	\$ 817,329	\$ -	\$ -	\$ 817,329
Other local revenue	187,873					187,873
Intergovernmental - State		268,279	301,393		564,441	1,134,113
Total Revenues	187,873	268,279	1,118,722	-	564,441	2,139,315
Expenditures						
Instruction	187,081					187,081
Facilities acquisition and construction				(13,773)		(13,773)
Debt service:						
Principal					1,525,000	1,525,000
Interest					396,986	396,986
Total Expenditures	187,081	-	-	(13,773)	1,921,986	2,095,294
Excess (Deficit) of Revenues over Expenditures	792	268,279	1,118,722	13,773	(1,357,545)	44,021
Other Financing Sources (Uses)						
Transfers in	28,512				1,357,545	1,386,057
Transfers out	(5,760)	(262,013)	(1,094,178)			(1,361,951)
Total Other Financing Sources (Uses)	22,752	(262,013)	(1,094,178)	-	1,357,545	24,106
Change in Fund Balances	23,544	6,266	24,544	13,773	-	68,127
Fund balance, July 1, 2019	35,655	28,455	19,484	11,941	21	95,556
Fund balance, June 30, 2020	<u>\$ 59,199</u>	<u>\$ 34,721</u>	<u>\$ 44,028</u>	<u>\$ 25,714</u>	<u>\$ 21</u>	<u>\$ 163,683</u>

SIMPSON COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - AGENCY FUNDS - SCHOOL ACTIVITY

June 30, 2020

	Franklin Elementary	Lincoln Elementary	Simpson Elementary	Franklin-Simpson Middle	Franklin-Simpson High	Agency Fund
Assets						
Cash and cash equivalents	3,793	11,984	11,738	64,396	115,885	207,796
Total Assets	<u>\$ 3,793</u>	<u>\$ 11,984</u>	<u>\$ 11,738</u>	<u>\$ 64,396</u>	<u>\$ 115,885</u>	<u>\$ 207,796</u>
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ 1,764	\$ -	\$ 1,764
Due to student groups	3,793	11,984	11,738	62,632	115,885	206,032
Total Liabilities	<u>\$ 3,793</u>	<u>\$ 11,984</u>	<u>\$ 11,738</u>	<u>\$ 64,396</u>	<u>\$ 115,885</u>	<u>\$ 207,796</u>

SIMPSON COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
FIDUCIARY FUNDS - AGENCY FUNDS - SCHOOL ACTIVITY
YEAR ENDED JUNE 30, 2020

SCHOOL	CASH BALANCE July 1, 2019	RECEIPTS	DISBURSE- MENTS	CASH BALANCE June 30, 2020	RECEIVABLES June 30, 2020	ACCOUNTS PAYABLE June 30, 2020	DUE TO STUDENT GROUPS June 30, 2020
Franklin Elementary	\$ 8,138	\$ 13,673	\$ 18,018	\$ 3,793	\$ -	\$ -	\$ 3,793
Lincoln Elementary	15,682	25,385	29,083	11,984	-	-	11,984
Simpson Elementary	13,218	32,986	34,466	11,738	-	-	11,738
Franklin-Simpson Middle	51,580	166,133	153,317	64,396	-	1,764	62,632
Franklin-Simpson High	140,949	383,432	408,496	115,885	-	-	115,885
	<u>\$ 229,567</u>	<u>\$ 621,609</u>	<u>\$ 643,380</u>	<u>\$ 207,796</u>	<u>\$ -</u>	<u>\$ 1,764</u>	<u>206,032</u>

SIMPSON COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
FRANKLIN-SIMPSON HIGH SCHOOL
YEAR ENDED JUNE 30, 2020

NAME OF ACTIVITY	CASH BALANCES July 1, 2019	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2020	RECEIVABLES June 30, 2020	ACCOUNTS PAYABLE June 30, 2020	STUDENT GROUPS June 30, 2020
General Fund	\$ 5,810	\$ 3,542	\$ 4,226	\$ 5,126	\$ -	\$ -	\$ 5,126
Change Gund	-	10,300	10,300	-	-	-	-
AP testing	16,246	9,898	16,504	9,640	-	-	9,640
Banners	-	-	-	-	-	-	-
Homecoming Activities	1	7,151	7,152	-	-	-	-
Parking tags	732	2,500	2,807	425	-	-	425
Project Graduation	-	-	-	-	-	-	-
Prom	4,728	-	-	4,728	-	-	4,728
Student Council	1,170	5,460	6,344	286	-	-	286
Student Fees	12,899	12,786	25,685	-	-	-	-
Student Vending	3,319	4,790	6,385	1,724	-	-	1,724
Summer School	-	-	-	-	-	-	-
Teachers Vending	(1,032)	4,259	1,374	1,853	-	-	1,853
Tech Rentals	2,460	2,091	395	4,156	-	-	4,156
The Hub Store	6,398	4,285	4,810	5,873	-	-	5,873
Trip Fund	49	-	-	49	-	-	49
Yearbook	19,008	21,761	24,346	16,423	-	-	16,423
Ag Construction Class	77	966	296	747	-	-	747
Art	250	156	268	138	-	-	138
Band	78	1,001	1,001	78	-	-	78
Beta	3,267	4,196	6,030	1,433	-	-	1,433
Chorus	5,749	374	2,954	3,169	-	-	3,169
Consumer science	809	3,975	4,784	-	-	-	-
DECA	-	4,947	4,947	-	-	-	-
Diversity	91	70	-	161	-	-	161
Drama	756	-	-	756	-	-	756
FAP	110	-	-	110	-	-	110
FBLA	2,063	13,351	11,430	3,984	-	-	3,984
FCA	1,006	-	-	1,006	-	-	1,006
FCCLA	-	186	186	-	-	-	-
FFA	1,117	9,857	9,837	1,137	-	-	1,137
FFA Banquet	-	-	-	-	-	-	-
FFA Mum sales	-	4,383	3,773	610	-	-	610
FFA Poinsettia sales	-	1,085	787	298	-	-	298
FFA Barren	-	4,766	-	4,766	-	-	4,766
Horticulture	7,506	8,272	9,497	6,281	-	-	6,281
HOSA	9,067	13,312	15,565	6,814	-	-	6,814
HOSA - MNA	-	790	250	540	-	-	540
Human services	184	-	-	184	-	-	184
International club	4,180	19,468	13,498	10,150	-	-	10,150
Travel Club - Legends	13,377	74,818	79,226	8,969	-	-	8,969
KYA Y - CLUB	312	4,630	3,831	1,111	-	-	1,111
Masonry department	-	340	340	-	-	-	-
Mu Alpha Theta	204	105	160	149	-	-	149
Spanish Club	-	101	-	101	-	-	101
Speech	20	-	-	20	-	-	20
STLP	1,669	-	904	765	-	-	765
Teenage Republicans	369	75	-	444	-	-	444
Video production	2,307	580	712	2,175	-	-	2,175
Young Democrats	155	-	-	155	-	-	155
Welding	-	3,666	3,666	-	-	-	-
Class of 2020	400	198	598	-	-	-	-
Class of 2021	317	500	471	346	-	-	346
Class of 2022	14	500	499	15	-	-	15
Class of 2023	-	17	-	17	-	-	17
Athletics	7,308	37,202	35,826	8,684	-	-	8,684
Athletics:play-offs only	199	3,373	3,572	-	-	-	-
Athletic Sweep	-	81,967	81,967	-	-	-	-
Junior Wildcat Basketball	-	11,177	11,177	-	-	-	-
SKY Football Conference	5,469	3,000	8,469	-	-	-	-
Postage	731	152	594	289	-	-	289
Sub Total	140,949	402,379	427,443	115,885	-	-	115,885
Interfund Transfers	-	18,947	18,947	-	-	-	-
TOTAL	\$ 140,949	\$ 383,432	\$ 408,496	\$ 115,885	\$ -	\$ -	\$ 115,885

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	PROVIDED TO SUBRECIPIENTS	TOTAL FEDERAL EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Child Nutrition Cluster -				
Passed Through State Department of Education:				
National School Lunch Program	10.555	7750002-19 7750002-20		\$ 206,636 627,407
School Breakfast Program	10.553	7760005-19 7760005-20		102,337 308,039
Summer Food Service Program for Children	10.559	7690024-19 7690024-20 7740023-19 7740023-20		7,805 34,150 66,399 701,895
Non-Cash Assistance (Commodities)				
National School Lunch Program	10.555	057502-02		91,620
TOTAL CHILD NUTRITION CLUSTER				2,146,288
Passed Through State Department of Education				
State Administrative Expenses for Child Nutrition	10.560	7700001-19		1,318
TOTAL U.S. DEPT. OF AGRICULTURE				2,147,606
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Special Education Cluster -				
Passed Through State Department of Education:				
Special Education - Grants to States	84.027	3810002-18 3810002-19		53,736 604,693
				658,429
Special Education - Preschool Grants	84.173	3800002-18 3800002-19 3800003-17 3800003-18		810 48,210 114,555 197,475
				361,050
TOTAL SPECIAL EDUCATION CLUSTER				1,019,479
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>				
Passed Through State Department of Education				
Title I Grants to Local Educational Agencies	84.010	3100002-17 3100002-18 3100002-19 3100202-18 3100202-19		1,969 10,373 760,130 8,804 59,761
				841,037
Career and Technical Education - Basic Grants to States	84.048	3710002-18 3710002-19		1,251 38,051
				39,302
Special Education - State Personnel Development	84.323	3840001-18 3840001-19		8,617 56,691
				65,308

The accompanying notes are an integral part of this schedule.

SIMPSON COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2020

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>PROVIDED TO SUBRECIPIENTS</u>	<u>TOTAL FEDERAL EXPENDITURES</u>
Rural Education	84.358	3140002-19		46,132
English Language Acquisition State Grants	84.365	3300002-17 3300002-18 3300002-19		2,893 3,085 12,677
				18,655
Supporting Effective Instruction - State Grants	84.367	3230002-18 3230002-19		23,958 108,042
				132,000
School Improvement Grants	84.377	3100302-16		221,061
Student Support and Academic Enrichment Program	84.424	3420002-18 3420002-19		10,982 60,234
				71,216
TOTAL U.S. DEPARTMENT OF EDUCATION				2,454,190
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed Through State Department of Education Every Student Succeeds Act/Preschool Development Grants	93.434	PDG-19		249,600
Passed Through Kentucky Cabinet for Families and Children: COVID-19 Child Care Development Block Grant	93.575	KCFC-20		47,475
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				297,075
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 4,898,871

The accompanying notes are an integral part of this schedule.

SIMPSON COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Simpson County School District under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Simpson County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Simpson County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities received.

NOTE D – INDIRECT COST RATE

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**SIMPSON COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor’s report issued on compliance for major programs (unmodified):

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

Section I – Summary of Auditor’s Results - Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
DEPARTMENT OF EDUCATION	
84.027/84.173	Special Education Cluster
DEPARTMENT OF HEALTH AND HUMAN SERVICES	
93.434	Every Student Succeeds Act/Preschool Development Grants

Dollar threshold used to distinguish
Between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

SIMPSON COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended June 30, 2020

There were no prior findings.

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



HCA

Heartland CPAs and Advisors PLLC

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

We have audited, in accordance with the 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 and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Simpson County School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Simpson County School District's basic financial statements, and have issued our report thereon dated December 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Simpson County School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Simpson County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the *Independent Auditor's Contract*.

We noted certain matters that we reported to management of Simpson County School District in a separate letter dated December 15, 2020.

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



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
December 15, 2020

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



HCA

Heartland CPAs and Advisors PLLC

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Simpson County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Simpson County School District's major federal programs for the year ended June 30, 2020. Simpson County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Simpson County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract. 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 Simpson County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Simpson County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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



Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
December 15, 2020

MANAGEMENT LETTER AND COMMENTS



HCA

Heartland CPAs and Advisors PLLC

Kentucky State Committee for School District Audits
Members of the Board of Education
Simpson County School District
Franklin, Kentucky

In planning and performing our audit of the basic financial statements of Simpson County School District for the year ended June 30, 2020, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated December 15, 2020, contains our report on the District's internal control. This letter does not affect our report dated December 15, 2020, on the financial statements of the Simpson County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of management, the members of the Simpson County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
December 15, 2020

SIMPSON COUNTY SCHOOL DISTRICT

COMMENTS

June 30, 2020

PRIOR YEAR UNCORRECTED COMMENTS

FRANKLIN-SIMPSON HIGH SCHOOL

INVENTORY CONTROL WORKSHEET

We noted that the Bedding Plants Inventory Control Worksheet (F-SA-5) that was on file for the entirety of the year was not dated but included receipts from February, April, and June. The Snacks/Drinks for the FS HOSA Fund Inventory Control Worksheet (F-SA-5) was on file and was dated for the period 8/14/2019-5/30/2020. The Snacks/Drinks for the Travel Fund Inventory Control Worksheets (F-SA-5) were tracked from September – March monthly but the ending inventory for March was \$822 with no explanation of the leftover inventory. The Various Shirts Snacks Spirit Shop Inventory Control Worksheets (F-SA-5) started with a worksheet for 7/01/2019 - 8/31/2019 and ended with one for 4/01/2020 – 6/30/2020. Redbook requires inventory control worksheets to be completed on a monthly basis to document the flow of inventory.

MANAGEMENT RESPONSE:

The Bookkeeper has reviewed inventory control worksheet procedures with appropriate staff. The Travel Fund Sales were ended due to abruptly closing schools for COVID-19. Inventory worksheets will be completed monthly as required by Redbook.

CURRENT YEAR COMMENTS

FRANKLIN ELEMENTARY SCHOOL

FUNDRAISERS

We noted during review of the Musical DVDs fundraiser that the applicable F-SA forms were not completed. There was not a Fundraiser Worksheet (F-SA-2B) on file for this fundraiser.

MANAGEMENT RESPONSE:

This was an oversight on behalf of the Bookkeeper. DVDs were ordered in the exact quantity as paid and distributed directly to students. Form F-SA-2B will be completed for future Musical DVD sales.

SIMPSON ELEMENTARY SCHOOL

PURCHASE ORDER FORM

We noted that check #2151, dated 12/17/19, written to Wal-Mart from the General Fund in the amount of \$154.82 had two attached invoices that were dated 11/18/2019 and 11/20/2019. The attached Purchase Order Form was dated as being submitted and approved on 12/17/2019.

We also noted that check #2174, dated 3/19/2020, written to Quill from the Book Fair Fund in the amount of \$1,129.77 had an attached invoice that was dated 3/06/2020. Th attached Purchase Order Form was dated as being submitted and approved on 3/19/2020.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. Purchase orders will be obtained prior to purchasing items for the school.

NEGATIVE BALANCE

We noted during review of the Annual Financial Report that the Change Fund account ended the 2019-2020 fiscal year with a balance of \$(300). Redbook states that if an activity account ends the year with a negative balance (after taking receivable and accounts payable into consideration), the general activity account must cover the deficit by June 30.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. This was a journal entry issue that the Bookkeeper failed to follow up with prior to year-end.

FRANKLIN-SIMPSON MIDDLE SCHOOL

MISSING DOCUMENTATION

We noted that the deposit made on 7/30/2019 in the amount of \$5,413.77 included a pre-numbered receipt for the receipt of a \$248.77 check for a refund of hotel fees received via mail. There was no Multiple Receipt Form (F-SA-6) on file for this refund check. Redbook states that any checks that come through the mail shall be annotated on the Multiple Receipt Form (Form F-SA-6) by the person opening the mail and then submitted to the school treasurer.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. This was an oversight and multiple receipt forms will be completed for all mailed checks.

FUNDRAISER APPROVAL FORMS

We noted that the deposits made on 2/25/2020 in the amount of \$1,921.06 and 6/23/2020 in the amount of \$70.00 included Multiple Receipt Forms (F-SA-6) for the receipt of cash and checks for the Spring Bookfair and Yearbook respectively. However, there was not a Fundraiser Approval Form (F-SA-2A) on file for either of these fundraisers. Therefore, we were unable to determine if this fundraiser was approved or if these funds were deposited into the correct account.

We also noted during review of the Bookfair fundraiser that the applicable F-SA forms were not properly completed. Receipts for the Bookfair proceeds were supported with Multiple Receipt Forms (F-SA-6). Redbook requires Bookfair fundraisers to be supported with Fundraiser Approval Form (F-SA-2A), Fundraiser Worksheet (F-SA-2B) and Sales Collection Form (F-SA-17).

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. Proper fundraiser approvals will be obtained and worksheet/collection forms will be completed.

FRANKLIN-SIMPSON MIDDLE SCHOOL (CONTINUED)

INVENTORY CONTROL WORKSHEET

We noted that the Inventory Control Worksheet (F-SA-5) that was on file for the volleyball concessions was completed for the month of August. However, the inventory control worksheet for August had a beginning balance of \$0.00 and an ending balance of \$21.00. The worksheet did not have an explanation for the leftover inventory. Redbook requires inventory control worksheets to be completed on a monthly basis to document the flow of inventory.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. Inventory control worksheets will be completed on a monthly basis.

SUBSEQUENT DISBURSEMENTS

We noted during review of subsequent disbursements that check #2320 dated 7/13/2020 in the amount of \$1,695.40 and made payable to Jostens, Inc. was for an invoice dated 6/11/2020 for 2019-2020 yearbook expenses. This amount was not included in the Accounts Receivable and Accounts Payable Report (F-SA-15B) for the month of June 2020.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. Accounts receivables and payables will be recorded on proper forms.

FRANKLIN-SIMPSON HIGH SCHOOL

CANCELLATION OF INVOICES

We noted that check numbers 4533, 4571, 4674, and 4838 had an attached invoice and Purchase Order Form (F-SA-7) that was not cancelled. Redbook requires that invoices or Purchase Order Form be marked as cancelled when paid to avoid duplicate payment.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. The Bookkeeper ordered a "PAID" stamp and has stamped all invoices for the current fiscal year.

DEPOSIT SLIPS

We noted that the deposit slips that were on file for the 2019-2020 fiscal year did not include the pre-numbered receipt numbers that were included in the corresponding deposits. Redbook states that deposit slips note the receipt number(s) in the deposit.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. Beginning with this school year, the Bookkeeper is documenting receipt numbers on deposit slips.

DISALLOWED EXPENDITURES

We noted that check numbers 4750-4753, all dated 12/20/2019, were written from the FFA fund in the amount of \$125.00 each as cash contest awards to student participants. Redbook disallows the following: cash awards, gift cards, and prepaid credit cards.

MANAGEMENT RESPONSE

Redbook procedures have been reviewed with the Bookkeeper. Cash awards, gift card and prepaid credit cards will not be dispersed to students.