

**MERCER COUNTY
SCHOOL DISTRICT
AUDIT REPORT
JUNE 30, 2023**

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November 1, 2023

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements as listed in the table of contents.

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Mercer County School District and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note A to the financial statements, in 2023, the District adopted new guidance, GASB statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of Financial Statement

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

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mercer County School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Mercer County School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of the district's proportionate share of net pension liabilities, and the schedules of the district's proportionate share of net other post-employment benefits on pages 4 through 10, 58 through 61, and 64 through 66 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mercer County School District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2023, on our consideration of Mercer 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Mercer County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercer County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

MERCER COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis (MD&A)
Year Ended June 30, 2023

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

FINANCIAL HIGHLIGHTS

- The General Fund's beginning fund balance was \$5,618,847. The ending fund balance was \$6,965,946. General fund revenues showed an increase of \$3,058,047 and expenditures showed an increase of \$2,800,549 as compared with the prior year. The General Fund transferred \$53,532 to the Special Revenue Fund for the technology grant match. The General Fund received \$645,877 from the Building Fund to offset General Fund debt payments, \$254,910 from Capital Outlay specifically for debt payments, \$88,563 from the Food Service Fund for Indirect Costs, and \$93,068 from the Special Revenue funds for Indirect Costs.
- The District had \$44.6 million in revenue and \$41.9 million in expenses.
- The District increased the total amount due on bonds by \$7.06 million with the addition of the Athletic Project bonding in fiscal year 2023. Bond payments for fiscal year 2023 totaled \$2.54 million in principal payments and \$882,507 in interest payments, totaling \$3.42 million. With current bond obligations, the amount of restricted bond payments including interest due in fiscal year 2024 totals \$3.39 million.
- The District's total net position increased \$2.7 million to \$14.9 million. Current assets increased by \$2.3 million, non-current assets increased by \$5.4 million, and total liabilities increased by \$7.8 million as compared to the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11 - 12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 53 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$14.9 million as of June 30, 2023.

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

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

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

A comparison of June 30, 2023 and June 30, 2022 government wide net position is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Current and Other Assets	8,879,724	6,744,953	2,429,716	2,218,205	11,309,440	8,963,158
Capital Assets	52,996,058	47,579,725	593,016	586,667	53,589,074	48,166,392
Deferred Outflows	6,834,727	4,114,367	497,705	380,573	7,332,432	4,494,940
Total Assets and Def Outflows	68,710,509	58,439,045	3,520,437	3,185,445	72,230,946	61,624,490
Current Liabilities	4,040,445	3,818,283	19,000	1,171	4,059,445	3,819,454
Non-Current Liabilities	46,653,189	39,185,446	1,527,249	1,385,796	48,180,438	40,571,242
Deferred Inflows	4,741,502	4,637,693	340,041	401,221	5,081,543	5,038,914
Total Liabilities and Def Inflows	55,435,136	47,641,422	1,886,290	1,788,188	57,321,426	49,429,610
Net Position						
Net Investment in Capital Assets	21,693,696	20,361,233	593,016	586,667	22,286,712	20,947,900
Restricted	1,019,491	355,496	1,204,893	984,231	2,224,384	1,339,727
Unrestricted	(9,437,814)	(9,919,106)	(163,762)	(173,641)	(9,601,576)	(10,092,747)
Total Net Position	\$13,275,373	\$10,797,623	\$1,634,147	\$1,397,257	\$14,909,520	\$12,194,880

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2023 and June 30, 2022.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
REVENUES						
Program revenues						
Charges for services	32,227	7,644	136,726	136,587	168,953	144,231
Operating grants and contributions	5,797,768	5,075,118	2,612,848	2,636,251	8,410,616	7,711,369
Capital grants	80,140	53,538	0	0	80,140	53,538
General revenues						
Property taxes	9,766,408	9,359,996	0	0	9,766,408	9,359,996
Motor vehicle taxes	1,127,429	960,467	0	0	1,127,429	960,467
Utility Taxes	1,810,154	1,458,738	0	0	1,810,154	1,458,738
Other taxes	7,195	90,363	0	0	7,195	90,363
Investment earnings	66,555	43,177	11,653	10,189	78,208	53,366
State and formula grants	22,323,925	19,519,867	0	0	22,323,925	19,519,867
Miscellaneous	809,520	621,047	1,085	0	810,605	621,047
Fund Transfer	88,563	67,607	(88,563)	(67,607)	0	0
Gain (Loss) on Sale of Assets	10,099	41,315	0	0	10,099	41,315
Total revenues	<u>41,919,983</u>	<u>37,298,877</u>	<u>2,673,749</u>	<u>2,715,420</u>	<u>44,593,732</u>	<u>40,014,297</u>
EXPENSES						
Program Activities						
Instructional	25,371,643	22,537,975	0	0	25,371,643	22,537,975
Student support	1,418,338	1,194,988	0	0	1,418,338	1,194,988
Instructional staff Support	1,246,542	1,206,786	0	0	1,246,542	1,206,786
District administrative support	1,204,683	1,045,813	0	0	1,204,683	1,045,813
School administrative support	2,418,151	2,028,433	0	0	2,418,151	2,028,433
Business support	886,427	741,466	0	0	886,427	741,466
Plant operations and maintenance	2,783,013	2,633,233	0	0	2,783,013	2,633,233
Student transportation	2,553,502	2,378,673	0	0	2,553,502	2,378,673
Community service activities	439,815	354,049	0	0	439,815	354,049
Other	22,437	43,499	0	0	22,437	43,499
Interest costs	1,097,682	967,778	0	0	1,097,682	967,778
Business-type Activities						
Food service	0	0	2,339,389	1,929,519	2,339,389	1,929,519
Day Care	0	0	97,470	275,051	97,470	275,051
Total expenses	<u>39,442,233</u>	<u>35,132,693</u>	<u>2,436,859</u>	<u>2,204,570</u>	<u>41,879,092</u>	<u>37,337,263</u>
Change in net position	<u>2,477,750</u>	<u>2,166,184</u>	<u>236,890</u>	<u>510,850</u>	<u>2,714,640</u>	<u>2,677,034</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2023 and 2022 were \$9,655,329 and \$7,741,096 respectively.

Governmental Activities

For the governmental program expenses, instructional expenses comprise 64% of total expenses, support services equate to 32%, and interest and other expenses make up the remaining 4% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (state entitlements).

	Governmental Activities Total Cost of Services		Governmental Activities Net Cost of Services	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Instructional	25,371,643	22,537,975	21,215,465	18,460,320
Support Services	12,533,093	11,272,891	11,267,087	10,618,003
Other	439,815	354,049	1,973	3,830
Interest Costs	1,097,682	967,778	1,047,573	914,240
Total Expenses	39,442,233	35,132,693	33,532,098	29,996,393

Business-Type Activities

The business type activities consist of the food service program and the daycare program. The food service program had total revenues of \$2,654,963 and expenses of \$2,427,952 for fiscal year 2023. These revenues were made up of \$42,550 in lunchroom sales, \$1,085 in operating revenues, \$2,599,675 federal and state operating grants and donated commodities, and \$11,653 earnings on investments. The daycare program had total revenues of \$107,349 and expenses of \$97,470 for fiscal year 2023. These revenues were made up of \$94,176 in tuition payments and \$13,173 in state revenue.

These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue and other financing sources for all governmental funds for 2023 was \$53,274,627 and expenditures and other financing uses were \$51,284,917.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$21,895,186 plus a beginning budgeted balance of \$4,900,000. Actual general fund revenues and other sources were \$32,063,879. Budgeted expenditures were \$23,213,140 and budgeted contingency was \$3,582,046 for a total of \$26,795,186 compared to actual expenditures and other uses of \$30,716,780. These actuals include the state on-behalf payments in the amount of \$9,347,378 for the general fund, which were not budgeted.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2022-2023 with a contingency above 2%. The District has also adopted a budget for 2023-24 with a contingency above 2%.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees had a contribution change of .16% for FY 2023 at 26.79% from 26.95% in FY 2022. The Board's obligation for contribution to the Kentucky Retirement System for classified employees has a decrease for FY 2024 from 26.79% to 23.34%. The Kentucky Teachers Retirement implemented changes in tiers starting in January 2022. The following rates now apply for the employer:

Tier 1 = 3% and 16.105% for federal grants matching

Tier 2 = 3% and 16.105% for federal grants matching

Tier 3 = 3% and 17.105% for federal grants matching

Tier 4 = 3% and 13.75% for federal grants matching

The SEEK base funding had an increase of \$100 per pupil and totals \$4,100 per pupil in FY 2022-2023. The General Fund will be closely monitored to support District staffing.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2023 fiscal year, the District had invested \$53,589,074 in a broad range of capital assets, including equipment, buses, buildings, and land net of accumulated depreciation. This amount represents a net increase of \$5,422,682. Depreciation expense for the year was \$2,308,481 and capital additions were \$7,731,163 including the new Athletic Facilities.

The following table shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2023 and 2022.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Land	1,921,384	1,467,246	0	0	1,921,384	1,467,246
Construction In Progress	6,657,118	306,684	0	0	6,657,118	306,684
Buildings and Improvements	41,174,040	42,801,223	0	0	41,174,040	42,801,223
Technology	930,280	1,162,569	0	0	930,280	1,162,569
Vehicles	1,925,706	1,434,690	0	0	1,925,706	1,434,690
General Equipment	387,530	407,313	593,016	586,667	980,546	993,980
Total	52,996,058	47,579,725	593,016	586,667	53,589,074	48,166,392

The table below shows the changes in capital assets for fiscal years ended June 30, 2023 and 2022.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Beginning Balance	47,579,725	49,310,232	586,667	268,490	48,166,392	49,578,722
Additions	7,669,993	569,572	61,170	363,178	7,731,163	932,750
Retirements	0	(608)	0	0	0	(608)
Depreciation	(2,253,660)	(2,299,471)	(54,821)	(45,001)	(2,308,481)	(2,344,472)
Ending Balance	52,996,058	47,579,725	593,016	586,667	53,589,074	48,166,392

Long-Term Debt

At year-end the District had \$30,350,000 in bonds outstanding and \$1,083,560 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2023 was \$2,540,000. There was a new construction bond in the amount of \$7,060,000 added in fiscal year 2023. The District did not enter into any new capital lease agreements during fiscal year 2023. A total of \$2,819,763 is due within one year for principal payment on bonds and capital leases.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2023

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	7,734,301	2,119,906	9,854,207
Accounts Receivable:			
Taxes - Current	490,995	0	490,995
Taxes - Delinquent	32,952	0	32,952
Accounts	23,912	0	23,912
Intergovernmental - Federal	597,564	264,943	862,507
Inventories for Consumption	0	44,867	44,867
Total Current Assets	8,879,724	2,429,716	11,309,440
Noncurrent Assets - Note F			
Land	1,921,384	0	1,921,384
Buildings & Improvements	75,545,075	0	75,545,075
Furniture & Equipment	9,356,005	833,042	10,189,047
Construction in Progress	6,657,118	0	6,657,118
Less: Accumulated Depreciation	(40,483,524)	(240,026)	(40,723,550)
Total Noncurrent Assets	52,996,058	593,016	53,589,074
TOTAL ASSETS	61,875,782	3,022,732	64,898,514
Deferred Outflows Related to Pensions	1,954,683	318,845	2,273,528
Deferred Outflows Related to Other Post Employment Benefits	4,576,084	178,860	4,754,944
Deferred Outflows Related to Advanced Bond Refundings	303,960	0	303,960
TOTAL DEFERRED OUTFLOWS	6,834,727	497,705	7,332,432
TOTAL ASSETS AND DEFERRED OUTFLOWS	68,710,509	3,520,437	72,230,946
LIABILITIES:			
Current Liabilities:			
Accounts Payable	44,333	19,000	63,333
Accrued Salaries & Payroll Liabilities	8,664	0	8,664
Accrued Sick Leave - Note A	174,676	0	174,676
Advances from Grantors	666,614	0	666,614
Bond Obligations - Note D	2,610,000	0	2,610,000
Capital Lease Obligation - Note E	209,673	0	209,673
Accrued Interest Payable	326,485	0	326,485
Total Current Liabilities	4,040,445	19,000	4,059,445
Noncurrent Liabilities:			
Bond Obligations - Note D	27,608,802	0	27,608,802
Capital Lease Obligation - Note E	873,887	0	873,887
Net Pension Liability	8,218,399	1,204,620	9,423,019
Net Other Post Employment Benefits Liability	9,332,392	322,629	9,655,021
Accrued Sick Leave - Note A	619,709	0	619,709
Total Noncurrent Liabilities	46,653,189	1,527,249	48,180,438
TOTAL LIABILITIES	50,693,634	1,546,249	52,239,883
Deferred Inflows Related to Pensions	1,175,001	160,767	1,335,768
Deferred Inflows Related to Other Post Employment Benefits	3,566,501	179,274	3,745,775
TOTAL DEFERRED INFLOWS	4,741,502	340,041	5,081,543
TOTAL LIABILITIES AND DEFERRED INFLOWS	55,435,136	1,886,290	57,321,426
NET POSITION:			
Net Investment in Capital Assets	21,693,696	593,016	22,286,712
Restricted for:			
Capital Projects	427,191	0	427,191
School Activities	539,314	0	539,314
Student Activities	51,257	0	51,257
SFCC Escrow	1,729	0	1,729
Food Service	0	1,204,893	1,204,893
Unrestricted	(9,437,814)	(163,762)	(9,601,576)
TOTAL NET POSITION	13,275,373	1,634,147	14,909,520
TOTAL LIABILITIES AND NET POSITION	68,710,509	3,520,437	72,230,946

See independent auditor's report and accompanying notes to financial statements.

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

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	25,371,643	29,759	4,126,419		(21,215,465)		(21,215,465)
Support Services:							
Student Support Services	1,418,338		64,597		(1,353,741)		(1,353,741)
Staff Support Services	1,246,542		247,471		(999,071)		(999,071)
District Administration	1,204,683				(1,204,683)		(1,204,683)
School Administration	2,418,151				(2,418,151)		(2,418,151)
Business Support Services	886,427		11		(886,416)		(886,416)
Plant Operation & Maintenance	2,783,013	150	184,136	30,031	(2,568,696)		(2,568,696)
Student Transportation	2,553,502	2,318	721,872		(1,829,312)		(1,829,312)
Food Service Operations	22,437		15,420		(7,017)		(7,017)
Community Service Operations	439,815		437,842		(1,973)		(1,973)
Interest on Long-Term Debt	1,097,682			50,109	(1,047,573)		(1,047,573)
TOTAL GOVERNMENTAL ACTIVITIES	39,442,233	32,227	5,797,768	80,140	(33,532,098)		(33,532,098)
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,339,389	42,550	2,599,675			302,836	
Daycare	97,470	94,176	13,173			9,879	9,879
TOTAL BUSINESS-TYPE ACTIVITIES	2,436,859	136,726	2,612,848	0	0	312,715	9,879
TOTAL SCHOOL DISTRICT	41,879,092	168,953	8,410,616	80,140	(33,532,098)	312,715	(33,522,219)
GENERAL REVENUES:							
Taxes:							
Property					9,766,408		9,766,408
Motor Vehicle					1,127,429		1,127,429
Utility					1,810,154		1,810,154
Other					7,195		7,195
State Aid - Formula Grants					22,323,925		22,323,925
Investment Earnings					66,555	11,653	78,208
Fund Transfer (Expense)					88,563	(88,563)	0
Miscellaneous					809,520	1,085	810,605
Gain (Loss) on Sale of Assets					10,099	0	10,099
TOTAL GENERAL REVENUES					36,009,848	(75,825)	35,934,023
CHANGE IN NET POSITION					2,477,750	236,890	2,714,640
NET POSITION - BEGINNING					10,797,623	1,397,257	12,194,880
NET POSITION - ENDING					13,275,373	1,634,147	14,909,520

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023

	GENERAL FUND	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	6,645,760	69,050	427,191	592,300	7,734,301
Accounts Receivable:					
Taxes - Current	490,995				490,995
Taxes - Delinquent	32,952				32,952
Accounts	23,912				23,912
Intergovernmental - Federal		597,564			597,564
TOTAL ASSETS	<u>7,193,619</u>	<u>666,614</u>	<u>427,191</u>	<u>592,300</u>	<u>8,879,724</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	44,333				44,333
Accrued Salaries & Sick Leave	183,340				183,340
Advances from Grantors		666,614			666,614
Total Liabilities	<u>227,673</u>	<u>666,614</u>	<u>0</u>	<u>0</u>	<u>894,287</u>
Fund Balance:					
Restricted for:					
Capital Projects			427,191		427,191
School Activities				539,314	539,314
Student Activities				51,257	51,257
SFCC Escrow				1,729	1,729
Committed For:					
Site Based Carryforward	49,316				49,316
Accrued Sick Leave	619,709				619,709
Unassigned	6,296,921				6,296,921
Total Fund Balance	<u>6,965,946</u>	<u>0</u>	<u>427,191</u>	<u>592,300</u>	<u>7,985,437</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>7,193,619</u>	<u>666,614</u>	<u>427,191</u>	<u>592,300</u>	<u>8,879,724</u>

See independent auditor's report and accompanying notes to financial statements.

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

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

TOTAL GOVERNMENTAL FUND BALANCE		7,985,437
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	93,479,582	
Accumulated Depreciation	(40,483,524)	52,996,058
Deferred Outflows Related to Bond Refundings are not current assets and therefore are not reported as assets in governmental funds.		
		303,960
Deferred Outflows Related to Pensions are not current assets and therefore are not reported as assets in governmental funds.		
		1,954,683
Deferred Outflows Related to Other Post Employment Benefits are not current assets and therefore are not reported as assets in governmental funds.		
		4,576,084
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(30,350,000)	
Unamortized Bond Premiums	(131,490)	
Unamortized Bond Discounts	262,688	
Capital Lease Obligation	(1,083,560)	
Accrued Interest on Bonds	(326,485)	
Net Pension Liability	(8,218,399)	
Net Other Post Employment Benefits Liability	(9,332,392)	
Accrued Sick Leave	(619,709)	(49,799,347)
Deferred Inflows Related to Other Post Employment Benefits are not current liabilities and therefore are not reported as liabilities in governmental funds.		
		(3,566,501)
Deferred Inflows Related to Pensions are not current liabilities and therefore are not reported as liabilities in governmental funds.		
		(1,175,001)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		13,275,373

See independent auditor's report and accompanying notes to financial statements.

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

	GENERAL	SPECIAL REVENUE	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	7,361,104			2,405,304	9,766,408
Motor Vehicle	1,127,429				1,127,429
Utility	1,810,154				1,810,154
Other	7,195				7,195
Earnings on Investments	47,600	872	18,083		66,555
Intergovernmental - State	20,451,064	1,538,744		1,917,990	23,907,798
Intergovernmental - Federal	4,980	4,289,055			4,294,035
Other Sources	161,836	64,922		614,989	841,747
TOTAL REVENUES	30,971,362	5,893,593	18,083	4,938,283	41,821,321
EXPENDITURES:					
Instructional	18,398,717	4,145,011		542,541	23,086,269
Support Services:					
Student Support Services	1,288,978	64,888			1,353,866
Staff Support Services	941,260	248,586		30,045	1,219,891
District Administration	1,194,960				1,194,960
School Administration	2,349,293				2,349,293
Business Support Services	874,254	12			874,266
Plant Operation & Maintenance	3,009,199	147,858			3,157,057
Student Transportation	2,281,167	725,124		64,528	3,070,819
Food Service Operation	6,948	15,489			22,437
Community Service Operations		439,815			439,815
Facilities Acquisition & Construction		67,274	6,283,161		6,350,435
Debt Service:					
Principal	285,026			2,540,000	2,825,026
Interest	30,546			882,507	913,053
TOTAL EXPENDITURES	30,660,348	5,854,057	6,283,161	4,059,621	46,857,187
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	311,014	39,536	(6,265,078)	878,662	(5,035,866)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Assets	10,099				10,099
Bond Proceeds			7,060,000		7,060,000
Bond Discount			(133,086)		(133,086)
Operating Transfers In - Note N	1,082,418	53,532		3,247,257	4,383,207
Operating Transfers Out - Note N	(56,432)	(93,068)		(4,145,144)	(4,294,644)
TOTAL OTHER FINANCING SOURCES	1,036,085	(39,536)	6,926,914	(897,887)	7,025,576
NET CHANGE IN FUND BALANCES	1,347,099	0	661,836	(19,225)	1,989,710
FUND BALANCES - BEGINNING	5,618,847	0	(234,645)	611,525	5,995,727
FUND BALANCES - ENDING	6,965,946	0	427,191	592,300	7,985,437

See independent auditor's report and accompanying notes to financial statements.

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

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

NET CHANGES - GOVERNMENTAL FUNDS		1,989,710
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.</p>		
Depreciation Expense	(2,253,660)	
Capital Outlays	<u>7,669,993</u>	5,416,333
<p>Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.</p>		
Principal Paid		2,825,026
Bond Proceeds		<u>(6,926,914)</u>
<p>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.</p>		
Amortization -Deferred Outflows from Advanced Bond Refundings	(120,193)	
Amortization - Bond Premiums	32,873	
Amortization - Bond Discounts	(14,855)	
District Pension Contributions	839,961	
Cost of Benefits Earned Net of Employee Contributions	(460,886)	
District Other Post Employment Benefits Contributions	549,381	
Cost of Benefits Earned Net of Employee Contributions - OPEB	(1,558,565)	
Accrued Interest Payable	(82,454)	
Accrued Sick Leave	<u>(11,667)</u>	(826,405)
<p>In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.</p>		
Loss- Sale of Assets		0
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>2,477,750</u></u>

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAYCARE FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	2,106,371	13,535	2,119,906
Accounts Receivables	264,943	0	264,943
Inventories for Consumption	44,867	0	44,867
Total Current Assets	2,416,181	13,535	2,429,716
Noncurrent Assets:			
Furniture & Equipment	833,042	0	833,042
Less: Accumulated Depreciation	(240,026)	0	(240,026)
Total Noncurrent Assets	593,016	0	593,016
TOTAL ASSETS	3,009,197	13,535	3,022,732
Deferred Outflows Related to Pensions	282,469	36,376	318,845
Deferred Outflows Related to Other Post Employment Benefits	156,399	22,461	178,860
TOTAL ASSETS AND DEFERRED OUTFLOWS	3,448,065	72,372	3,520,437
LIABILITIES:			
Current Liabilities:			
Account Payable	19,000	0	19,000
Total Current Liabilities	19,000	0	19,000
Noncurrent Liabilities:			
Net Pension Liability	1,053,851	150,769	1,204,620
Net Other Post Employment Benefits Liability	281,477	41,152	322,629
Total Noncurrent Liabilities	1,335,328	191,921	1,527,249
TOTAL LIABILITIES	1,354,328	191,921	1,546,249
Deferred Inflows Related to Pensions	139,395	21,372	160,767
Deferred Inflows Related to Other Post Employment Benefits	156,433	22,841	179,274
TOTAL LIABILITIES AND DEFERRED INFLOWS	1,650,156	236,134	1,886,290
Net Position:			
Net Investment in Capital Assets	593,016	0	593,016
Restricted	1,204,893	0	1,204,893
Unrestricted	0	(163,762)	(163,762)
Total Net Position	1,797,909	(163,762)	1,634,147
TOTAL LIABILITIES AND NET POSITION	3,448,065	72,372	3,520,437

See independent auditor's report and accompanying notes to financial statements.

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

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAYCARE FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	42,550	0	42,550
Operating Revenues	1,085	94,176	95,261
TOTAL OPERATING REVENUES	43,635	94,176	137,811
OPERATING EXPENSES:			
Salaries & Benefits	821,443	97,445	918,888
Contract Services	61,478	0	61,478
Materials & Supplies	1,390,944	25	1,390,969
Depreciation - Note F	54,821	0	54,821
Other Operating Expenses	10,703	0	10,703
TOTAL OPERATING EXPENSES	2,339,389	97,470	2,436,859
OPERATING INCOME(LOSS)	(2,295,754)	(3,294)	(2,299,048)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	2,310,111	0	2,310,111
State Grants	127,866	13,173	141,039
Donated Commodities	161,698	0	161,698
Interest Income	11,653	0	11,653
Transfer Out to General Fund	(88,563)	0	(88,563)
TOTAL NONOPERATING REVENUE	2,522,765	13,173	2,535,938
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	227,011	9,879	236,890
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSITION	227,011	9,879	236,890
TOTAL NET POSITION - BEGINNING	1,570,898	(173,641)	1,397,257
TOTAL NET POSITION - ENDING	1,797,909	(163,762)	1,634,147

See independent auditor's report and accompanying notes to financial statements.

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

	FOOD SERVICE	DAYCARE	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Lunchroom Sales	42,550	-	42,550
Other Activities	1,086	94,176	95,262
Cash Paid to/for:			-
Employees	(742,980)	(88,367)	(831,347)
Supplies	(1,224,452)	(25)	(1,224,477)
Other Activities	(72,181)		(72,181)
Net Cash Used by Operating Activities	(1,995,977)	5,784	(1,990,193)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfer Out to General Fund	(88,563)		(88,563)
Federal Grants	2,087,703		2,087,703
State Grants	16,638		16,638
Net Cash Provided by Non-Capital and Related Financing Activities	2,015,778	-	2,015,778
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(61,170)	-	(61,170)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of Interest Income	11,653	-	11,653
Net Increase (Decrease) in Cash and Cash Equivalents	(29,716)	5,784	(23,932)
Balances, Beginning of Year	2,136,087	7,751	2,143,838
Balances, End of Year	2,106,371	13,535	2,119,906
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(2,295,754)	(3,294)	(2,299,048)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	54,821	-	54,821
State On-Behalf Payments	111,228	13,173	124,401
Donated Commodities	161,698	-	161,698
Change in Assets, Deferred Outflows, Liabilities and Deferred Inflows:			
Deferred Outflows	(104,117)	(13,015)	(117,132)
Deferred Inflows	(54,383)	(6,797)	(61,180)
Net Pension Liability	121,982	15,248	137,230
Net Other Post Employment Benefits	3,754	469	4,223
Inventory	(13,035)	-	(13,035)
Accounts Payable	17,829	-	17,829
Net Cash Used by Operating Activities	(1,995,977)	5,784	(1,990,193)
Schedule of Non-Cash Transactions:			
Donated Commodities	161,698	-	161,698
State On-Behalf Payments	111,228	13,173	124,401

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Mercer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Mercer 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.

Basis of Presentation

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as 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 and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

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

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Private Purpose Trust Funds)

- A. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

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

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

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

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

Property Taxes

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

The property tax rates assessed for the year ended June 30, 2023, to finance the General Fund operations were \$0.702 per \$100 valuation for real property, \$0.706 per \$100 valuation for business personal property, and \$0.491 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 county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 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:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

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

Accumulated Unpaid Sick Leave Benefits

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

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

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

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Budgetary Process

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

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

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

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources.

Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	619,709	Long-Term Sick Leave Commitment
General Fund	49,316	Site Based Carryforward

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The District does not have a formal minimum fund balance policy.

Major Special Revenue Fund

Special Revenue

Revenue Source

State, Local and Federal Grants

Net Position

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

Operating Revenues and Expenses

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

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

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

Pensions

Teachers' Retirement System - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. 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.

County Employees Retirement System - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System of the State of Kentucky (CERS) and additions to/deductions from CERS's fiduciary net position have been determined

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Since certain expense items are amortized over the closed periods each year, the deferred portions of these items must be tracked annually. If the amounts serve to reduce pension expense the amounts are labeled deferred inflows. If amounts will increase pension expense the amounts are labeled deferred outflows. The amortization of these amounts is accomplished on a level dollar basis, with no interest included in the deferred amounts. Experience gains/losses and the impact of changes in actuarial assumptions, if any, are amortized over the average expected remaining service life of the active and inactive plan members at the beginning of the fiscal year. Investment gains and losses are amortized over a fixed five-year period.

Postemployment Benefits Other Than Pensions

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

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

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Changes in Accounting Principle

Effective July 1, 2022, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB No. 96 establishes accounting and financial reporting guidance for subscription-based information technology contracts and vendor-provided technology.

This adoption did not require a change to beginning net position for Mercer County School District. It is noted that the District's contracts are reviewed annually to ensure the District has the right to change, renegotiate or not renew for both educational and financial reasons.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B – ESTIMATES

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

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit 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 year-end, the carrying amount of the District’s total cash and cash equivalents was \$9,855,207. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2023, consisted of the following:

	Bank Balance	Book Balance
Farmers Bank	<u>10,832,831</u>	<u>9,854,207</u>
Breakdown per financial statements:		
Governmental Funds		7,734,301
Proprietary Funds		<u>2,119,906</u>
Total Cash		<u>9,854,207</u>

NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District’s future obligations to make payments relating to the bonds issued by the Mercer County School District Finance Corporation in the original amount aggregating \$44,900,000.

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

2012 Refunding	1,885,000	0.75% - 2.125%
2013 Refunding	1,845,000	1.05% - 2.00%
2013	2,400,000	2.00% - 4.00%
2014 Refunding	4,115,000	1.75% - 3.50%
2015	645,000	3.15%
2016 Refunding	18,195,000	2.00% - 3.00%
2020 Energy	8,070,000	3.00% - 3.75%
2020	685,000	3.25% - 3.50%
2022	7,060,000	3.00% - 4.00%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by Mercer 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.

In 1995 the Board entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission’s participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

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 maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2023, for debt service (principal and interest) are as follows:

<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PARTICIPATION</u>	<u>DISTRICT'S PORTION</u>
2023-24	2,610,000	963,178	187,023	3,386,155
2024-25	2,665,000	909,289	184,159	3,390,130
2025-26	2,750,000	831,844	183,186	3,398,658
2026-27	2,825,000	754,812	182,211	3,397,601
2027-28	1,845,000	650,329	116,928	2,378,401
2028-29	1,910,000	590,758	120,879	2,379,879
2029-30	1,980,000	527,141	119,654	2,387,487
2030-31	2,045,000	460,763	114,537	2,391,226
2031-32	1,200,000	407,179	106,192	1,500,987
2032-33	1,250,000	367,073	109,968	1,507,105
2033-34	1,290,000	323,838	96,665	1,517,173
2034-35	1,100,000	283,265	47,525	1,335,740
2035-36	1,135,000	245,627	46,125	1,334,502
2036-37	1,155,000	206,103	49,725	1,311,378
2037-38	1,205,000	164,063	48,150	1,320,913
2038-39	1,250,000	119,900	46,576	1,323,324
2039-40	505,000	73,369		578,369
2040-41	520,000	54,150		574,150
2041-42	545,000	33,500		578,500
2042-43	565,000	11,300		576,300
	<u>30,350,000</u>	<u>7,977,481</u>	<u>1,759,503</u>	<u>36,567,978</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

On May 16, 2023, the District issued \$7,060,000 in Revenue Bonds with an interest rate of 3.00-4.00%. The net proceeds of \$21,595,350 (after bond discount of \$133,086 and bond issuance costs of \$59,090) were deposited in the construction fund. The final principal payment matures August 1, 2042.

Long-term liability activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bonds Payable	25,830,000	7,060,000	(2,540,000)	30,350,000	2,610,000
Add: Bond Premium	164,363		(32,873)	131,490	0
Less: Bond Discount	(144,457)	(133,086)	14,855	(262,688)	0
Net Revenue Bonds Payable	25,849,906	6,926,914	(2,558,018)	30,218,802	2,610,000
Capital Lease Obligations	1,368,586	0	(285,026)	1,083,560	209,673
Net Pension Liability	7,402,648	815,751	0	8,218,399	0
Net OPEB Liability	6,781,290	2,551,102		9,332,392	0
Accrued Sick Leave	761,099	130,522	(97,236)	794,385	174,676
Total Governmental Activities:	42,163,529	10,424,289	(2,940,280)	49,647,538	2,994,349
Proprietary Activities					
Net Pension Liability	1,067,390	137,230	0	1,204,620	0
Net OPEB Liability	318,406	4,223	0	322,629	0
Total Proprietary Activities:	1,385,796	141,453	0	1,527,249	0
Long-Term Liabilities	43,549,325	10,565,742	(2,940,280)	51,174,787	2,994,349

NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses and copiers under capital leases expiring in various years through 2030. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2022.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2023</u>
Buses	2,244,752
Office Equipment	138,311
Accumulated Amortization	(1,187,497)
	<u>1,195,566</u>

NOTES TO FINANCIALS STATEMENTS (CONTINUED)

The following is a schedule by years of the future payments under capital leases as of June 30, 2023:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2024	233,943
2025	221,410
2026	211,922
2027	175,974
2028	137,555
2029-2031	182,746
Net minimum lease payments	<u>1,163,550</u>
Amount representing interest	<u>(79,990)</u>
Present value of net minimum least payments	<u><u>1,083,560</u></u>

Interest rates on capitalized leases vary from 2.00% to 4.77%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase. The capital copier leases provide for the copiers to revert to the District at the end of the respective lease.

NOTES TO FINANCIALS STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

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

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	1,467,246	454,138		1,921,384
Construction in Progress	306,684	6,350,434		6,657,118
Depreciable Assets:				
Buildings & Building Improvements	75,545,075			75,545,075
Technology Equipment	1,859,942	80,314		1,940,256
Vehicles	4,756,468	741,654	(281,489)	5,216,633
General Equipment	2,155,663	43,453		2,199,116
TOTAL AT HISTORICAL COST	86,091,078	7,669,993	(281,489)	93,479,582
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	32,743,852	1,627,183		34,371,035
Technology Equipment	697,373	312,603		1,009,976
Vehicles	3,321,778	250,638	(281,489)	3,290,927
General Equipment	1,748,350	63,236		1,811,586
TOTAL ACCUMULATED DEPRECIATION	38,511,353	2,253,660	(281,489)	40,483,524
GOVERNMENTAL ACTIVITIES CAPITAL NET	47,579,725	5,416,333	-	52,996,058
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
General Equipment	771,872	61,170		833,042
TOTALS AT HISTORICAL COST	771,872	61,170	-	833,042
LESS ACCUMULATED DEPRECIATION FOR:				
General Equipment	185,205	54,821		240,026
TOTAL ACCUMULATED DEPRECIATION	185,205	54,821	-	240,026
PROPRIETARY ACTIVITIES CAPITAL NET	586,667	6,349	-	593,016
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,880,362
Student Support Services				37,699
District Administration				1,320
School Administration				2,944
Business Support Services				636
Plant Operation & Maintenance				92,138
Student Transportation				238,561
TOTAL				2,253,660

NOTE G – RETIREMENT PLANS

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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

General information about the Teachers’ Retirement System of the State of Kentucky (“TRS”)

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

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

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

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). University members contribute 10.4% of salary to the retirement system. Non-university employees are required to contribute 12.855% or 14.75% of their salaries to the System, with the rate dependent upon the employee’s entry date. Member contributions are picked up by the employer.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes range from 16.105% to 17.105% of salaries, depending on the employee’s entry date. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member’s request.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. 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.

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

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

At June 30, 2022, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District’s proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

District’s proportionate share of the CERS net pension liability	\$ 9,423,019
Commonwealth’s proportional share of the TRS net pension liability associated with the District	<u>66,641,110</u>
	<u>\$ 76,064,129</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The net pension liability for each plan was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2022, the District's proportion was 0.130350 percent and at June 30, 2021, the District's portion was 0.132847 percent.

For the year ended June 30, 2023, the District recognized pension expense of \$554,953 related to CERS and \$6,080,412 related to TRS. The District also recognized revenue of \$6,080,412 for TRS support provided by the Commonwealth. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience (liability experience)	\$ 10,074	\$ 83,916
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,282,191	1,040,619
Changes in proportion and differences between District contributions and proportionate share of contributions	-	211,233
District contributions subsequent to the measurement date	<u>981,263</u>	<u>-</u>
Total	<u>\$ 2,273,528</u>	<u>\$ 1,335,768</u>

\$981,263 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2024	(177,485)
2025	(54,519)
2026	(79,186)
2027	267,687
2028	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Actuarial assumptions—The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Teachers' Retirement System (TRS)

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2021
Inflation	2.50 percent
Salary increases	3.00 – 7.50 percent
Long-Term Investment Rate of Return, net of pension plan investment expense, including inflation	7.10 percent
Municipal Bond Index Rate	
Prior Measurement Date	2.13 percent
Measurement Date	3.37 percent
Year FNP is projected to depleted	N/A
Single Equivalent Interest Rate, net of pension plan investment expense, including inflation	
Prior Measurement Date	7.10 percent
Measurement Date	7.10 percent
Post-retirement Benefit Increases	1.50% annually

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups. The actuarial assumptions used were based on the results of an actuarial experience study for the 5-year period ending June 30, 2020, adopted by the board on September 20, 2021. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

For TRS, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
Large Cap U.S. Equity	37.40%	4.20%
Small Cap U.S. Equity	2.60%	4.70%
Developed International Equity	16.50%	5.30%
Emerging Markets Equity	5.50%	5.40%
Fixed Income	15.00%	-0.1%
High Yield Bonds	2.00%	1.70%
Other Additional Categories	5.00%	2.20%
Real Estate	7.00%	4.0%
Private Equity	7.00%	6.9%
Cash	2.0%	-0.3%
Total	100.0%	

Discount rate - For TRS, The discount rate used to measure the TPL as of the Measurement Date was 7.10 percent. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. We 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.

County Employees' Retirement System (CERS)

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	30 years, closed period at June 30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Payroll Growth Rate	2.0%
Investment rate of return	6.25%
Projected salary increases	3.30 to 10.30%, varies by service
Inflation rate	2.30%
Mortality	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvements scale using a base year of 2019

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Phase-In provision

Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018

For CERS, the long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class is summarized in the table below. The current long-term inflation assumption is 2.30% per annum.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	60.00%	
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income	20.00%	
Core Bonds	10.00%	0.28%
Specialty Credit / High Yield	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected	20.00%	
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.0%	4.28%
Long Term Inflation Assumption		2.30%
Expected Nominal Return for Portfolio		6.58%

Discount rate—For CERS, projection of cash flows used to determine the discount rate of 6.25% assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as amended by House Bill 362 (passed in 2018) over the remaining 30 years (closed) amortization period of the unfunded actuarial accrued liability.

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

	1% Decrease	Current Discount Rate	1% Increase
CERS	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	11,777,605	9,423,019	7,475,581
TRS	6.10%	7.10%	8.10%
District's proportionate share of net pension liability	0	0	0

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

NOTE H – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Teachers’ Retirement System of Kentucky

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

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

Medical Insurance Plan

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

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

Contributions – In order to fund the post-retirement healthcare benefit, seven and one-half percent (7.50%) of the gross annual payroll of members is contributed. Three 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

At June 30, 2022, the Mercer County District reported a liability of \$7,083,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2022, 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, 2023, the District's proportion was .2854 percent, compared to .2214 percent at June 30, 2022.

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	\$ 7,083,000
State's proportionate share of the net OPEB liability associated with the District	<u>2,327,000</u>
Total	<u>\$ 9,410,000</u>

For the year ended June 30, 2023, the District recognized OPEB expense of \$1,276,905 and revenue of \$124,368 for support provided by the State. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience (liability experience)	\$ -	2,240,788
Changes of assumptions	1,082,383	-
Net difference between projected and actual earnings on pension plan investments	283,768	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,557,335	77,528
District contributions subsequent to the measurement date	<u>427,695</u>	<u>-</u>
Total	<u>3,351,181</u>	<u>2,318,316</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$427,695 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, 2023. 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 ended June 30:	
2024	\$ (78,281)
2025	(39,893)
2026	(753)
2027	332,693
2028	276,241
Thereafter	115,163

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

Valuation Date	June 20, 2021
Inflation	2.50%
Real wage growth	0.25%
Wage inflation	2.75%
Salary increases, including wage inflation	3.00%-7.50%
Long-term Investment Rate of Return, net of OPEB plan investment expense, including Inflation	
Health Trust	7.10%
Life Trust	7.10%
Municipal Bond Index Rate	3.37%
Year FNP is projected to be depleted	N/A
Single Equivalent Interest Rate, net of OPEB plan investment expense, including price inflation	
Health Trust	7.10%
Life Trust	7.10%
Health Trust Health Care Cost Trends	
Under Age 65	7.00% for FYE 2022 decreasing to an ultimate rate of 4.50% by FYE 2032
Ages 65 and Older	5.125% for FYE 2022 decreasing to an ultimate rate of 4.50% by FYE 2025
Medicare Part B Premiums	6.97% for FYE 2022 with an ultimate rate of 4.50% by FYE 2034

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups; service, retirees, contingent annuitants, disabled retirees, and active members.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2021 valuation were based on the results of the most recent actuarial experience studies for the System, which covered the five-year period ending June 30, 2020, adopted by the Board on September 20, 2021.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2022 valuation of the Health Trust were based on a review of recent plan experience done concurrently with June 30, 2022 valuation. The health care cost trend assumption was updated for the June 30, 2022 valuation and was shown as an assumption change in the TOL roll-forward while the change initial per capita claims costs were included with experience in the TOL roll-forward.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Global Equity	58.00%	5.10%
Fixed Income	9.00%	(0.10)%
Real Estate	6.50%	4.00%
Private Equity	8.00%	6.90%
Additional Category: High Yield	8.00%	1.70%
Other Additional Categories	9.00%	2.20%
Cash (LIBOR)	1.00%	-0.30%
	<u>100.00%</u>	

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
TRS	6.10%	7.10%	8.10%
District's proportionate share of net OPEB liability	8,887,000	7,083,000	5,590,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
District's proportionate share of net OPEB liability	5,310,000	7,083,000	9,288,000

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

Life Insurance Plan

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

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

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

At June 30, 2022, the Kentucky School District did not report a liability for its proportionate share of the collective net OPEB liability for life insurance benefits because the State of Kentucky provides the OPEB support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	-0-
State's proportionate share of the net OPEB liability associated with the District	<u>116,000</u>
Total	<u>\$ 116,000</u>

Actuarial assumptions – The actuarial assumptions are listed above with the TRS OPEB assumptions information.

The long-term expected rate of return on Health Trust and Life Trust 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Global Equity	40.00%	4.40%
International Equity	23.00%	5.60%
Fixed Income	18.00%	-0.10%
Real Estate	6.00%	4.00%
Private Equity	5.00%	6.90%
Additional Categories	6.00%	2.10%
Cash (LIBOR)	2.00%	-0.30%
	100.00%	

Discount rate (SEIR) - The discount rate used to measure the total OPEB liability for life insurance was 7.10%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 75. The projection’s basis was an actuarial valuation performed as of June 30, 2021.

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

County Employees’ Retirement System of Kentucky

Plan description – Classified (non-certified) employees of the Kentucky School District are provided OPEBs through the County Employees Retirement System of the State of Kentucky (CERS)—a cost-sharing multiple-employer defined benefit OPEB plan retirement annuity plan coverage for local school districts and other public agencies in the state. CERS was established July 1, 1958 by the state legislature. CERS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth’s financial statements. CERS issues a publicly available financial report that can be obtained at <https://kyret.ky.gov/About/Board-of-Trustees/Pages/CAFR-and-SAFR.aspx>.

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 CERS Medical Insurance. The following information is about the CERS plans:

Medical Insurance Plan

Plan description –The Kentucky Retirement Systems’ Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS, the state retirement options. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. 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. It is noted that while this insurance fund covers employees eligible through KERS, CERS, and SPRS, only the portion related to CERS is applicable to Mercer County School District since the District does not have or qualify to have employees participate in KERS or SPRS.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Benefits provided – Medical Insurance coverage is provided based on the member’s initial participation date and length of service. Members received either a percentage or dollar amount for insurance coverage. The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Paid By Insurance Fund (%)</u>
20+	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

Medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a vesting period of 10 years, non-hazardous employees whose participation began on or after July 1, 2003 earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. Only benefit descriptions applicable to CERS Non-Hazardous have been included with this information since only that portion is applicable to the District.

Contributions – In order to fund the post-retirement healthcare benefit, 3.39% of the gross annual payroll of members is contributed for the year ended June 30, 2023 for CERS Non-Hazardous, which is the portion of the plan applicable to the District, and this portion is paid 100% paid by employer contributions. An additional 1.00% is contributed by employees hired on or after September 1, 2008.

At June 30, 2023, the Mercer County District reported a liability of \$ 2,572,021 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2022, 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, 2023, the District’s proportion was .1303327 percent, compared to .132816 percent at June 30, 2022.

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	\$ 2,572,021
State’s proportionate share of the net OPEB liability associated with the District	-0-
Total	<u>\$ 2,572,021</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended June 30, 2023, the District recognized OPEB expense of \$329,041. At June 30, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience (liability experience)	\$ 258,895	\$ 589,824
Changes of assumptions	406,783	335,187
Net difference between projected and actual earnings on pension plan investments	478,937	374,545
Changes in proportion and differences between District contributions and proportionate share of contributions	24,258	127,903
District contributions subsequent to the measurement date	<u>234,889</u>	<u>-</u>
Total	<u><u>1,403,762</u></u>	<u><u>1,427,459</u></u>

Of the total amount reported as deferred outflows of resources related to OPEB, \$142,157 resulting from District contributions subsequent to the measurement date and before the end of the fiscal year and implicit subsidy of \$92,732 totaling \$234,889 will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

Year ended June 30:	
2024	\$ (33,185)
2025	(43,983)
2026	(183,571)
2027	2,151
2028	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

Valuation Date	June 30, 2021
Inflation	2.30%
Payroll Growth Rate	2.00%
Investment rate of return	6.25%
Salary Increases	3.30% to 10.30%, varies by service
Healthcare cost trend rates	
Pre - 65	Initial trend starting at 6.20% at January 1, 2024, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Post - 65	Initial trend starting at 9.00% at January 1, 2024, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years
Mortality	
Pre-retirement	PUB-2010 General Mortality table
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

The single discount rate of 5.70% for CERS Nonhazardous was used to measure the total OPEB liability as of June 30, 2022. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of June 30, 2022. Based on the assumptions and the projection of cash flows of each fiscal year ending, the plan’s fiduciary net position and future contributions were projected and were sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit paid from the plan. However, the cost associated with the implicit subsidy was not included in the calculation of the plans actuarially determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

The long-term (10-year) expected rates of return were determined using a building block method in which best estimate ranges of expected future real rates of return were developed for each asset class. The ranges were combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset are summarized below:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	50.00%	4.45%
Private Equity	10.00%	10.15%
Fixed Income		
Core Fixed Income	10.00%	0.28%
Specialty Credit	10.00%	2.28%
Cash	0.00%	-0.91%
Inflation Protected		
Real Estate	7.00%	3.67%
Real Return	13.00%	4.07%
Total	100.0%	

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.70%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.70%) or 1-percentage-point higher (6.70%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	4.70%	5.70%	6.70%
District's proportionate share of net OPEB liability	3,438,382	2,572,021	1,855,829

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:

	1% Decrease	Current Trend Rate	1% Increase
Systems' net pension liability	1,912,241	2,572,021	3,364,293

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I – 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.

NOTE J – INSURANCE AND RELATED ACTIVITIES

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

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

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.

NOTE L – DEFICIT OPERATING BALANCES

The Daycare Fund had a deficit fund balance of \$163,762 at June 30, 2023. Additionally, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Debt Service Fund	3,238,957
Construction Fund	6,265,078
District Activity Fund	6,553
Student Activity Fund	15,572

NOTE M – COBRA

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 (contingency).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	53,532
Operating	Capital Outlay	General Fund	Debt Service	254,910
Operating	District Activity	Student Activity	Operations	5,400
Operating	General	District Activity	Operations	2,900
Operating	Special Revenue	General	Indirect Costs	93,068
Operating	Building Fund	General	Operations	645,877
Operating	Food Service	General	Indirect Costs	88,563
Operating	Building Fund	Debt Service	Debt Service	<u>3,238,957</u>
Total Governmental Funds Transferred In				4,383,207
Operating	Food Service	General Fund	Indirect Costs	<u>(88,563)</u>
Proprietary Funds Transferred				88,563
Total Transferred Funds				<u>4,294,644</u>

NOTE O – ON-BEHALF PAYMENT

For the year ended June 30, 2023, \$9,655,329 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology, and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$6,080,412
Teachers Retirement system (GASB 75)	133,201
Health Insurance	3,141,773
Life Insurance	4,724
Administrative Fee	37,700
HRA/Dental/Vision	171,588
Federal Reimbursement	(199,662)
Technology	102,043
SFCC Debt Service Payments	<u>183,550</u>
Total	<u>\$9,655,329</u>

NOTE P – SUBSEQUENT EVENTS

Management has reviewed subsequent events through November 1, 2023, the date the financials were available for release. There are no material events requiring disclosure.

NOTE Q – COMMITMENTS

Mercer County School District is renovating its high school baseball, softball, and soccer fields. Construction for this project is ongoing as of the audit date. It is anticipated that the completion of this project will cost an additional \$757,634.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Mercer County School District is in the initial phases of renovating restrooms at King Middle School. The total estimated project is \$1,125,723. To date, \$67,274 has been expended for architecture fees.

Mercer County School District is in the initial phases of construction of a new elementary school. The total estimated project cost is \$35,576,729. To date, \$287,479 has been expended for architecture fees and preliminary costs.

REQUIRED SUPPLEMENTARY
INFORMATION

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	9,335,000	9,335,000	10,305,882	970,882
Earnings on Investments	32,000	32,000	47,600	15,600
State Sources	10,879,500	10,879,500	20,451,064	9,571,564
Federal Sources	5,000	5,000	4,980	(20)
Other Sources	1,643,686	1,643,686	1,254,353	(389,333)
TOTAL REVENUES	21,895,186	21,895,186	32,063,879	10,168,693
EXPENDITURES:				
Instructional	12,363,857	12,363,857	18,398,717	(6,034,860)
Student Support Services	804,726	804,726	1,288,978	(484,252)
Staff Support Services	626,335	626,335	941,260	(314,925)
District Administration	1,114,537	1,114,537	1,194,960	(80,423)
School Administration	1,474,559	1,474,559	2,349,293	(874,734)
Business Support Services	605,525	605,525	874,254	(268,729)
Plant Operation & Maintenance	3,117,604	3,117,604	3,009,199	108,405
Student Transportation	2,472,153	2,472,153	2,281,167	190,986
Food Service Operations	4,539	4,539	6,948	(2,409)
Other	4,211,351	4,211,351	372,004	3,839,347
TOTAL EXPENDITURES	26,795,186	26,795,186	30,716,780	(3,921,594)
NET CHANGE IN FUND BALANCE	(4,900,000)	(4,900,000)	1,347,099	6,247,099
FUND BALANCES - BEGINNING	4,900,000	4,900,000	5,618,847	718,847
FUND BALANCES - ENDING	0	0	6,965,946	6,965,946

On-behalf payments for the general fund totaling \$9,347,378 are not budgeted by Mercer County School District.

See independent auditor's report and accompanying notes to financial statements.

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

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	0	0	64,922	64,922
State Sources	1,609,420	1,609,420	1,538,744	(70,676)
Federal Sources	1,843,654	1,843,654	4,289,055	2,445,401
Other Sources	51,685	51,685	54,404	2,719
TOTAL REVENUES	3,504,759	3,504,759	5,947,125	2,442,366
EXPENDITURES:				
Instructional	2,707,030	2,707,030	4,145,011	(1,437,981)
Student Support Services	8,336	8,336	64,888	(56,552)
Staff Support Services	396,000	396,000	248,586	147,414
District Administration	0	0	0	0
School Administration	0	0	0	0
Business Support Services	0	0	12	(12)
Plant Operation & Maintenance	88,073	88,073	147,858	(59,785)
Student Transportation	0	0	725,124	(725,124)
Food Service Operation	0	0	15,489	(15,489)
Central Office	0	0	0	0
Community Service Operations	305,320	305,320	439,815	(134,495)
Facility Acquisition & Construction	0	0	67,274	(67,274)
Other	0	0	93,068	(93,068)
TOTAL EXPENDITURES	3,504,759	3,504,759	5,947,125	(2,442,366)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability \$	-	-	-	-	-	-	-	-	-
State of Kentucky's share of the net pension liability associated with the district	\$ 84,345,557	94,826,480	117,587,135	108,715,095	51,890,013	53,776,505	54,999,484	51,696,478	66,641,110
TOTAL	84,345,557	94,826,480	117,587,135	108,715,095	51,890,013	53,776,505	54,999,484	51,696,478	66,641,110
District's covered-employee payroll	\$ 12,829,760	12,915,230	13,073,489	13,233,907	13,220,586	13,303,729	13,473,699	14,404,700	14,256,511
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%	39.80%	59.30%	58.80%	58.27%	65.59%	56.41%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of net pension liability	0.142144%	0.142016%	0.136863%	0.133499%	0.136748%	0.139750%	0.137755%	0.132847%	0.130350%
District's proportionate share of the net pension liability	\$ 4,612,000	6,106,021	6,738,586	7,814,107	8,328,370	9,828,680	10,565,694	8,470,038	9,423,019
State of Kentucky's share of the net pension liability associated with the district	-	-	-	-	-	-	-	-	-
TOTAL	\$ 4,612,000	6,106,021	6,738,586	7,814,107	8,328,370	9,828,680	10,565,694	8,470,038	9,423,019
District's covered-employee payroll	\$ 3,341,312	3,307,880	3,277,894	3,411,902	3,554,169	3,548,411	3,430,795	3,632,265	4,157,140
District's proportionate share of the net pension liability as a percentage of its covered-payroll	138.03%	184.59%	205.58%	229.02%	234.33%	276.99%	307.97%	233.19%	226.67%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	63.46%	55.50%	53.30%	53.54%	50.45%	47.81%	57.33%	52.42%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>								
Contribution deficiency (excess)	<u>\$ -</u>								
Covered employee payroll	\$ 12,829,760	\$ 12,915,230	\$ 13,073,489	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699	\$ 14,404,700	\$ 14,256,511
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS TO THE
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required contributions (actuarially determined)	\$ 426,017	\$ 410,839	\$ 457,266	\$ 494,043	\$ 576,487	\$ 684,843	\$ 662,143	\$ 768,951	\$ 981,263
Contributions in relation to the actuarially determined contributions	<u>426,017</u>	<u>410,839</u>	<u>457,266</u>	<u>494,043</u>	<u>576,487</u>	<u>684,843</u>	<u>662,143</u>	<u>768,951</u>	<u>981,263</u>
Contribution deficiency (excess)	<u>\$ -</u>								
Covered employee payroll	\$ 3,341,312	\$ 3,307,880	\$ 3,277,894	\$ 3,411,902	\$ 3,554,169	\$ 3,548,411	\$ 3,430,795	\$ 3,632,265	\$ 4,157,140
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%	14.48%	16.22%	19.30%	19.30%	21.17%	23.40%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - MEDICAL INSURANCE
COUNTY EMPLOYEES RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
District's proportion of net OPEB liability	0.133499%	0.136744%	0.139713%	0.137742%	0.132816%	0.132816%
District's proportionate share of the net OPEB liability	2,683,787	2,427,863	2,349,910	3,326,050	2,542,696	3,438,382
State of Kentucky's share of the net OPEB liability associated with the district	-	-	-	-	-	-
TOTAL	<u><u>2,683,787</u></u>	<u><u>2,427,863</u></u>	<u><u>2,349,910</u></u>	<u><u>3,326,050</u></u>	<u><u>2,542,696</u></u>	<u><u>3,438,382</u></u>
District's covered-employee payroll	3,411,902	3,554,169	3,548,411	3,430,795	3,632,265	4,157,140
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	78.66%	68.31%	66.22%	96.95%	70.00%	82.71%
Plan fiduciary net position as a percentage of the total OPEB liability	52.40%	57.62%	60.44%	51.67%	62.91%	60.95%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
District's proportion of net OPEB liability	0.2134%	0.2055%	0.2109%	0.2088%	0.2124%	0.2124%
District's proportionate share of the net OPEB liability	7,608,000	7,131,000	6,174,000	5,270,000	4,557,000	7,083,000
State of Kentucky's share of the net OPEB liability associated with the district	<u>6,215,000</u>	<u>6,146,000</u>	<u>4,986,000</u>	<u>4,222,000</u>	<u>3,701,000</u>	<u>2,327,000</u>
TOTAL	<u>13,823,000</u>	<u>13,277,000</u>	<u>11,160,000</u>	<u>9,492,000</u>	<u>8,258,000</u>	<u>9,410,000</u>
District's covered-employee payroll	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699	\$ 14,404,700	\$ 14,256,511
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	57.49%	53.94%	46.41%	39.11%	31.64%	49.68%
Plan fiduciary net position as a percentage of the total OPEB liability	21.18%	25.50%	32.60%	39.05%	51.74%	47.75%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN
TEACHERS' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
District's proportion of net OPEB liability	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
District's proportionate share of the net OPEB liability	-	-	-	-	-	-
State of Kentucky's share of the net OPEB liability associated with the district	<u>83,000</u>	<u>105,000</u>	<u>116,000</u>	<u>128,000</u>	<u>49,000</u>	<u>116,000</u>
TOTAL	<u><u>83,000</u></u>	<u><u>105,000</u></u>	<u><u>116,000</u></u>	<u><u>128,000</u></u>	<u><u>49,000</u></u>	<u><u>116,000</u></u>
District's covered-employee payroll	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699	\$ 14,404,700	\$ 14,256,511
District's proportionate share of the net OPEB liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	79.99%	75.00%	73.40%	71.57%	89.15%	73.97%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN
 COUNTY EMPLOYEES RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required contributions (actuarially determined)	\$ 160,359	\$ 186,949	\$ 168,904	\$ 163,306	\$ 209,945	\$ 142,157
Contributions in relation to the actuarially determined contributions	<u>160,359</u>	<u>186,949</u>	<u>168,904</u>	<u>163,306</u>	<u>209,945</u>	<u>142,157</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered employee payroll	\$ 3,411,902	\$ 3,554,169	\$ 3,548,111	\$ 3,430,795	\$ 3,632,265	\$ 4,157,140
Contributions as a percentage of Covered employee payroll	4.70%	5.26%	4.76%	4.76%	5.78%	3.39%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE MEDICAL INSURANCE PLAN
 TEACHERS RETIREMENT SYSTEM
 FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required contributions (actuarially determined)	\$ 366,655	\$ 396,618	\$ 399,112	\$ 404,211	\$ 432,141	\$ 427,695
Contributions in relation to the actuarially determined contributions	<u>366,655</u>	<u>396,618</u>	<u>399,112</u>	<u>404,211</u>	<u>432,141</u>	<u>427,695</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered employee payroll	\$ 12,221,840	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699	\$ 14,256,511	\$ 14,256,511
Contributions as a percentage of Covered employee payroll	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CONTRIBUTIONS TO THE LIFE INSURANCE PLAN
 TEACHERS RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Contractually required contributions (actuarially determined)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>					
Covered employee payroll	\$ 13,233,907	\$ 13,220,586	\$ 13,303,729	\$ 13,473,699	\$ 14,256,511	\$ 14,256,511
Contributions as a percentage of Covered employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.

MERCER COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

In 2014, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 5.16% to 5.23%.

In 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. In the 2016 valuation, 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%.

In 2017, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.20% to 4.49%. • In 2018, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.49% to 7.50%.

In the 2020 experience study, rates of withdrawal, retirement, disability, mortality, and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set forwards, set-backs, and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees, and actives. The assumed long-term investment rate of return was changed from 7.50 percent to 7.10 percent and the price inflation assumption was lowered from 3.00 percent to 2.50 percent. In addition, the calculation of the SEIR results in an assumption change from 7.50% to 7.10%.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

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

Actuarial Cost Method	Entry age
Amortization Period	Level percentage of payroll, closed
Remaining amortization period	21.9 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary Increase	3.00% to 7.50%, includes wage inflation at 2.75%
Investment rate of return	7.10 %, includes price inflation at 2.50%
Cost-of-living adjustments	1.50% annually

NOTE C – CHANGES OF BENEFITS

2022: A new benefit tier was added for members joining the System on and after January 1, 2022. A complete listing of benefits can be found within the report at <https://trs.ky.gov/wp-content/uploads/2023/06/TRS-GASB-68-Report-2022-Actuary.pdf>.

MERCER COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2015

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

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed inflation rate was reduced from 3.5% to 3.255%.

The assumed rate of wage inflation was reduced from 1.00% to .75%.

Payroll growth assumption was reduced from 4.5% to 4%.

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 Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The assumed rates of Retirement, Withdrawal and Disability were updated to more accurately reflect experience.

2016

There were no changes of assumptions for the year ended June 30, 2016.

2017

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

The assumed rate of inflation was reduced to 2.30% from 3.25%

The assumed salary increases were reduced to 3.05%, average, from 4.00%, average including inflation

The assumed investment rate of return was reduced to 6.25% from 7.50%

2018

There were no changes in assumptions.

2019

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

MERCER COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

The projected salary increase was changed to 3.3-11.5% from 3.05%

The asset valuation method was changed to 20% of the difference between the market value assets and the expected actuarial value of assets if recognized from 5-year smoothed market.

The payroll growth rate was changed to 2.0% from 4.0%.

The investment rate of return was change to 6.25% from 7.5%.

The inflation rate was changed to 2.3% from 3.25%.

2020

There were no changes of assumptions for the year ended June 30, 2020.

2021

There were no changes of assumptions for the year ended June 30, 2021.

2022

There were no changes of assumptions for the year ended June 30, 2022.

MERCER COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2023

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2020
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years closed period at June30, 2019 <i>Gains/losses incurring after 2019 will be amortized over separate 20-year amortization basis</i>
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30 percent
Salary Increase	3.30-10.30 percent, varies by service
Investment Rate of Return	6.25 percent
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 for CERS

The retiree mortality is a System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS non-hazardous pensions.

MERCER COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

TEACHERS' RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2017

There were no changes in assumptions.

2018

There were no changes in assumptions.

2019

There were no changes in assumptions.

2020

Health Care Cost Trend Rates were updated for the June 30, 2019 valuation.

2021

Health Trust and Life Trust

In the 2020 experience study, rates of withdrawal, retirement, disability, mortality, and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set forwards, set-backs, and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees, and actives.

The assumed long-term investment rate of return was changed from 8.00% for the Health Trust and 7.50% for the Life Trust to 7.10%. The price inflation assumption was lowered from 3.00% to 2.50%.

The rates of member participation and spousal participation were adjusted to reflect actual experience more closely.

2022

The health care trend rates were updated to reflect future anticipated experience.

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The Health Trust is not funded based on an actuarially determined contribution, but instead is funded based on statutorily determined amounts.

NOTE C – CHANGES OF BENEFITS

2022: A new benefit tier was added for members joining the System on and after January 1, 2022. A description of benefit provisions applicable to these members can be found at https://trs.ky.gov/wp-content/uploads/2023/06/TRS-GASB-75-Report_6.30.2022-MD-6.30.2023-RD-FINAL.pdf.

MERCER COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2023

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE A – CHANGES OF ASSUMPTIONS

2017

The assumed investment return was changed from 7.5% to 6.2%

The price inflation assumption was changed from 3.25% to 2.30% which resulted in a .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 4.0% to 2.0%

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

There were no changes in assumptions.

2019

The investment rate of return was changed to 6.25% from 7.0%.

The projected salary increases changed to 3.05-11.55% from 4.0%.

The inflation rate changed to 2.3% from 3.25%.

The payroll growth rate changed to 2.0% from 4.0%.

2020

There were no changes in assumptions.

2021

The single discount rates used to calculate the total OPEB liability changed since the prior year. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2020 valuation process and was updated to better reflect the plan's long-term healthcare costs.

2022

There were no changes in assumptions.

MERCER COUNTY SCHOOL DISTRICT
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE
 OF THE NET OPEB LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2023

COUNTY EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Methods and assumptions used in the actuarially determined contributions – The actuarially determined contribution rates, as a percentage of payroll, used to determine the actuarially determined contribution amounts in the Schedule of Employer Contributions are calculated as of the indicated valuation date. The following actuarial methods and assumptions (from the indicated actuarial valuations) were used to determine contribution rates reported in that schedule for the year ending June 30, 2021:

Valuation Date	June 30, 2020
Experience Study	July 1, 2013 – June 30, 2018
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	30 years, closed
	<i>Gains/losses incurring after 2019 will be amortized over separate closed 20-year amortization bases</i>
Payroll Growth Rate	2.00%
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Inflation	2.30%
Salary Increase	3.30%-10.30%, varies by service
Investment Rate of Return	6.25 %
Healthcare cost trend rates	
Pre - 65	Initial trend starting at 6.40% at January 1, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of valuation and were incorporated into the liability measurement.
Post - 65	Initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of valuation and were incorporated into the liability measurement.

NOTE C – CHANGES OF BENEFITS

There were no changes in benefits for CERS, non-hazardous OPEB.

OTHER SUPPLEMENTARY
INFORMATION

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

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	STUDENT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:						
Cash & Cash Equivalents	510	1,219	0	539,314	51,257	592,300
Accounts Receivable						0
TOTAL ASSETS	510	1,219	0	539,314	51,257	592,300
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts Payable						
Total Liabilities	0	0	0	0	0	0
Fund Balances:						
Restricted for:						
SFCC Escrow	510	1,219				1,729
School Activities				539,314		539,314
Student Activities					51,257	51,257
Total Fund Balances	510	1,219	0	539,314	51,257	592,300
TOTAL LIABILITIES AND FUND BALANCES	510	1,219	0	539,314	51,257	592,300

See independent auditor's report and accompanying notes to financial statements.

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

	CAPITAL OUTLAY FUND	BUILDING FUND	DEBT SERVICE FUND	DISTRICT ACTIVITY FUND	STUDENT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:						
Taxes		2,405,304				2,405,304
Intergovernmental - State	254,910	1,479,530	183,550			1,917,990
Other Sources				449,932	165,057	614,989
TOTAL REVENUES	<u>254,910</u>	<u>3,884,834</u>	<u>183,550</u>	<u>449,932</u>	<u>165,057</u>	<u>4,938,283</u>
EXPENDITURES:						
Instructional				426,440	116,101	542,541
Staff Support Services				30,045		30,045
Student Transportation					64,528	64,528
Other Instructional						0
Debt Service:						
Principal			2,540,000			2,540,000
Interest			882,507			882,507
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>3,422,507</u>	<u>456,485</u>	<u>180,629</u>	<u>4,059,621</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	254,910	3,884,834	(3,238,957)	(6,553)	(15,572)	878,662
OTHER FINANCING SOURCES(USES):						
Operating Transfers In			3,238,957	2,900	5,400	3,247,257
Operating Transfers Out	(254,910)	(3,884,834)	0	(5,400)	0	(4,145,144)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(254,910)</u>	<u>(3,884,834)</u>	<u>3,238,957</u>	<u>(2,500)</u>	<u>5,400</u>	<u>(897,887)</u>
NET CHANGE IN FUND BALANCES	<u>0</u>	<u>0</u>	<u>0</u>	<u>(9,053)</u>	<u>(10,172)</u>	<u>(19,225)</u>
FUND BALANCES - BEGINNING	<u>510</u>	<u>1,219</u>	<u>0</u>	<u>548,367</u>	<u>61,429</u>	<u>611,525</u>
FUND BALANCES - ENDING	<u><u>510</u></u>	<u><u>1,219</u></u>	<u><u>0</u></u>	<u><u>539,314</u></u>	<u><u>51,257</u></u>	<u><u>592,300</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 STUDENT ACTIVITY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2023

	<u>BALANCE</u> <u>JULY 1, 2022</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>BALANCE</u> <u>JUNE 30, 2023</u>
Mercer County Senior High School	38,315	51,485	54,258	35,542
King Middle School	9,086	58,716	61,661	6,141
Mercer Central	1,810	540	30	2,320
Mercer County Intermediate School	11,508	39,201	45,685	5,024
Mercer County Elementary School	710	20,515	18,995	2,230
Fund Balance	<u>61,429</u>	<u>170,457</u>	<u>180,629</u>	<u>51,257</u>

See independent accountant's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2023

	BALANCE			FUND BALANCE		FUND
	JULY 1, 2022	RECEIPTS	DISBURSEMENTS	JUNE 30, 2023		BALANCE
						JUNE 30, 2023
Titan School Store	202	0	0	202		202
Student Vending	1,249	0	575	674		674
Pep Club	389	630	178	841		841
Weights	552	2,820	2,038	1,334		1,334
THIRST	24	0	0	24		24
Band SAF	9,155	0	7,900	1,255		1,255
Beta Club	1,644	1,395	1,929	1,110		1,110
Beta Scholarship	170	0	0	170		170
Chess Club	677	0	0	677		677
MCHS Book Club	612	93	233	472		472
KYA/KUNA	556	6,047	5,706	897		897
FCA Club	658	194	0	852		852
Republican Club	111	0	0	111		111
Unity Club	206	0	0	206		206
FFA Club	16,189	22,011	18,858	19,342		19,342
FCCLA CLUB	2,864	1,799	1,924	2,739		2,739
Engineering Club	674	0	0	674		674
Educator Rising	130	1,185	1,227	88		88
Natinal Honor Society	793	1,376	1,393	776		776
Spanish Club	1,186	359	588	957		957
Student Council	1,534	0	559	975		975
Key Club	66	0	0	66		66
Film	121	0	0	121		121
Envirothon Team	75	0	0	75		75
Academic Team	0	847	475	372		372
UM Club	0	530	202	328		328
Field Trips	0	340	249	91		91
DECA Club	0	1,620	1,507	113		113
Project Graduation	0	8,717	8,717	0		0
General	(1,522)	1,522	0	0		0
Total All Funds	38,315	51,485	54,258	35,542	0	35,542
Transfer Out to GF			0	0		0
Total	38,315	51,485	54,258	35,542	0	35,542

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

<u>FEDERAL GRANTOR/PASS-THROUGH</u> <u>GRANTOR/PROGRAM TITLE</u>	<u>CFDA</u> <u>NUMBER</u>	<u>PASS</u> <u>THROUGH</u> <u>NUMBER</u> <u>(if applicable)</u>	<u>MUNIS</u> <u>PROJECT</u> <u>NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Parent Involvement	84.010	3100002	310FM	1,535
Title I - Parent Involvement	84.010	3100002	31GM	8,296
Title I - Grants to Local Educational Agencies	84.010	3100002	31OI	349,798
Title I - Parent Involvement	84.010	3100002	310IM	8,214
Title I - Grants to Local Educational Agencies	84.010	3100002	310J	400,462
Title I Grants to Local Educational Agencies Total				768,305 *
Title I, Neglected and Delinquent Children and Youth	84.013	313J	313J	26,200
Title II Supporting Effective Instruction State Grants	84.367	3230002	401G	755
Title II Supporting Effective Instruction State Grants	84.367	3230002	401I	12,286
Title II Supporting Effective Instruction State Grants	84.367	3230002	401J	128,858
Title II Supporting Effective Instruction State Grants				141,899
Perkins Voc.	84.048	3710006	348IA	2,126
Perkins Voc.	84.048	3710006	348J	30,984
Perkins Voc. Total				33,110
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552GS	16,968
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552GT	2,591
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552IS	19,589
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552IT	909
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552IW	15,406
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552JS	2,321
Title IV, Part A - Student Support and Academic Enrichment	84.424	342002	552JW	9,205
Title IV, Part A - Student Support and Academic Enrichment Total				66,989
IDEA - Special Education - Grants to State	84.027	3810002	337I	10,426
IDEA - Special Education - Grants to State	84.027	3810002	337J	581,906
IDEA - Special Education - Preschool Grants	84.173	3800002	343J	56,718
COVID-19 - ARP IDEA	84.027X	4910002	478I	65,933
COVID-19 - ARP IDEA Preschool	84.173X	4900002	488I	4,451
Special Education Cluster				719,434
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4200002	554G	26,309
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4200002	554GD	571,421
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425D	4200002	554GS	47,701
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425U	4300002	563J	12,580
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425C	4200004	564GF	89,734
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425U	4300002	473G	1,324,942

COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425U	4300005	473GB	2,752
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425U	4300005	473GD	3,344
COVID-19 - Elementary & Secondary School Emergency Relief Fund	84.425U	4300002	473GL	185,958
COVID-19 Education Stabilization Fund Total				<u>2,264,741</u> *
Passed Through Berea College				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	614J	614J	2,663
Total U.S. Department of Education				<u>4,023,341</u>
<u>U.S. Department of Health and Human Services</u>				
Passed-Through Kentucky Department of Education				
COVID-19 Preschool Partnership Grant	93.575	562JP	562JP	147,685
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
Summer Meal Program	10.559	7690024-22	7690024-22	2,040
Summer Meal Program	10.559	7740023-22	7740023-22	19,586
National School Lunchroom	10.555	7750002-22	7750002-22	299,643
National School Lunchroom	10.555	7750002-23	7750002-23	1,261,779
National School Lunchroom	10.555	9980000-22	9980000-22	67,973
National School Lunchroom	10.555	9980000-23	9980000-23	32,402
School Breakfast Program	10.553	7760005-22	7760005-22	97,096
School Breakfast Program	10.553	7760005-23	7760005-23	480,901
Child Nutrition Cluster				<u>2,261,420</u> *
Child & Adult Care Food Program	10.558	7790021-22	7790021-22	12,034
Child & Adult Care Food Program	10.558	7790021-23	7790021-23	29,181
Child & Adult Care Food Program	10.558	7800016-22	7800016-22	896
Child & Adult Care Food Program	10.558	7800016-23	7800016-23	2,172
Child & Adult Care Food Program Total				<u>44,283</u>
State Administrative Expenses for Child Nutrition	10.560	7700001-22	7700001-22	1,271
State P-EBT Administrative Costs Grant	10.649	9990000-22	9990000-22	3,135
Passed Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	<u>161,698</u>
Total U.S. Department of Agriculture				<u>2,471,807</u>
Total Federal Financial Assistance				<u><u>6,642,833</u></u>

* Tested as major program

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

NOTE A – BASIS OF PRESENTATION

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

NOTE C – FOOD DISTRIBUTION

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

NOTE D – DE MINIMIS COST RATE

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

NOTE E – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

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

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X 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 section 200.516(a) ? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.425C/84.425D/84.425U	COVID-19 Education Stabilization Fund
84.010	Title 1, Grants to Local Education Agencies
10.555/10.553/10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MERCER COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2023

There were no prior year audit findings.

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Stephanie A. Abell, CPA

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November 1, 2023

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

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements, and have issued our report thereon dated November 1, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mercer 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 Mercer County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer County School District's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Stephanie A. Abell, CPA

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November 1, 2023

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

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Mercer County School District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Mercer County School District's major federal programs for the year ended June 30, 2023. Mercer 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.

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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State 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 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 *Appendix I to the Independent Auditor's Contract – Audit Extension Request, Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract, Audit Acceptance Statement, AFR and Balance Sheet, Statement of Certification, and Audit Report*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibility for the Audit of Compliance

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Mercer County School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Mercer County School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Mercer County School District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Stephanie A. Abell, CPA

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November 1, 2023

MANAGEMENT LETTER

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

In planning and performing our audit of the financial statements of Mercer County School District for the year ended June 30, 2023, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Recommendations – School Activity Funds:

None.

Current Year Recommendations – School Activity Funds:

None.

Prior Year Recommendations – District Level:

2022-1 Prior Year Recommendation:

During prior year testing, two instances of a lack of a receiving report were noted for a District level disbursement. We recommend that receiving reports or signed invoices indicating receipt of goods be documented with all applicable disbursements.

Current Year Status:

During current year testing, two instances of a lack of a receiving report were noted for a District level disbursement. However, both instances were prior to the District's receipt of this prior year report and no additional instances were found.

Current Year Recommendations – District Level:

2023-1 Current Year Recommendation:

During current year testing, an invoice for attendance at a conference was reviewed. The invoice detailed 5 attendees. It was noted that 4 of the 5 attendees were registered prior to the approval of the corresponding purchase order. While we believe that the District employees had approval to attend prior to registering, we recommend that purchase orders be properly completed and approved prior to participants registering since prior approval is a key control for the District.

Management Response:

We will encourage employees to ensure a purchase order is properly approved prior to incurring District expenses.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

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Charles M. White, CPA
Stephanie A. Abell, CPA

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November 1, 2023

Members of the Board of Education
Mercer County School District
Harrodsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District for the year ended June 30, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 17, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mercer County School District are described in Note A to the financial statements. As described in Note A to the financial statements, the District changed policies related to Subscription-Based Information Technology Arrangements by adopting Statement of Governmental Accounting Standards No. 96, *Subscription-Based Information Technology Arrangements*, in 2023. The District did not have a cumulative prior period impact as its only applicable lease began in the year of adoption. No other new accounting policies were adopted and the application of existing policies was not changed during 2023. We noted no transactions entered into by Mercer County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 1, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Mercer County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Mercer County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 58 and 59, or on the schedules of the district's proportionate share of net pension liabilities and other post-employment benefit plans on pages 60-61 and 64-66, or on the schedules of contributions to the County Employees Retirement System and Teachers Retirement System pension plans or the County Employees Retirement

System and Teachers Retirement System other post-employment benefit plans on pages 62-63 and 67-69, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the information and use of Members of the Board of Education and management of Mercer County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants