

FRANKFORT INDEPENDENT SCHOOL DISTRICT
Frankfort, Kentucky

FINANCIAL STATEMENTS
June 30, 2022

CONTENTS

| | |
|---|-------|
| Independent Auditors' Report | 1-3 |
| Management's Discussion and Analysis..... | 4-8 |
| Government-wide Financial Statements | |
| Statement of Net Position..... | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements | |
| Balance Sheet – Governmental Funds | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds..... | 12 |
| Statement of Net Position – Proprietary Funds | 13 |
| Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds | 14 |
| Statement of Cash Flows – Proprietary Funds..... | 15 |
| Statement of Fiduciary Net Position – Trust Fund..... | 16 |
| Statement of Changes in Fiduciary Net Position..... | 17 |
| Notes to Financial Statements | 18-48 |
| Required Supplementary Information | |
| Budget Information – Major Governmental Funds | 49-50 |
| Proportionate Share of the Net Pension Liability | 51-52 |
| Proportionate Share of the Net OPEB Liability | 53-55 |
| Schedule of Pension Contributions | 56-57 |
| Schedule of OPEB Contributions | 58-60 |
| Notes to Required Supplementary Information | 61-64 |
| Supplementary Information | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 65 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds | 66 |
| Combining Statement of Receipts, Disbursements and Due to Student Groups – School Activity Funds..... | 67 |
| Statement of Receipts, Disbursements, and Due to Student Groups Frankfort Independent High School | 68-69 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 70-71 |
| Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance..... | 72-74 |
| Schedule of Expenditures of Federal Awards..... | 75 |
| Schedule of Findings and Questioned Costs..... | 76-78 |
| Management Letter | 79-82 |



INDEPENDENT AUDITORS' REPORT

To the State Committee for School District Audits and
Members of the Board of Education
Frankfort Independent School District

Report on the Audit of 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 the Frankfort Independent School District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Frankfort Independent 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 the Frankfort Independent School District, as of June 30, 2022, 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 and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract, including Appendix II – Instructions for Submissions of the Audit Report*. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Frankfort Independent School District, to meet our other 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Frankfort Independent 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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 auditors' 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, *Government Auditing Standards* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract, including Appendix II – Instructions for Submissions of the Audit Report* 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 judgment 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 judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks 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 the Frankfort Independent 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 Frankfort Independent 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 regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related 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 and pension and OPEB schedules on pages 4-8 and 49-60 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 Frankfort Independent School District's basic financial statements. The combining nonmajor fund financial statements, the school activity fund statements 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 relates 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 nonmajor fund financial statements, the school activity fund 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 15, 2022, on our consideration of the Frankfort Independent 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 Frankfort Independent 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 Frankfort Independent School District's internal control over financial reporting and compliance.

RFH

RFH, PLLC

Lexington, Kentucky

November 15, 2022

Except Note 16 as to which the date is August 2, 2023

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Year Ended June 30, 2022**

As management of the Frankfort Independent Board of Education (Board), the governing body for the Frankfort Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2022. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements and notes. All amounts used in this MD&A are approximate amounts, except where more specific.

FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District was \$1,444,211. The ending General Fund balance was \$1,998,469.
- The General Fund had \$9,678,993 in revenue, excluding interfund transfers, which primarily consisted of the state program (SEEK), property, utility, and motor vehicle taxes. Excluding interfund transfers, there was \$9,616,400 in General Fund expenditures.
- Bonds are issued as the District renovates facilities consistent with a long-range facility plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's debt expenditures for 2021-22 fiscal year totaled \$968,600.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements outline functions of the District that are primarily 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 asset acquisitions and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on the pages 9 and 10 of this report.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year Ended June 30, 2022**

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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 two categories: governmental and proprietary funds. The only proprietary funds are food service and day care operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 and 12 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 government-wide and fund financial statements. The notes to the financial statements can be found on pages 18 through 48 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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 are not likely to 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.

The breakdown of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position can be seen on page 9 in the statement of net position.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year Ended June 30, 2022**

Fiscal year 2022 government-wide net position compared to 2021 is as follows:

| | 2022 | 2021 |
|--|---------------------|-----------------------|
| Current assets | \$ 3,169,531 | \$ 5,288,771 |
| Noncurrent assets | <u>14,905,092</u> | <u>12,650,182</u> |
| Total assets | <u>18,074,623</u> | <u>17,938,953</u> |
| Total deferred outflows | <u>1,513,456</u> | <u>1,696,978</u> |
| Current liabilities | 1,200,983 | 1,689,862 |
| Noncurrent liabilities | <u>16,944,981</u> | <u>19,024,310</u> |
| Total liabilities | <u>18,145,964</u> | <u>20,714,172</u> |
| Total deferred inflows | <u>2,376,461</u> | <u>1,447,465</u> |
| Net position | | |
| Investment in capital assets (net of debt) | 2,445,724 | (380,693) |
| Restricted | 302,982 | (3,388,504) |
| Unrestricted | <u>(3,683,052)</u> | <u>1,243,491</u> |
| Total net position | <u>\$ (934,346)</u> | <u>\$ (2,525,706)</u> |

Comments on General Fund Budget Comparisons

- On-Behalf and Budget Variances – As part of GASB 34, the District's financial statements include payments made by the Commonwealth of Kentucky that benefited the students or the employees of the District. For the General Fund, these include amounts paid by the state for TRS retirement, health insurance, flexible-spending health benefit contributions, life insurance, certain technology services, and administrative fees. For the audited financial reports, such on-behalf payments were added to the District's related revenue and expenses line items for the General Fund. (See Note 14 – On-Behalf Payments of the accompanying Financial Statements for the year ended June 30, 2022.)
- It is notable that on-behalf payments represent state obligations that are not District obligations. Therefore, they have not been included as part of the budgeting process for the General Fund. As a result, the variances between amounts budgeted for the General Fund and the actual results may be skewed by on-behalf payments.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year Ended June 30, 2022**

The following table presents an accounting comparison and summary of revenue and expense for fiscal years 2022 and 2021.

| | 2022 | 2021 |
|---------------------------------------|---------------------|-------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 150,556 | \$ 70,927 |
| Operating grants | 4,441,991 | 3,864,941 |
| Capital grants | <u>252,634</u> | <u>757,368</u> |
| Total program revenues | <u>4,845,181</u> | <u>4,693,236</u> |
| General revenues | | |
| Taxes | 3,852,599 | 3,247,428 |
| State aid-formula grants | 6,707,286 | 2,209,082 |
| Investment earnings | 37,883 | 45,571 |
| Miscellaneous | <u>471,805</u> | <u>266,525</u> |
| Total general revenues | <u>11,069,573</u> | <u>5,768,606</u> |
| Total revenues | <u>15,914,754</u> | <u>10,461,842</u> |
| Expenses | | |
| Instructional | 7,890,283 | 3,769,767 |
| Student support services | 775,823 | 666,586 |
| Instruction staff | 1,076,236 | 736,765 |
| District administration | 421,233 | 436,644 |
| School administration | 608,131 | 598,751 |
| Business support | 669,715 | 684,537 |
| Plant operations | 1,272,029 | 909,635 |
| Student transportation | 468,708 | 229,814 |
| Community Services | 89,096 | 173,028 |
| Facility acquisition and construction | - | 843,729 |
| Food service operation | 728,044 | 800,132 |
| Day care operation | 71,767 | 125,523 |
| Interest on long-term debt | <u>250,662</u> | <u>208,061</u> |
| Loss on disposal of assets | <u>(1,667)</u> | <u>-</u> |
| Change in net position | <u>\$ 1,591,360</u> | <u>\$ 278,870</u> |

On-behalf payments are included in the above amounts. On-behalf, as defined by the KDE, are payments the state makes on behalf of employees to the various agencies for health and life insurance, retirement, and administration fees. The on-behalf payments are allocated to expense as mandated by the KDE and are credited to revenues; therefore, have no effect on the District's level fund balance.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) - CONTINUED
Year Ended June 30, 2022**

BUDGETARY IMPLICATIONS

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. In Kentucky, the public school fiscal year is July 1 through June 30. Some programs relating to federal and state grants operate on a different fiscal year but are nevertheless reflected in the overall budget. A tentative budget is adopted by the District by the end of May for the subsequent year. A final working budget is adopted by the end of September for each fiscal year following the determination of the enrollment at the beginning of the new school year, the salaries for new employees/positions, and the tax assessments and levied rates that will be used to determine the property tax revenues. The most significant budgeted fund is the General Fund. By law, the General Fund budget must have a minimum 2% contingency based on the total expenses budgeted for the General and Food Service Funds. The District adopted a 2021-2022 budget with \$972,432 in contingency (8.67%) which was approximately \$748,000 more than required by law.

Governmental Activities

Instruction comprises 57% of governmental program expenses. Plant Operations expense makes up 9% of government expenses. District and School Administration total 8% of governmental expenses. The remaining expenses account for the final 26% of total governmental expense.

Business-Type Activities

The business-type activities include the food service and day care operations. These programs had total revenues of \$1,147,459 and expenses of \$654,085 for fiscal year 2022. Of the revenues, \$127,795 was charges for services, and \$1,017,584 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity.

Capital Assets

At the end of fiscal year 2022, the School District had \$14,239,657 invested in land, buildings, equipment, and vehicles; of this total, \$14,092,369 was in governmental activities.

Debt

At June 30, 2022, the School District had \$12,140,000 in bonds outstanding; of this amount, \$2,237,508 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$705,000 is due within one year.

Future Budgetary Implications

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal programs operate on a different fiscal calendar but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a working budget with \$972,432 in contingency (approximately 8.67%). Significant Board action that impacts the finances includes a pay raise for all employees at the beginning of the fiscal year.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, please do not hesitate to contact Superintendent Sheri Satterly or Chief Financial Officer Kim Beers at the Frankfort Independent Board of Education, 959 Leestown Lane, Frankfort, KY 40601 or phone at 502-875-8661.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2022

| | Governmental Activities | Business-type Activities | Total |
|---|------------------------------------|-------------------------------------|----------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 2,479,725 | \$ 226,108 | \$ 2,705,833 |
| Accounts receivable | 278,761 | 161,995 | 440,756 |
| Inventory | - | 22,942 | 22,942 |
| | <u>2,758,486</u> | <u>411,045</u> | <u>3,169,531</u> |
| Total current assets | | | |
| Noncurrent assets | | | |
| Restricted cash and cash equivalents | 665,435 | - | 665,435 |
| Land | 798,378 | - | 798,378 |
| Construction in progress | 5,009,117 | - | 5,009,117 |
| Other capital assets, net of depreciation | 8,284,874 | 147,288 | 8,432,162 |
| | <u>14,757,804</u> | <u>147,288</u> | <u>14,905,092</u> |
| Total noncurrent assets | | | |
| Total assets | | | |
| | <u>17,516,290</u> | <u>558,333</u> | <u>18,074,623</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows - pension - CERS | 310,591 | 68,144 | 378,735 |
| Deferred outflows - OPEB - CERS | 392,041 | 86,034 | 478,075 |
| Deferred outflows - OPEB - KTRS | 615,215 | - | 615,215 |
| Defeasance on refunding | 41,431 | - | 41,431 |
| | <u>1,359,278</u> | <u>154,178</u> | <u>1,513,456</u> |
| Total deferred outflows of resources | | | |
| Total assets and deferred outflows of resources | | | |
| | <u>\$ 18,875,568</u> | <u>\$ 712,511</u> | <u>\$ 19,588,079</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | \$ 112,633 | \$ 2,591 | \$ 115,224 |
| Accrued payroll and related expenses | 239,362 | - | 239,362 |
| Unearned revenues | 74,141 | - | 74,141 |
| Interest payable | 28,690 | - | 28,690 |
| KISTA notes payable | 38,566 | - | 38,566 |
| Bond obligations - current | 705,000 | - | 705,000 |
| | <u>1,198,392</u> | <u>2,591</u> | <u>1,200,983</u> |
| Total current liabilities | | | |
| Noncurrent liabilities | | | |
| Compensated absences | 76,031 | - | 76,031 |
| KISTA notes payable | 252,053 | - | 252,053 |
| Bond obligations - noncurrent | 11,505,180 | - | 11,505,180 |
| Net pension liability - CERS | 2,356,437 | 517,128 | 2,873,565 |
| Net OPEB liability - CERS | 707,393 | 155,240 | 862,633 |
| Net OPEB liability - KTRS | 1,375,519 | - | 1,375,519 |
| | <u>16,272,613</u> | <u>672,368</u> | <u>16,944,981</u> |
| Total noncurrent liabilities | | | |
| Total liabilities | | | |
| | <u>17,471,005</u> | <u>674,959</u> | <u>18,145,964</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows - pension - CERS | 436,157 | 95,609 | 531,766 |
| Deferred inflows - OPEB - CERS | 405,902 | 89,075 | 494,977 |
| Deferred inflows - OPEB - KTRS | 1,349,718 | - | 1,349,718 |
| | <u>2,191,777</u> | <u>184,684</u> | <u>2,376,461</u> |
| Total deferred inflows of resources | | | |
| NET POSITION | | | |
| Net investment in capital assets | 2,298,436 | 147,288 | 2,445,724 |
| Restricted for | | | |
| Other | 302,982 | - | 302,982 |
| Unrestricted | <u>(3,388,632)</u> | <u>(294,420)</u> | <u>(3,683,052)</u> |
| Total net position | | | |
| | <u>(787,214)</u> | <u>(147,132)</u> | <u>(934,346)</u> |
| Total liabilities, deferred inflows of resources and net position | | | |
| | <u>\$ 18,875,568</u> | <u>\$ 712,511</u> | <u>\$ 19,588,079</u> |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
for the year ended June 30, 2022

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position Primary Government | | |
|-------------------------------------|----------------------|-------------------------|--|--|--|-----------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | \$ 7,890,283 | \$ 22,761 | \$ 2,335,134 | \$ 186,424 | \$ (5,345,964) | \$ - | \$ (5,345,964) |
| Support Services: | | | | | | | |
| Student | 775,823 | - | 179,647 | - | (596,176) | - | (596,176) |
| Instruction staff | 1,076,236 | - | 610,029 | - | (466,207) | - | (466,207) |
| District administrative | 421,233 | - | - | - | (421,233) | - | (421,233) |
| School administrative | 608,131 | - | - | - | (608,131) | - | (608,131) |
| Business | 669,715 | - | - | - | (669,715) | - | (669,715) |
| Plant operation and maintenance | 1,272,029 | - | 50,872 | - | (1,221,157) | - | (1,221,157) |
| Student transportation | 468,708 | - | 26,541 | - | (442,167) | - | (442,167) |
| Community service activities | 89,096 | - | 96,458 | - | 7,362 | - | 7,362 |
| Food service | 49,452 | - | 49,452 | - | - | - | - |
| Daycare | 96,273 | - | 76,274 | - | (19,999) | - | (19,999) |
| Interest on long-term debt | 250,662 | - | - | 66,210 | (184,452) | - | (184,452) |
| Total governmental activities | 13,667,642 | 22,761 | 3,424,407 | 252,634 | (9,967,840) | - | (9,967,840) |
| Business-type activities | | | | | | | |
| Food service | 678,592 | 9,275 | 953,812 | - | - | 284,495 | 284,495 |
| Day Care Service | (24,507) | 118,520 | 63,772 | - | - | 206,799 | 206,799 |
| Total business-type activities | 654,085 | 127,795 | 1,017,584 | - | - | 491,294 | 491,294 |
| Total school district | \$ 14,321,727 | \$ 150,556 | \$ 4,441,991 | \$ 252,634 | (9,967,840) | 491,294 | (9,476,546) |
| General revenues | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 2,564,595 | - | 2,564,595 |
| Motor vehicle taxes | | | | | 127,842 | - | 127,842 |
| Utility taxes | | | | | 877,737 | - | 877,737 |
| License fees: franchise | | | | | 282,425 | - | 282,425 |
| State aid-formula grants | | | | | 6,707,286 | - | 6,707,286 |
| Investment earnings | | | | | 35,803 | 2,080 | 37,883 |
| Miscellaneous | | | | | 471,805 | - | 471,805 |
| Total general revenues | | | | | 11,067,493 | 2,080 | 11,069,573 |
| Operating transfers in (out) | | | | | 52,290 | (52,290) | - |
| Loss from disposal of assets | | | | | (1,667) | - | (1,667) |
| Change in Net Position | | | | | 1,150,276 | 441,084 | 1,591,360 |
| Net position-beginning, as restated | | | | | (1,937,490) | (588,216) | (2,525,706) |
| NET POSITION-ENDING | | | | | \$ (787,214) | \$ (147,132) | \$ (934,346) |

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2022**

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Construction Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|---------------------|-------------------------------------|------------------------------|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 2,176,639 | \$ - | \$ 665,435 | \$ 303,086 | \$ 3,145,160 |
| Investments - certificate of deposit | - | - | - | - | - |
| Accounts receivable | 140,923 | 137,838 | - | - | 278,761 |
| Due from other funds | 58,568 | - | - | - | 58,568 |
| Total assets | <u>\$ 2,376,130</u> | <u>\$ 137,838</u> | <u>\$ 665,435</u> | <u>\$ 303,086</u> | <u>\$ 3,482,489</u> |
| LIABILITIES | | | | | |
| Accounts payable | \$ 107,400 | \$ 5,129 | \$ - | \$ 104 | \$ 112,633 |
| Accrued payroll liabilities | 239,362 | - | - | - | 239,362 |
| Due to other funds | - | 58,568 | - | - | 58,568 |
| Unearned revenues | - | 74,141 | - | - | 74,141 |
| Total liabilities | <u>346,762</u> | <u>137,838</u> | <u>-</u> | <u>104</u> | <u>484,704</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenue - delinquent property taxes | 30,899 | - | - | - | 30,899 |
| FUND BALANCE | | | | | |
| Restricted | | | | | |
| Other | - | - | 665,435 | 302,982 | 968,417 |
| Committed | | | | | |
| Compensated absences | 38,016 | - | - | - | 38,016 |
| Assigned | - | - | - | - | - |
| Purchase orders | 76,954 | - | - | - | 76,954 |
| Unassigned | 1,883,499 | - | - | - | 1,883,499 |
| Total fund balance | <u>1,998,469</u> | <u>-</u> | <u>665,435</u> | <u>302,982</u> | <u>2,966,886</u> |
| Total liabilities, deferred inflows of resources and fund balance | <u>\$ 2,376,130</u> | <u>\$ 137,838</u> | <u>\$ 665,435</u> | <u>\$ 303,086</u> | <u>\$ 3,482,489</u> |

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

| | |
|---|---------------------|
| Fund balance reported above | \$ 2,966,886 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 14,092,369 |
| Property tax revenue received sixty days after the end of the fiscal year is not a current financial resource and is not reported in the funds | 30,899 |
| Interest accrued on general long term debt is not a current expenditure and is not reported in the funds. | (28,690) |
| Net deferred inflows/outflows related to the long-term net pension and OPEB liabilities are not reported in the funds. | (832,499) |
| Long-term liabilities, including bond obligations, net pension liability, net OPEB liability, KISTA notes and compensated absences are not due and payable in the current period and therefore are not reported in the funds. | (17,016,179) |
| Net position of governmental activities | <u>\$ (787,214)</u> |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
for the year ended June 30, 2022

| | General | Special Revenue Fund | Construction Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|----------------------------|----------------------|--------------------------------|--------------------------------|
| REVENUES | | | | | |
| From local sources | | | | | |
| Property taxes | \$ 2,249,502 | \$ - | \$ - | \$ 284,194 | \$ 2,533,696 |
| Motor vehicle taxes | 127,842 | - | - | - | 127,842 |
| Utility taxes | 877,737 | - | - | - | 877,737 |
| Licenses and permits | 282,425 | - | - | - | 282,425 |
| Earnings on investments | 21,445 | 237 | 14,121 | - | 35,803 |
| Other local revenues | 114,621 | 2,420 | - | 379,945 | 496,986 |
| Intergovernmental - State | 6,005,421 | 596,338 | - | 768,075 | 7,369,834 |
| Intergovernmental - Federal | - | 3,011,836 | - | - | 3,011,836 |
| Total revenues | 9,678,993 | 3,610,831 | 14,121 | 1,432,214 | 14,736,159 |
| EXPENDITURES | | | | | |
| Instruction | 5,051,891 | 2,118,256 | - | 361,533 | 7,531,680 |
| Support services | | | | | |
| Student | 624,450 | 162,962 | - | - | 787,412 |
| Instructional staff | 545,359 | 553,372 | - | - | 1,098,731 |
| District administration | 413,442 | - | - | - | 413,442 |
| School administration | 606,532 | - | - | - | 606,532 |
| Business | 670,591 | - | - | - | 670,591 |
| Plant operation and maintenance | 1,147,952 | 46,147 | - | - | 1,194,099 |
| Student transportation | 403,879 | 24,076 | - | - | 427,955 |
| Community service activities | - | 87,500 | - | - | 87,500 |
| Food service operations | - | 49,452 | - | - | 49,452 |
| Day care operations | 19,999 | 76,274 | - | - | 96,273 |
| Capital outlay | 132,305 | 186,424 | 1,814,986 | - | 2,133,715 |
| Debt service | - | - | - | 968,600 | 968,600 |
| Bond issuance costs | - | - | - | - | - |
| Total expenditures | 9,616,400 | 3,304,463 | 1,814,986 | 1,330,133 | 16,065,982 |
| Excess (deficiency) of revenues over expenditures | 62,593 | 306,368 | (1,800,865) | 102,081 | (1,329,823) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from sale of assets | 702 | - | - | - | 702 |
| KISTA note proceeds | 132,305 | - | - | - | 132,305 |
| Operating transfers in | 375,544 | 80,471 | - | 733,295 | 1,189,310 |
| Operating transfers out | (16,886) | (386,839) | - | (733,295) | (1,137,020) |
| Total other financing sources and uses | 491,665 | (306,368) | - | - | 185,297 |
| Net change in fund balance | 554,258 | - | (1,800,865) | 102,081 | (1,144,526) |
| Fund balance-beginning | 1,444,211 | - | 2,466,300 | 200,901 | 4,111,412 |
| Fund balance-ending | \$ 1,998,469 | \$ - | \$ 665,435 | \$ 302,982 | \$ 2,966,886 |
| Reconciliation to government-wide change in net position: | | | | | |
| Net change in fund balance | | | | | \$ (1,144,526) |
| add: capital outlay expenditures capitalized | | | | | 2,133,715 |
| add: debt service expenditures | | | | | 968,600 |
| add: property tax revenue received sixty days after fiscal year end | | | | | 30,899 |
| less: change in long term compensated absences | | | | | 10,623 |
| less: proceeds from sale of assets | | | | | (702) |
| less: loss from disposal of assets | | | | | (1,667) |
| less: proceeds from KISTA notes | | | | | (132,305) |
| less: change in net pension liability | | | | | (69,335) |
| Add: change in net OPEB liability | | | | | 202,764 |
| less: depreciation on governmental activities assets | | | | | (597,128) |
| less: interest on long term debt | | | | | (250,662) |
| Change in net position governmental activities | | | | | <u>\$ 1,150,276</u> |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2022

| | Food Service Fund | Day Care Service Fund | Total |
|---|------------------------------|----------------------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | \$ 158,939 | \$ 67,169 | \$ 226,108 |
| Accounts receivable | 155,681 | 6,314 | 161,995 |
| Inventory | <u>22,942</u> | <u>-</u> | <u>22,942</u> |
| Total current assets | <u>337,562</u> | <u>73,483</u> | <u>411,045</u> |
| Noncurrent assets | | | |
| Capital assets, net of depreciation | <u>147,288</u> | <u>-</u> | <u>147,288</u> |
| Total assets | <u>484,850</u> | <u>73,483</u> | <u>558,333</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflows - pension - CERS | 51,849 | 16,295 | 68,144 |
| Deferred outflows - OPEB - CERS | <u>65,465</u> | <u>20,569</u> | <u>86,034</u> |
| Total deferred outflows of resources | <u>117,314</u> | <u>36,864</u> | <u>154,178</u> |
| Total assets and deferred outflows of resources | <u>\$ 602,164</u> | <u>\$ 110,347</u> | <u>\$ 712,511</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Accounts payable | \$ 2,264 | \$ 327 | \$ 2,591 |
| Noncurrent liabilities | | | |
| Net pension liability - CERS | 393,491 | 123,637 | 517,128 |
| Net OPEB liability - CERS | <u>118,125</u> | <u>37,115</u> | <u>155,240</u> |
| Total noncurrent liabilities | <u>511,616</u> | <u>160,752</u> | <u>672,368</u> |
| Total liabilities | <u>513,880</u> | <u>161,079</u> | <u>674,959</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflows - pension - CERS | 72,729 | 22,880 | 95,609 |
| Deferred inflows - OPEB - CERS | <u>67,778</u> | <u>21,297</u> | <u>89,075</u> |
| Total deferred inflows of resources | <u>140,507</u> | <u>44,177</u> | <u>184,684</u> |
| NET POSITION | | | |
| Net investment in capital assets | 147,288 | - | 147,288 |
| Unrestricted net position | <u>(199,511)</u> | <u>(94,909)</u> | <u>(294,420)</u> |
| Total net position | <u>(52,223)</u> | <u>(94,909)</u> | <u>(147,132)</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 602,164</u> | <u>\$ 110,347</u> | <u>\$ 712,511</u> |

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2022**

| | Food Service Fund | Day Care Service Fund | Total |
|--------------------------------------|------------------------------|----------------------------------|---------------------|
| Operating revenues | | | |
| Lunchroom sales | \$ 9,275 | \$ - | \$ 9,275 |
| Other revenues | - | 118,520 | 118,520 |
| Total operating revenues | <u>9,275</u> | <u>118,520</u> | <u>127,795</u> |
| Operating expenses | | | |
| Salaries and benefits | 255,378 | (44,192) | 211,186 |
| Contract services | 22,769 | - | 22,769 |
| Materials and supplies | 376,587 | - | 376,587 |
| Other expenses | 2,833 | 19,685 | 22,518 |
| Depreciation | 21,025 | - | 21,025 |
| Total operating expenses | <u>678,592</u> | <u>(24,507)</u> | <u>654,085</u> |
| Operating (loss) | <u>(669,317)</u> | <u>143,027</u> | <u>(526,290)</u> |
| Nonoperating revenues | | | |
| Federal grants | 846,192 | - | 846,192 |
| Commodities received | 51,019 | - | 51,019 |
| State grants | 5,503 | 48,689 | 54,192 |
| State on-behalf payments | 51,098 | 15,083 | 66,181 |
| Interest income | 2,080 | - | 2,080 |
| Total nonoperating revenue | <u>955,892</u> | <u>63,772</u> | <u>1,019,664</u> |
| Income (loss) before transfers | 286,575 | 206,799 | 493,374 |
| Transfers in | - | - | - |
| Transfers (out) | <u>(52,290)</u> | <u>-</u> | <u>(52,290)</u> |
| Change in net position | 234,285 | 206,799 | 441,084 |
| Total net position-beginning of year | <u>(286,508)</u> | <u>(301,708)</u> | <u>(588,216)</u> |
| TOTAL NET POSITION-ENDING | <u>\$ (52,223)</u> | <u>\$ (94,909)</u> | <u>\$ (147,132)</u> |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
for the year ended June 30, 2022

| | Food Service Fund | Day Care Service Fund | Total |
|--|------------------------------|----------------------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from customers | \$ 9,275 | \$ 118,520 | \$ 127,795 |
| Cash paid to employees, including benefits | (300,895) | (78,189) | (379,084) |
| Cash paid to suppliers | (361,234) | (19,358) | (380,592) |
| Net cash provided (used) by operating activities | (652,854) | 20,973 | (631,881) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers (to) other funds | (52,290) | - | (52,290) |
| Cash received from government funding | 769,089 | 46,775 | 815,864 |
| Net cash provided by noncapital financing activities | 716,799 | 46,775 | 763,574 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of capital assets | (76,283) | - | (76,283) |
| Net cash (used) by capital and related financing activities | (76,283) | - | (76,283) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest income | 2,080 | - | 2,080 |
| Net cash provided by investing activities | 2,080 | - | 2,080 |
| Net increase (decrease) in cash and cash equivalents | (10,258) | 67,748 | 57,490 |
| Balances-beginning of the year | 169,197 | (579) | 168,618 |
| BALANCES-END OF THE YEAR | \$ 158,939 | \$ 67,169 | \$ 226,108 |
| Reconciliation of operating (loss) to net cash provided (used) by operating activities: | | | |
| Operating (loss) | \$ (669,317) | \$ 143,027 | \$ (526,290) |
| Adjustments to reconcile operating (loss) to net cash (used) by operating activities: | | | |
| Depreciation expense | 21,025 | - | 21,025 |
| Net change in pension liability | (71,296) | (104,778) | (176,074) |
| Net change in OPEB liability | (25,319) | (32,686) | (58,005) |
| Commodities received | 51,019 | - | 51,019 |
| State on-behalf payments | 51,098 | 15,083 | 66,181 |
| Change in assets and liabilities | | | |
| (Increase) decrease in inventory | (10,676) | - | (10,676) |
| Increase (decrease) in accounts payable | 612 | 327 | 939 |
| Net cash provided (used) by operating activities | \$ (652,854) | \$ 20,973 | \$ (631,881) |
| Schedule of non-cash activities | | | |
| Donated commodities received from federal government | \$ 51,019 | \$ - | \$ 51,019 |
| On-behalf payments received from the state government | \$ 51,098 | \$ 15,083 | \$ 66,181 |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
TRUST FUND
June 30, 2022

| | Trust Fund |
|------------------------------------|-----------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 20,122 |
| Total assets | \$ 20,122 |
| LIABILITIES | |
| Accounts payable | \$ 15 |
| Total liabilities | 15 |
| NET POSITION | |
| Restricted- Scholarships | 20,107 |
| Total net position | 20,107 |
| Total liabilities and net position | \$ 20,122 |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
for the year ended June 30, 2022

| | <u>Trust Fund</u> |
|----------------------------|-----------------------|
| ADDITIONS | |
| Investment income | \$ 223 |
| Contributions | <u>500</u> |
| Total additions | <u>723</u> |
| DEDUCTIONS | |
| Community services | <u>3,386</u> |
| Total deductions | <u>3,386</u> |
| Change in net position | <u>(2,663)</u> |
| Net position-beginning | <u>22,770</u> |
| Net position-ending | <u>\$ 20,107</u> |

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Frankfort Independent Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Frankfort Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Frankfort Independent 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 Parent-Teacher Associations, etc. Such funds or groups have been considered as prospective component units under GASB Statement Number 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34*, and have been determined to have insignificant assets, liabilities, equity, revenue, and expenditures to be considered component units. In addition, the Board has the ability to exert little control over the fiscal activities of the funds or groups.

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

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

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

B. Basis of Presentation

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

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

The government-wide statement of 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 fundtype.

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 total fund balance. Proprietary funds are reported using the economic resources measurement focus. The financial statements for proprietary funds are the statement of net position, which includes assets, deferred outflows, liabilities, deferred inflows and net position; and the statement of revenues, expenses, and changes in net position which reports the changes in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

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

The District has the following funds:

Governmental Fund Types:

The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of presentation (Continued)

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report. This is a major fund of the District.

Special Revenue District Activity Fund is used to support co-curricular activities and includes funds that are not raised and expended by student groups. District activity funds accounted for in the District bank account are not subject to the state Redbook Accounting Regulations and may be expended with more flexibility than school activity funds but must meet the "educational purpose" standard for all District expenditures.

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

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds):

- A. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
- B. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
- C. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Types (Enterprise Fund):

The School 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). The Food Service fund is a major fund of the District.

The Day Care Fund is used to account for child care revenue. The Day Care Fund is a major fund of the District.

Fiduciary Fund Types (Agency and Trust Funds):

The Trust Fund is used to account for funds to be used for scholarships. Trust funds are generally accounted for using the economic resources measurement focus and the accrual basis of accounting.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues must also be available before they can be recognized. Amounts not meeting the availability criteria are reported as unavailable revenue and only recognized as revenue on the government-wide (accrual basis) financial statements.

Unearned Revenue/Advances from grantors – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

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

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 approximately 60 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they are received by the City of Frankfort, who collects taxes for the District. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and improvements | 25-50 years |
| Land improvements | 20 years |
| Technology equipment | 5 years |
| Vehicles | 5-10 years |
| Food service equipment | 10-12 years |
| Furniture and fixtures | 7 years |
| Other | 10 ears |

E. Interfund Receivables and Payables

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

F. Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments.

The entire compensated absence liability includes the remaining 70% plus any accrued sick leave for people not eligible and is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a committed portion of fund balance. The balance of the liability is not recorded.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgetary Process

The District's budgetary process accounts revenues and expenditures on the modified accrual basis. Once the budget is approved by the Board, 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. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

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

H. 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. As of June 30, 2022, the District did not have any cash equivalents.

I. Receivables

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables as qualifying expenditures are made.

J. Inventories

The Food Service Fund inventory consists of food, supplies and U.S. Government commodities.

The Food Service Fund inventory is stated at cost and uses the specific identification method.

K. 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.

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, 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.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balance

Fund balance is separated into five categories, as follows:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

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

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

M. Encumbrances

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

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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.

O. Operating Revenues and Expenses

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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 as non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Estimates

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

R. Deferred Inflows and Deferred Outflows of Resources

Deferred inflows and deferred outflows are recorded on the government-wide, proprietary and governmental fund financial statements. The deferred outflows of resources presented were primarily created by differences in pension expectations, the prior refunding of revenue bonds, and deferral of pension contributions. Deferred inflows on the government-wide and proprietary financial statements were primarily created by actuarial determinations of net pension liability changes. Deferred inflows on the governmental fund financial statements are related to unavailable delinquent property tax collections.

S. Pensions

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

T. Postemployment Benefits Other Than Pensions (OPEB)

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 (KTRS) and the County Employees Retirement System Non-Hazardous (CERS) and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the pension plans. 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.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Change in Accounting Policy

In June 2017, the GASB issued Statement No. 87, Leases which establishes standards of accounting and financial reporting for leases by lessees and lessors. GASB Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In addition, GASB 87 requires the lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The District, implemented GASB 87 during the fiscal year ending June 30, 2022. Management determined it does not have any material leases which are impacted by this change in accounting policy in the current year, however management anticipates material lease agreements that will be accounted for in accordance with GASB 87 in future years.

V. Management’s Review of Subsequent Events

The District has evaluated and considered the need to recognize or disclose subsequent events through November 15, 2022, which represents the date that these financial statements were initially available to be issued except, Note 16 as to which the date is August 2, 2023. Subsequent events past these dates, as they pertain to the fiscal year ended June 30, 2022, have not been evaluated by the District.

2. CASH AND CASH EQUIVALENTS

Interest rate risk – In accordance with the District’s investment policy, interest rate risk is limited by investing in public funds with the highest rate of return with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure preservation of the capital in its portfolio.

Credit risk – The District’s investment policy limits the types of authorized investment instruments to obligations of the United States, its agencies, and instrumentalities. In addition, certificates of deposit or bonds of a bank or the Commonwealth of Kentucky, securities issued by a state or local government or shares of mutual funds are acceptable investments.

Custodial credit risk – For deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

At year end, the bank balances of the District’s total cash was \$3,789,648. The entire balance was covered by Federal Depository insurance.

Cash at June 30, 2022 consisted of the following:

| | <u>Bank Balance</u> | <u>Book Balance</u> |
|------------------------------------|-------------------------|-------------------------|
| General Fund | | \$ 2,176,639 |
| Capital Outlay Fund | | 80,410 |
| Building Fund | | 44,760 |
| Construction Fund | | 665,435 |
| School Activity Fund | | 164,775 |
| Food Service Fund | | 158,939 |
| Day Care Fund | | 67,169 |
| Trust Fund | | 20,122 |
| District Activity Fund | | <u>13,141</u> |
| Total General Checking Account | <u>\$ 3,789,648</u> | <u>\$ 3,391,390</u> |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

2. CASH AND CASH EQUIVALENTS (CONTINUED)

Cash by fund type are as follows:

| | |
|--------------------|-------------------------|
| Governmental funds | \$ 3,145,160 |
| Proprietary funds | 226,108 |
| Fiduciary funds | <u>20,122</u> |
| Total | <u>\$ 3,391,390</u> |

3. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2022 was as follows:

| | June 30, 2021 Balance | Additions | Transfers/ Retirements | June 30, 2022 Balance |
|--|--------------------------|---------------------|---------------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not depreciated | | | | |
| Land | \$ 798,378 | \$ - | \$ - | \$ 798,378 |
| Totals | <u>798,378</u> | <u>-</u> | <u>-</u> | <u>798,378</u> |
| Capital assets that are depreciated | | | | |
| Land Improvements | 209,254 | - | - | 209,254 |
| Buildings & Improvements | 15,620,587 | - | (51,971) | 15,568,616 |
| Technology Equipment | 44,751 | 178,608 | - | 223,359 |
| Vehicles | 684,167 | 132,305 | (73,542) | 742,930 |
| Machinery and Equipment | 79,520 | 284,037 | - | 363,557 |
| Construction Work in Progress | 3,470,352 | 1,538,765 | - | 5,009,117 |
| Total historical cost | <u>20,108,631</u> | <u>2,133,715</u> | <u>(125,513)</u> | <u>22,116,833</u> |
| Less accumulated depreciation | <u>8,348,860</u> | <u>597,128</u> | <u>(123,146)</u> | <u>8,822,842</u> |
| Governmental capital assets, net | <u>\$ 12,558,149</u> | <u>\$ 1,536,587</u> | <u>\$ (2,367)</u> | <u>\$ 14,092,369</u> |
| Business-type Activities | | | | |
| General Equipment | \$ 419,205 | \$ 76,283 | \$ - | \$ 495,488 |
| Total historical cost | 419,205 | 76,283 | - | 495,488 |
| Less accumulated depreciation | <u>327,175</u> | <u>21,025</u> | <u>-</u> | <u>348,200</u> |
| Business-type capital assets, net | <u>\$ 92,030</u> | <u>\$ 55,258</u> | <u>\$ -</u> | <u>\$ 147,288</u> |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

3. CAPITAL ASSETS (CONTINUED)

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

| | Governmental |
|---------------------------------|--------------------------|
| Instructional | \$ 493,828 |
| Student support services | 1,140 |
| Staff support services | - |
| District administration | 8,500 |
| School administration | - |
| Business support services | - |
| Plant operation and maintenance | 60,706 |
| Student transportation | 32,954 |
| Community service operations | - |
| Total | <u>\$ 597,128</u> |

4. LONG-TERM OBLIGATIONS

KISTA Notes Payable

The District has entered into a “lease” agreement for buses under which the buses will become the property of the District when all the terms of the lease agreement are met. Since title of the buses transfers to the District, the District has recorded the “lease” as a financed note payable. The following schedule presents the notes payable activity for the year ended June 30, 2022:

| Maturity | Interest Rates | Original Issue | Balance June 30, 2021 | Debt Issued | Debt Paid | Balance June 30, 2022 | Due Within One Year |
|-------------|----------------|----------------|-----------------------|-------------------|------------------|-----------------------|---------------------|
| March, 2027 | 2.25% | 2017 | \$ 59,367 | \$ - | \$ 9,303 | \$ 50,064 | \$ 10,166 |
| March, 2031 | 1.25% | 2021 | 121,747 | - | 13,497 | 108,250 | 13,497 |
| March, 2032 | 3.00% | 2022 | - | 132,305 | - | 132,305 | 14,903 |
| | | | <u>\$ 181,114</u> | <u>\$ 132,305</u> | <u>\$ 22,800</u> | <u>\$ 290,619</u> | <u>\$ 38,566</u> |

The following table presents the annual debt service requirements, to maturity, for the KISTA notes payable as of June 30, 2022:

| Year | Principal | Interest | Total |
|-----------|-------------------|------------------|-------------------|
| 2023 | \$ 38,566 | \$ 6,276 | \$ 44,842 |
| 2024 | 37,308 | 5,776 | 43,084 |
| 2025 | 35,017 | 4,912 | 39,929 |
| 2026 | 34,146 | 4,120 | 38,266 |
| 2027 | 34,884 | 3,351 | 38,235 |
| 2028-2032 | <u>110,698</u> | <u>7,195</u> | <u>117,893</u> |
| | <u>\$ 290,619</u> | <u>\$ 31,630</u> | <u>\$ 322,249</u> |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

4. LONG-TERM OBLIGATIONS (CONTINUED)

Bond Obligations

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make debt payments relating to the bonds issued.

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

| <u>Issue Date</u> | <u>Proceeds</u> | <u>Rates</u> |
|--------------------|-----------------|-----------------|
| May 1, 2014 | 1,910,000 | 1.200% - 3.375% |
| May 14, 2014 | 1,235,000 | 1.200% - 3.375% |
| September 11, 2014 | 2,275,000 | 1.000% - 4.000% |
| December 29, 2016 | 3,000,000 | 0.000% |
| July 29, 2020 | 845,000 | 2.00-3.00% |
| August 28, 2020 | 5,595,000 | 2.00-3.00% |

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2022 for debt service (principal and interest) are as follows:

| Year | Frankfort Independent School District | | Kentucky School Facility Construction Commission | | Total | |
|------|---------------------------------------|---------------------|--|-------------------|----------------------|---------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2023 | \$ 531,956 | \$ 172,042 | \$ 173,044 | \$ 62,262 | \$ 705,000 | \$ 234,304 |
| 2024 | 542,688 | 162,757 | 177,312 | 57,996 | 720,000 | 220,753 |
| 2025 | 553,316 | 153,051 | 181,684 | 53,622 | 735,000 | 206,673 |
| 2026 | 568,294 | 141,845 | 186,706 | 48,600 | 755,000 | 190,445 |
| 2027 | 581,671 | 128,882 | 173,329 | 43,414 | 755,000 | 172,296 |
| 2028 | 594,123 | 119,446 | 130,877 | 38,745 | 725,000 | 158,191 |
| 2029 | 595,026 | 112,416 | 134,974 | 34,647 | 730,000 | 147,063 |
| 2030 | 605,645 | 105,528 | 139,355 | 30,267 | 745,000 | 135,795 |
| 2031 | 521,122 | 98,126 | 143,878 | 25,743 | 665,000 | 123,869 |
| 2032 | 526,781 | 94,353 | 148,219 | 21,402 | 675,000 | 115,755 |
| 2033 | 527,301 | 90,440 | 152,699 | 16,922 | 680,000 | 107,362 |
| 2034 | 542,474 | 79,129 | 157,526 | 12,096 | 700,000 | 91,225 |
| 2035 | 556,488 | 67,493 | 53,512 | 7,106 | 610,000 | 74,599 |
| 2036 | 510,418 | 56,363 | 54,582 | 6,036 | 565,000 | 62,399 |
| 2037 | 519,326 | 46,155 | 55,674 | 4,945 | 575,000 | 51,100 |
| 2038 | 528,213 | 35,769 | 56,787 | 3,831 | 585,000 | 39,600 |
| 2039 | 541,963 | 24,149 | 58,037 | 2,582 | 600,000 | 26,731 |
| 2040 | 555,687 | 12,226 | 59,313 | 1,305 | 615,000 | 13,531 |
| | <u>\$ 9,902,492</u> | <u>\$ 1,700,170</u> | <u>\$ 2,237,508</u> | <u>\$ 471,521</u> | <u>\$ 12,140,000</u> | <u>\$ 2,171,691</u> |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

4. LONG-TERM OBLIGATIONS (CONTINUED)

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2022 is as follows:

| <u>Long-term debt</u> | <u>Balance July 1, 2021</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2022</u> |
|--------------------------------|---------------------------------|-------------------|---------------------|----------------------------------|
| Series 2014 | \$ 1,410,000 | \$ - | \$ 75,000 | \$ 1,335,000 |
| Series 2014 | 740,000 | - | 75,000 | 665,000 |
| Series 2014 | 1,835,000 | - | 290,000 | 1,545,000 |
| Series 2016 | 2,500,000 | - | 120,000 | 2,380,000 |
| Series 2020 | 810,000 | - | 45,000 | 765,000 |
| Series 2020 | 5,540,000 | - | 90,000 | 5,450,000 |
| Bond premium | 74,079 | - | 3,899 | 70,180 |
| Direct Placement – KISTA notes | 118,114 | 132,305 | 22,800 | 290,619 |
| Net pension liability | 2,744,147 | 129,418 | - | 2,873,565 |
| Net OPEB – CERS | 863,670 | - | 1,037 | 862,633 |
| Net OPEB – KTRS | 1,892,000 | - | 516,481 | 1,375,519 |
| Accrued sick leave | <u>86,654</u> | <u>-</u> | <u>10,623</u> | <u>76,031</u> |
| | <u>\$ 18,613,664</u> | <u>\$ 261,723</u> | <u>\$ 1,249,840</u> | <u>\$ 17,688,547</u> |

5. RETIREMENT PLANS

The School District is a participating employer of the County Employees' Retirement System (CERS) and the Kentucky Teachers' Retirement System (KTRS). KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS. CERS covers employees whose position does not require a college degree or teaching certificate.

KTRS

Plan description – Teaching-certified employees of the Kentucky School District 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 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>.

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.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. RETIREMENT PLANS (CONTINUED)

KTRS, continued

Non-university members 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. Non-university members who became members on or 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 is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is \$440 multiplied by credited service.

Benefits provided - For members who have established an account in a retirement system by the Commonwealth on or after July 1, 2008:

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

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

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

Other benefits – KTRS also provides disability benefits for vested members 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 members and \$5,000 for retired or disabled members, and TRS also provides post-employment healthcare benefits to eligible members and dependents.

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

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

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. RETIREMENT PLANS (CONTINUED)

KTRS, continued

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 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 members whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

CERS

The District is a participating employer of the County Employees' Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Public Pensions Authority (KPPA) administers the CERS. The plan issues publicly available financial statements which may be downloaded from the KPPA website.

Plan Description – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of state legislature.

Contributions – For the year ended June 30, 2022, plan members were required to contribute 5% of wages for non-hazardous job classifications. Employees hired after September 1, 2008 are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contributions rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. For the year ended June 30, 2022, participating employers contributed 26.95% of each employee's wages, for non-hazardous job classifications. The contributions are allocated to both the pension and insurance trusts. The insurance trust is more fully described in Note 6. Plan members contributed 21.17% to the pension trust for non-hazardous job classifications. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Public Pensions Authority are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, January 1, 2014, are required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Plan members contribute 5% of wages to their own account and 1% to the health insurance fund. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of each member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

5. RETIREMENT PLANS (CONTINUED)

CERS, continued

The District contributed \$430,022 for the year ended June 30, 2022, or 100% of the required contribution. The contribution was allocated \$337,795 to the CERS pension fund and \$92,227 to the CERS insurance fund.

Benefits - 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 and 4 years service |
| | Reduced retirement | At least 5 years service and 55 years old or 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 to 87+ |
| | Reduced retirement | At least 10 years service and 60 years old |
| Tier 3 | Participation date | After December 31, 2013 |
| | Unreduced retirement | At least 5 years service and 65 years old or age 57+ and sum of service years plus age equal to 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. One month's 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 75% of the decedent's monthly average rate of pay. If the surviving spouse remarries, the monthly rate will be recalculated to 25% of the decedent's monthly average. Any dependent child will receive 50% of the decedent's monthly average rate of pay up to 75% for all dependent children. Five years' service is required for nonservice-related disability benefits.

CERS and KTRS:

Pension Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources - At June 30, 2022, the District reported a liability of \$2,873,565 for its proportionate share of the net pension liability for CERS. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2020, and rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2021 and June 30, 2020, the District's proportion was .045070% and .046465%, respectively.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. RETIREMENT PLANS (CONTINUED)

CERS and KTRS, continued:

The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The Commonwealth of Kentucky recognized \$15,708,233 as its proportionate share of the net pension liability for KTRS. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as June 30, 2020, and rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2022, the State's proportion was .1207 percent.

For the year ended June 30, 2022, the District recognized pension expense of \$145,221 related to CERS and \$1,253,888 related to KTRS. The District also recognized revenue of \$1,253,888 for KTRS support provided by the Commonwealth of Kentucky. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual results | \$ 32,997 | \$ 27,890 |
| Changes of assumptions | 38,568 | - |
| Net difference between projected and actual earnings on plan investments | . | 382,998 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 120,878 |
| District contributions subsequent to the measurement date | <u>307,170</u> | <u>-</u> |
| Total | <u>\$ 378,735</u> | <u>\$ 531,766</u> |

The \$307,170 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2022 will be recognized in pension expense as follows:

| Year ending June 30, | |
|-----------------------------|--------------|
| 2023 | \$ (125,595) |
| 2024 | \$ (126,522) |
| 2025 | \$ (88,148) |
| 2026 | \$ (119,936) |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. RETIREMENT PLANS (CONTINUED)

CERS and KTRS, continued:

Actuarial Assumptions – The total pension liability reported at June 30, 2021, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

CERS:

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.30% to 10.30%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |

Mortality rates were based on the Pub-2010 General Mortality Table projected with the ultimate rates from the MP-2014 Mortality Improvement Scale using a base year of 2010. The Mortality Table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2020. The Mortality Table used for disabled members was PUB-2010 Disabled Mortality Table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from MP-2014 Mortality Improvement Scale using a base year of 2010.

The actuarial assumptions used in the June 30, 2021, actuarial valuation were based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total pension liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

KTRS:

| | |
|---------------------------------|--|
| Valuation date | 6/30/20 |
| Actuarial cost method | Entry age |
| Investment rate of return | 7.10%, net of plan investment expense, including inflation |
| Projected salary increases | 3.0 – 7.50%, including inflation |
| Inflation rate | 2.50% |
| Municipal Bond Index Rate | 2.13% |
| Single Equivalent Interest Rate | 7.10% |

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 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 assumed long-term investment rate of return was changed from 7.5% to 7.1% and the price inflation assumption was lowered from 3% to 2.5%. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

5. RETIREMENT PLANS (CONTINUED)

Target Allocations

CERS

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|--------------------------|---|
| Growth | 68.50% | |
| US Equity | 21.75% | 5.70% |
| Non-US Equity | 21.75% | 6.35% |
| Private Equity | 10.00% | 9.70% |
| Special credit/high yield | 15.00% | 2.80% |
| Liquidity | 11.50% | |
| Core Bonds | 10.00% | 0.00% |
| Cash | 1.50% | -0.60% |
| Diversifying Strategies | 20.00% | |
| Real Estate | 10.00% | 5.40% |
| Opportunistic | 0.00% | N/A |
| Real Return | 10.00% | 4.55% |
| Total | 100.00% | 5.00% |
| Long term inflation assumption | | 2.30% |
| Expected nominal return for portfolio | | 7.30% |

KTRS

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 |
|--------------------------------|--------------------------|---|
| Large cap U.S. Equity | 37.4% | 4.20% |
| Small cap U.S. Equity | 2.6% | 4.70% |
| Developed international equity | 16.5% | 5.30% |
| Emerging markets equity | 5.5% | 5.40% |
| Fixed income | 15.0% | - .1% |
| High yield bonds | 2.0% | 1.7% |
| Other additional categories | 5.0% | 2.2% |
| Real estate | 7.0% | 4.0% |
| Private equity | 7.0% | 6.9% |
| Cash | 2.0% | -0.3% |
| | <u>100%</u> | |

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

5. RETIREMENT PLANS (CONTINUED)

CERS

Discount Rate – The discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of compensation over the closed 30-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period. The discount rate does not use a municipal bond rate.

KTRS

The discount rate used to measure the total pension liability was 7.1%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made in full at the current contribution rates and the employer contributions will be made at ADC rates for all future fiscal years. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the District’s proportionate share of the net pension liability calculated using the current discount rate, as well as what the District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

| | CERS Discount rate | CERS District’s proportionate share of net pension liability |
|-----------------------|-------------------------------|---|
| 1% decrease | 5.25% | \$ 3,685,485 |
| Current discount rate | 6.25% | \$ 2,873,565 |
| 1% increase | 7.25% | \$ 2,201,722 |

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) - CERS

Plan Description – As more fully described in Note 5, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

Contributions – As more fully described in Note 5, plan members contribute to CERS for non-hazardous job classifications. For the year ended June 30, 2022, the employer’s contribution was 5.78% to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008, are required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers are required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

For the year ended June 30, 2022, the District contributed \$92,227 or 100% of the required contribution for non-hazardous job classifications.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries.

For retirement purposes, employees are grouped into three tiers based on hire date:

| | | |
|--------|--|--|
| Tier 1 | Participation date Insurance eligibility Benefit | Before July 1, 2003 10 years of service credit required Set percentage of single coverage health insurance based on service credit accrued at retirement |
| Tier 1 | Participation date Insurance eligibility Benefit | Before September 1, 2008 but after July 1, 2003 10 years of service credit required Set dollar amount based on service credit accrued, increased annually |
| Tier 2 | Participation date Insurance eligibility Benefit | After September 1, 2008 and before December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually |
| Tier 3 | Participation date Insurance eligibility Benefit | After December 31, 2013 15 years of service credit required Set dollar amount based on service credit accrued, increased annually |

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2022, the District reported a liability for its proportionate share of the net OPEB liability of \$862,633.

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020 and rolled forward using generally accepted actuarial procedures. The District’s proportion of the net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District’s proportionate share at June 30, 2021 and June 30, 2020 was .0450590% and .046451%, respectively.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

For the year ended June 30, 2022, the District recognized OPEB expense of \$76,534. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual results | \$ 135,649 | \$ 257,553 |
| Changes of assumptions | 228,700 | 802 |
| Net difference between projected and actual earnings on Plan investments | - | 134,947 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | - | 101,675 |
| District contributions subsequent to the measurement date | <u>113,726</u> | <u>-</u> |
| Total | <u>\$ 478,075</u> | <u>\$ 494,977</u> |

The \$113,726 of deferred outflows of resources resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. This includes an adjustment of \$21,498 related to the implicit subsidy, which is required to be recognized as a deferred outflow of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Year ending June 30,

| | |
|------|-------------|
| 2023 | \$ (13,290) |
| 2024 | \$ (33,722) |
| 2025 | \$ (25,766) |
| 2026 | \$ (57,850) |

Actuarial Assumptions – The total OPEB liability reported at June 30, 2021, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous

| | |
|---------------------------|--|
| Inflation | 2.30% |
| Salary increases | 3.30% to 10.30%, varies by service, including inflation |
| Investment rate of return | 6.25%, net of Plan investment expense, including inflation |
| Healthcare trend | |
| Pre – 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. |
| Post – 65: | Initial trend starting at 6.30% at January 1, 2023, and increasing to 6.30% in 2023, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. |

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

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

The actuarial assumption used in the June 30, 2021, valuation was based on the results of an actuarial experience study for the period July 1, 2013 - June 30, 2018. The total OPEB liability was rolled-forward from the valuation date (June 30, 2020) to the plan's fiscal year ending June 30, 2021.

The long-term expected rate of return was determined by using a building-block method in which best estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage.

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|--|--------------------------|---|
| Growth | 68.50% | |
| US Equity | 21.75% | 5.70% |
| Non-US Equity | 21.75% | 6.35% |
| Private Equity | 10.00% | 9.70% |
| Special credit/high yield | 15.00% | 2.80% |
| Liquidity | 11.50% | |
| Core Bonds | 10.00% | 0.00% |
| Cash | 1.50% | -0.60% |
| Diversifying Strategies | 20.00% | |
| Real Estate | 10.00% | 5.40% |
| Opportunistic | 0.00% | N/A |
| Real Return | 10.00% | 4.55% |
| Total | 100.00% | 5.00% |
| Long term inflation assumption | | 2.30% |
| Expected nominal return for portfolio | | 7.30% |

Discount Rate – The discount rate used to measure the total OPEB liability as of June 30, 2021, was 5.20%, for non-hazardous classifications. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 24-year amortization period of the unfunded actuarial accrued liability. As of June 30, 2021, the discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 2.45%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index". However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – CERS (CONTINUED)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate – The following presents the District's proportionate share of the net OPEB liability calculated using the discount rate as well as what the District's proportionate share of the net OPEB 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:

| | Discount rate | | District's proportionate share of net OPEB liability |
|-----------------------|----------------------|----|---|
| 1% decrease | 4.20% | \$ | 1,184,387 |
| Current discount rate | 5.20% | \$ | 862,633 |
| 1% increase | 6.20% | \$ | 598,578 |

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

| | | | District's proportionate share of net OPEB liability |
|--------------------|--|----|---|
| 1% decrease | | \$ | 620,993 |
| Current trend rate | | \$ | 862,633 |
| 1% increase | | \$ | 1,154,295 |

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

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS

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 District 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.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

Medical Insurance Plan, continued

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs – At June 30, 2022, the District reported a liability of \$1,375,519 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, 2021 and rolled forward using generally accepted actuarial procedures. The District’s proportion of 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, 2021 and June 30, 2020, the District’s proportion was .064106 percent and .074987 percent, respectively.

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 | \$ 1,375,519 |
| State’s proportionate share of the net OPEB liability associated with the District | <u>1,117,000</u> |
| Total | <u>\$ 2,492,519</u> |

For the year ended June 30, 2022, the District recognized OPEB expense of \$(99,000) and revenue of \$92,410 for support provided by the State. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual results | \$ - | \$ 817,975 |
| Changes of assumptions | 359,749 | - |
| Net difference between projected and actual earnings on Plan investments | - | 146,743 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 133,000 | 385,000 |
| District contributions subsequent to the measurement date | <u>122,466</u> | <u>-</u> |
| Total | <u>\$ 615,215</u> | <u>\$ 1,349,718</u> |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

Of the total amount reported as deferred outflows of resources related to OPEB, \$122,466 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 ending June 30, | | |
|-----------------------------|----|-----------|
| 2023 | \$ | (186,000) |
| 2024 | \$ | (186,000) |
| 2025 | \$ | (179,000) |
| 2026 | \$ | (178,000) |
| 2027 | \$ | (89,000) |
| 2028 | \$ | (38,969) |

Actuarial assumptions – The total OPEB liability reported at June 30, 2021, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------|--|
| Investment rate of return | 7.1% net of OPEB plan investment expense, including inflation. |
| Projected salary increases | 3.0 – 7.5%, including wage inflation |
| Inflation rate | 2.5% |
| Real Wage Growth | 0.25% |
| Wage Inflation | 2.75% |
| Healthcare cost trend rates | |
| KEHP Group | 7.0% for FY 2021 decreasing to an ultimate rate of 4.5% by FY 2031 |
| MEHP Group | 5.0% for FY 2021 decreasing to an ultimate rate of 4.5% by FY 2024 |
| Medicare Part B Premiums | 4.4% for FY 2021 with an ultimate rate of 4.5% by 2034 |
| Municipal Bond Index Rate | 2.13% |
| Discount Rate | 7.1% |

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, 2020, valuation were based on the results of the most recent actuarial experience study for the system, which covered the five-year period ending June 30, 2020, adopted by the board on September 20, 2021. The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends) used in the June 30, 2020, valuation of the health trust were based on a review of recent plan experience done concurrently with the June 30, 2020, valuation. The health care cost trend rate assumption was updated for the June 30, 2020, valuation and was shown as an assumption change in the total OPEB liability (TOL) roll-forward while the change in initial per capita claims costs were included with experience in the TOL roll-forward. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

The long-term expected rate of return on OPEB 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:

| Asset Class | Target Allocation | Expected Real Rate of Return |
|-----------------------------|--------------------------|-------------------------------------|
| Global Equity | 58.0% | 5.1% |
| Fixed Income | 9.0% | (.01)% |
| Real Estate | 6.5% | 4.0% |
| Private Equity | 8.5% | 6.9% |
| Other Additional Categories | 17.0% | 1.7% |
| Cash | 1.0% | (.3)% |
| Total | 100% | |

Discount rate - The discount rate used to measure the total OPEB liability was 7.1%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74.

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 7.1%, 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 (6.1%) or 1-percentage-point higher (8.1%) than the current rate:

| | 1% Decrease (6.1%) | Current Discount Rate (7.1%) | 1% Increase (8.1%) |
|-------------------------------|-------------------------------|---|-------------------------------|
| District's net OPEB liability | \$ <u>1,761,012</u> | \$ <u>1,375,519</u> | \$ <u>1,056,801</u> |

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

| | 1% Decrease | Current Trend Rate | 1% Increase |
|-------------------------------|--------------------|-------------------------------|---------------------|
| District's net OPEB liability | \$ <u>999,324</u> | \$ <u>1,375,519</u> | \$ <u>1,843,715</u> |

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

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022**

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

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.

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

| | |
|--|----------------------|
| District’s proportionate share of the net OPEB liability | \$ - |
| State’s proportionate share of the net OPEB liability associated with the District | <u>15,000</u> |
| Total | <u>\$ 15,000</u> |

For the year ended June 30, 2022, the District recognized revenue of \$2,276 for support provided by the State.

Actuarial assumptions – The total OPEB liability reported at June 30, 2021, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------------|---|
| Investment rate of return | 7.1%, net of OPEB plan investment expense, including inflation. |
| Projected salary increases | 3.0 – 7.5%, including wage inflation |
| Inflation rate | 2.5% |
| Real Wage Growth | 0.25% |
| Wage Inflation | 2.75% |
| Municipal Bond Index Rate | 2.13% |
| Discount Rate | 7.1% |
| Single Equivalent Interest Rate | 7.1%, net of OPEB plan investment expense, including inflation. |

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, 2020, valuation were based on the results of the most recent actuarial experience study for the system, which covered the five-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 published weekly by the Board of Governors of the Federal Reserve System.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

7. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – KTRS (CONTINUED)

The long-term expected rate of return on OPEB 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:

| Asset Class | Target Allocation | Expected Real Rate of Return |
|-----------------------|------------------------------|---|
| U.S. Equity | 40.0% | 4.4% |
| International Equity | 23.0% | 5.6% |
| Fixed Income | 18.0% | (.1)% |
| Real Estate | 6.0% | 4.0% |
| Private Equity | 5.0% | 6.9% |
| Additional Categories | 6.0% | 2.1% |
| Cash | 2.0% | (.3)% |
| Total | 100% | |

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.1%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 74.

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

8. DEFERRED COMPENSATION

The District offers its employees participation in a deferred compensation program administered by the Kentucky Public Employees' Deferred Compensation Authority. This program offers a plan authorized by Section 457(b) of the Internal Revenue Code and a plan authorized by Section 401(k) of the Internal Revenue Code. Both plans are available to all employees and permit them to defer up to 25% of their compensation (subject to limits) until future years. The District makes no contributions to these plans.

9. 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 the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for errors and omissions, and general liability coverage, the District obtains general insurance and unemployment insurance in accordance with the Kentucky Department of Education requirements. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

11. 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. There were no instances of noncompliance noted.

12. INTERFUND RECEIVABLES AND PAYABLES

The General Fund presented an interfund receivable from the Special Revenue Fund of \$58,568 and there was a corresponding presentation of an interfund payable in the Special Revenue Fund. The interfund receivable/payable is the result of timing at fiscal year end between when funds are expended in the Special Revenue Fund and when the related grant funds are received. The Special Revenue Fund repaid to the General Fund the interfund balance in full in July 2022.

13. TRANSFER OF FUNDS

The following transfers were made during the year:

| From Fund | To Fund | Purpose | Amount |
|----------------------|----------------------|------------------------|-----------|
| General Fund | Special Revenue Fund | KETS Match | \$ 16,886 |
| Building Fund | Debt Service Fund | Debt Service | 733,295 |
| Food Service Fund | General Fund | Indirect Cost Transfer | 52,291 |
| Special Revenue Fund | General Fund | Indirect Cost Transfer | 323,253 |

14. ON-BEHALF PAYMENTS

The Commonwealth of Kentucky pays certain expenses on behalf of the District. These expenses include employee health insurance, the employer match of Kentucky Teachers' Retirement System, certain other employee benefits, specific technology expense and debt service. These amounts are included in the fund financial statements; however, the revenues and related expenditures are not budgeted amounts.

The following payments for fringe benefits are included as revenues and expenses on the statement of activities:

| | |
|---|--------------|
| Retirement contributions to the Teachers' Retirement System of Kentucky | \$ 1,253,888 |
| Medical insurance contributions to KTRS | 94,686 |
| Health and Life Insurance | 926,329 |
| Other | 53,690 |
| Technology | 80,960 |
| Debt Service | 235,305 |
| | \$ 2,644,858 |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

15. COVID-19 PANDEMIC

Since early 2020, various restrictions have been placed on school districts across the United States in response to the COVID-19 pandemic. The duration and pervasiveness of these restrictions are uncertain as of the date of these financial statements. The District is evaluating the impact of COVID-19 and related responses on the operations and finances of the District. Restrictions placed on the District, including restrictions on in-person instruction could negatively impact the District's revenue and expenses for an unknown period of time. At this time, a specific estimate of the impact could not reasonably be determined due to a number of unknown factors regarding the severity and duration of the event.

16. RESTATEMENT OF NET POSITION

The beginning net position of the governmental activities has been restated to correct amounts recorded in the prior year as a bond premium and a bond discount. Amounts recorded as bond premium and discount was actually an underwriter's fee that should have been recorded as cost of issuance in the year of the expense. The effect of this restatement on net position is as follows:

Governmental Activities

| | |
|--|-----------------------|
| Net position, beginning of year | \$ (1,865,640) |
| Bond cost of issuance correction | <u>(71,850)</u> |
| Net position, beginning of year, as restated | <u>\$ (1,937,490)</u> |

**SUPPLEMENTARY
INFORMATION**

FRANKFORT INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
for the year ended June 30, 2022

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|--------------------|---------------------|--|
| REVENUES | | | | |
| Taxes | \$ 3,197,300 | \$ 3,163,966 | \$ 3,255,081 | \$ 91,115 |
| Licenses- franchise | 160,000 | 137,000 | 282,425 | 145,425 |
| Other local sources | 42,000 | 90,000 | 136,066 | 46,066 |
| State sources | 6,208,740 | 6,210,140 | 6,005,421 | (204,719) |
| Federal sources | 10,000 | 25,000 | - | (25,000) |
| | <u>9,618,040</u> | <u>9,626,106</u> | <u>9,678,993</u> | <u>52,887</u> |
| TOTAL REVENUES | | | | |
| EXPENDITURES | | | | |
| Instruction | 5,404,523 | 5,606,586 | 5,051,891 | 554,695 |
| Support services | | | | |
| Student | 803,535 | 760,204 | 624,450 | 135,754 |
| Instructional staff | 378,234 | 560,030 | 545,359 | 14,671 |
| District administration | 406,126 | 459,801 | 413,442 | 46,359 |
| School administration | 708,771 | 712,518 | 606,532 | 105,986 |
| Business | 708,749 | 710,927 | 670,591 | 40,336 |
| Plant operation and maintenance | 957,387 | 1,233,742 | 1,147,952 | 85,790 |
| Student transportation | 293,944 | 350,193 | 403,879 | (53,686) |
| Food service | - | 24,200 | 19,999 | 4,201 |
| Community service activities | 24,200 | - | - | - |
| Contingency | 972,430 | 972,430 | - | 972,430 |
| Capital outlay (Note 1) | - | - | 132,305 | (132,305) |
| Debt service | - | - | - | - |
| | <u>10,657,899</u> | <u>11,390,631</u> | <u>9,616,400</u> | <u>1,774,231</u> |
| TOTAL EXPENDITURES | | | | |
| Excess (Deficit) of Revenues Over Expenditures | <u>(1,039,859)</u> | <u>(1,764,525)</u> | <u>62,593</u> | <u>1,827,118</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of assets | - | - | 702 | 702 |
| Capital lease proceeds | - | - | 132,305 | 132,305 |
| Operating transfers in | 138,859 | 335,314 | 375,544 | 40,230 |
| Operating transfers out | (15,000) | (15,000) | (16,886) | (1,886) |
| | <u>123,859</u> | <u>320,314</u> | <u>491,665</u> | <u>171,351</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | | | | |
| NET CHANGE IN FUND BALANCE | (916,000) | (1,444,211) | 554,258 | 1,998,469 |
| Fund balances-beginning | <u>916,000</u> | <u>1,444,211</u> | <u>1,444,211</u> | <u>-</u> |
| Fund balances-ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,998,469</u> | <u>\$ 1,998,469</u> |

Note 1: Capital outlay expenditures were budgeted with their respective function.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND
for the year ended June 30, 2022

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|----------------------------|-------------------------|------------------|---|
| REVENUES | | | | |
| Local sources | \$ - | 1,500 | \$ 2,420 | \$ 920 |
| Earnings on investments | 100 | 250 | 237 | (13) |
| State sources | 626,519 | 706,053 | 596,338 | (109,715) |
| Federal sources | <u>792,972</u> | <u>851,754</u> | <u>3,011,836</u> | <u>2,160,082</u> |
| TOTAL REVENUES | <u>1,419,591</u> | <u>1,559,557</u> | <u>3,610,831</u> | <u>2,051,274</u> |
| EXPENDITURES | | | | |
| Instruction | 1,096,838 | 1,102,965 | 2,118,256 | (1,015,291) |
| Support services | | | | |
| Student | 4,447 | 59,135 | 162,962 | (103,827) |
| Instructional staff | 247,120 | 242,702 | 553,372 | (310,670) |
| District administration | - | - | - | - |
| Business | - | - | - | - |
| Plant operation and maintenance | - | - | 46,147 | (46,147) |
| Student transportation | - | 20,355 | 24,076 | (3,721) |
| Food Service Operation | - | 26,965 | 49,452 | (22,487) |
| Daycare operations | - | 33,903 | 76,274 | (42,371) |
| Community services activities | 82,737 | 83,237 | 87,500 | (4,263) |
| Capital outlay (Note 1) | <u>-</u> | <u>-</u> | <u>186,424</u> | <u>(186,424)</u> |
| TOTAL EXPENDITURES | <u>1,431,142</u> | <u>1,569,262</u> | <u>3,304,463</u> | <u>(1,735,201)</u> |
| Excess (Deficit) of Revenues Over Expenditures | (11,551) | (9,705) | 306,368 | 316,073 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Operating transfers in | 88,894 | 80,471 | 80,471 | - |
| Operating transfers out | <u>(77,343)</u> | <u>(70,766)</u> | <u>(386,839)</u> | <u>(316,073)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>11,551</u> | <u>9,705</u> | <u>(306,368)</u> | <u>(316,073)</u> |
| NET CHANGE IN FUND BALANCE | - | - | - | - |
| Fund balances-beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances-ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Note 1: Capital outlay expenditures were budgeted with their respective function.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Eight Fiscal Years**

| Reporting Fiscal Year (Measurement Date) | 2015 (2014) | 2016 (2015) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| District's proportion of the net pension liability | 0.056646% | 0.055221% | 0.046854% | 0.055550% | 0.050612% | 0.048839% | 0.046465% | 0.045070% |
| District's proportionate share of the net pension liability (asset) | \$ 1,838,000 | \$ 2,374,243 | \$ 2,306,917 | \$ 3,251,512 | \$ 3,082,425 | \$ 3,434,869 | \$ 3,563,827 | \$ 2,873,566 |
| District's covered employee payroll | \$ 1,309,514 | \$ 1,139,555 | \$ 1,423,125 | \$ 1,320,029 | \$ 1,242,488 | \$ 1,220,398 | \$ 1,194,230 | \$ 1,156,408 |
| District's share of the net pension liability (asset) as a percentage of its covered employee payroll | 140.36% | 208.35% | 162.10% | 246.32% | 248.08% | 281.45% | 298.42% | 248.49% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.80% | 59.97% | 55.50% | 53.30% | 53.54% | 50.45% | 47.81% | 57.33% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Eight Fiscal Years**

| Reporting Fiscal Year (Measurement Date) | 2015 (2014) | 2016 (2015) | 2017 (2016) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| District's proportion of the net pension liability | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% |
| District's proportionate share of the net pension liability (asset) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| State's proportionate share of the net pension liability (asset) | <u>27,742,148</u> | <u>31,369,530</u> | <u>37,315,572</u> | <u>37,135,272</u> | <u>18,157,917</u> | <u>19,994,207</u> | <u>19,941,639</u> | <u>15,708,233</u> |
| Total | \$ 27,742,148 | \$ 31,369,530 | \$ 37,315,572 | \$ 37,135,272 | \$ 18,157,917 | \$ 19,994,207 | \$ 19,941,639 | \$ 15,708,233 |
| District's covered employee payroll | \$ 4,326,318 | \$ 4,103,780 | \$ 4,448,103 | \$ 4,580,828 | \$ 4,814,546 | \$ 4,746,452 | \$ 4,813,369 | \$ 5,213,089 |
| District's share of the net pension liability (asset) as a percentage of its covered employee payroll | 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% | 42.49% | 35.22% | 39.83% | 59.27% | 58.76% | 58.30% | 65.60% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Five Fiscal Years**

| Reporting Fiscal Year (Measurement Date) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| District's proportion of the net OPEB liability | 0.055550% | 0.050611% | 0.048826% | 0.046451% | 0.045059% |
| District's proportionate share of the net OPEB liability (asset) | \$ 1,116,745 | \$ 898,588 | \$ 821,231 | \$ 1,121,650 | \$ 862,633 |
| District's covered employee payroll | \$ 1,320,029 | \$ 1,242,488 | \$ 1,220,398 | \$ 1,194,230 | \$ 1,156,408 |
| District's share of the net OPEB liability (asset) as a percentage of its covered employee payroll | 84.60% | 72.32% | 67.29% | 93.92% | 74.60% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 42.40% | 57.62% | 60.44% | 51.67% | 62.91% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MEDICAL INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Five Fiscal Years**

| Reporting Fiscal Year (Measurement Date) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| District's proportion of the collective net OPEB liability | 0.071757% | 0.070854% | 0.077507% | 0.074987% | 0.064106% |
| District's proportionate share of the collective net OPEB liability (asset) | \$ 2,559,000 | \$ 2,458,000 | \$ 2,268,000 | \$ 1,892,000 | \$ 1,375,519 |
| State's proportionate share of the collective net OPEB liability (asset) associated with the District | <u>2,090,000</u> | <u>2,119,000</u> | <u>1,832,000</u> | <u>1,516,000</u> | <u>1,117,000</u> |
| Total | <u>\$ 4,649,000</u> | <u>\$ 4,577,000</u> | <u>\$ 4,100,000</u> | <u>\$ 3,408,000</u> | <u>\$ 2,492,519</u> |
| District's covered employee payroll | \$ 4,580,828 | \$ 4,814,546 | \$ 4,746,452 | \$ 4,813,369 | \$ 4,802,021 |
| District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered employee payroll | 55.86% | 51.05% | 47.78% | 39.31% | 28.64% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 21.18% | 25.54% | 32.58% | 39.05% | 51.70% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY SCHEDULE OF
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - LIFE INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Five Fiscal Years**

| Reporting Fiscal Year (Measurement Date) | 2018 (2017) | 2019 (2018) | 2020 (2019) | 2021 (2020) | 2022 (2021) |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| District's proportion of the collective net OPEB liability | 0.0000% | 0.0000% | 0.0000% | 0.0000% | 0.0000% |
| District's proportionate share of the collective net OPEB liability (asset) | \$ - | \$ - | \$ - | \$ - | \$ - |
| State's proportionate share of the collective net OPEB liability (asset) associated with the District | <u>28,000</u> | <u>36,000</u> | <u>43,000</u> | <u>46,000</u> | <u>15,000</u> |
| Total | <u><u>\$ 28,000</u></u> | <u><u>\$ 36,000</u></u> | <u><u>\$ 43,000</u></u> | <u><u>\$ 46,000</u></u> | <u><u>\$ 15,000</u></u> |
| District's covered employee payroll | \$ 4,580,828 | \$ 4,814,546 | \$ 4,746,452 | \$ 4,813,369 | \$ 4,802,021 |
| District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered employee payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 79.99% | 74.97% | 73.40% | 71.57% | 89.20% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Nine Fiscal Years**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Contractually required employer contribution | \$ 166,963 | \$ 141,533 | \$ 198,525 | \$ 188,674 | \$ 181,638 | \$ 260,852 | \$ 287,114 | \$ 277,389 | \$ 337,795 |
| Contributions relative to contractually required employer contribution | <u>166,963</u> | <u>141,533</u> | <u>198,525</u> | <u>188,674</u> | <u>181,638</u> | <u>260,852</u> | <u>287,114</u> | <u>277,389</u> | <u>337,795</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 1,309,514 | \$ 1,139,555 | \$ 1,423,125 | \$ 1,320,029 | \$ 1,242,488 | \$ 1,220,398 | \$ 1,194,230 | \$ 1,156,408 | \$ 1,443,513 |
| Employer contributions as a percentage of covered-employee payroll | 12.75% | 12.42% | 13.95% | 14.29% | 14.62% | 21.37% | 24.04% | 23.99% | 23.40% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF PENSION CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Nine Fiscal Years**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Contractually required employer contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions relative to contractually required employer contribution | - | - | - | - | - | - | - | - | - |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| District's covered employee payroll | \$ 4,326,318 | \$ 4,103,780 | \$ 4,448,103 | \$ 4,580,828 | \$ 4,814,546 | \$ 4,746,452 | \$ 4,813,369 | \$ 4,802,021 | \$ 4,082,151 |
| Employer 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% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM
Last Five Fiscal Years**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---------------|---------------|---------------|---------------|---------------|
| Contractually required employer contribution | \$ 63,973 | \$ 58,958 | \$ 64,799 | \$ 56,653 | \$ 92,227 |
| Contributions relative to contractually required employer contribution | <u>63,973</u> | <u>58,958</u> | <u>64,799</u> | <u>56,653</u> | <u>92,227</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 1,242,488 | \$ 1,220,398 | \$ 1,194,230 | \$ 1,156,408 | \$ 1,443,513 |
| Employer contributions as a percentage of covered-employee payroll | 5.15% | 4.83% | 5.43% | 4.90% | 6.39% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - MEDICAL INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Five Fiscal Years**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|----------------|----------------|----------------|----------------|----------------|
| Contractually required employer contribution | \$ 122,939 | \$ 126,213 | \$ 134,961 | \$ 132,433 | \$ 122,466 |
| Contributions relative to contractually required employer contribution | <u>122,939</u> | <u>126,213</u> | <u>134,961</u> | <u>132,433</u> | <u>122,466</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 4,814,546 | \$ 4,746,452 | \$ 4,813,369 | \$ 4,802,021 | \$ 4,082,151 |
| Employer contributions as a percentage of covered-employee payroll | 2.55% | 2.66% | 2.80% | 2.76% | 3.00% |

The above schedule will present 10 years of historical data, once available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY
SCHEDULE OF OPEB CONTRIBUTIONS - LIFE INSURANCE PLAN
KENTUCKY TEACHERS' RETIREMENT SYSTEM
Last Five Fiscal Years**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|------------------|------------------|------------------|------------------|------------------|
| Contractually required employer contribution | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions relative to contractually required employer contribution | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | \$ 4,814,546 | \$ 4,746,452 | \$ 4,813,369 | \$ 4,802,021 | \$ 4,082,151 |
| Employer contributions as a percentage of covered-employee payroll | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

The above schedule will present 10 years of historical data, once available.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

1. GENERAL INFORMATION

Contributions

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to CERS but allocated to the insurance fund of the CERS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Contractually required employer contributions reported on the Schedule of Pension Contributions exclude the portion of contributions paid to KTRS but allocated to the insurance fund of the KTRS. The insurance contributions are reported on the Schedule of OPEB Contributions.

Payroll

The District's covered payroll reported on the Proportionate Share of the Net Pension Liability - CERS and the Proportionate Share of the Net OPEB Liability - CERS Schedules is one year prior to the District's fiscal year payroll as reported on the Schedule of Contributions for CERS Pension and CERS OPEB.

The District's covered payroll reported on the Proportionate Share of the Net Pension Liability - KTRS and the Proportionate Share of the Net OPEB Liability - KTRS Schedules is one year prior to the District's fiscal year payroll as reported on the Schedule of Contributions for KTRS Pension and KTRS OPEB.

2. CHANGES OF ASSUMPTIONS

June 30, 2021 – CERS Pension and OPEB Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for CERS pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 6.4% to 6.30%. The initial healthcare trend rate for post-65 was changed from 2.9% to 6.30%.

June 30, 2021 – KTRS Pension and KTRS OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for KTRS OPEB – Medical Insurance Plan:

- The assumed investment rate of return decreased from 8.0% to 7.1%.

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2021, for KTRS OPEB – Life Insurance Plan:

- The assumed projected salary increases changed from a range of 3.50% – 7.2% to 3.0% – 7.5%.
- The assumed investment rate of return decreased from 8% to 7.1%.
- Assumed real wage growth decreased from .5% to .25%.
- The assumed inflation rate decreased from 3% to 2.5%.
- The assumed discount rate decreased from 8% to 7.1%.
- The assumed municipal bond index rate was decreased from 2.2% to 2.13%.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2020 – CERS Pension and OPEB Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for CERS pension.

The following change in assumptions was made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for OPEB:

- The initial healthcare trend rate for pre-65 was changed from 7% to 6.40%. The initial healthcare trend rate for post-65 was changed from 5% to 2.90%, which increases to 6.30% in 2023.

June 30, 2020 – KTRS Pension and KTRS OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for KTRS OPEB – Medical Insurance Plan:

- The assumed investment rate of return increased from 7.50% to 8.0%.

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2020, for KTRS OPEB – Life Insurance Plan:

- The assumed projected salary increases decreased from a range of 3.50% – 7.45% to 3.50% – 7.2%.
- The assumed municipal bond index rate was decreased from 3.5% to 2.2%.

June 30, 2019 – CERS Pension and CERS OPEB Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for both CERS pension and CERS OPEB:

- The assumed rate of salary increases was increased from 3.05% to 3.3% to 10.3% on average.

June 30, 2019 – KTRS Pension and KTRS OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for KTRS pension:

- The assumed municipal bond index rate was decreased from 3.89% to 3.5%.

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for KTRS OPEB – Medical Insurance Plan:

- The assumed projected salary decreased from 4.0% -8.10%, including wage inflation, to 3.50% - 7.20%, including wage inflation.
- The assumed wage inflation dropped from 4.0% to 3.5%.
- The assumed municipal bond index rate was decreased from 3.89% to 3.5%.

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2019, for KTRS OPEB – Life Insurance Plan:

- The assumed net investment rate of return decreased from 8.0% to 7.5%.
- The assumed municipal bond index rate was decreased from 3.89% to 3.5%.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2018 – CERS Pension and CERS OPEB – Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018 for either CERS pension or CERS OPEB.

June 30, 2018 – KTRS Pension and KTRS OPEB

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2018, for KTRS pension and KTRS OPEB:

- For KTRS Pension the assumed discount rate was increased from 4.49% to 7.50%.
- For KTRS OPEB – Medical Insurance Plan health care trend rates were updated.

June 30, 2017 – CERS Pension – Nonhazardous

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- The assumed rate of return was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.3%.
- Payroll growth assumption was reduced from 4% to 2%.

June 30, 2017 – KTRS Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2017:

- In the 2016 valuation, rates of withdrawal, retirement, disability, mortality and rates of salary increase were adjusted to more closely reflect actual experience. In the 2016 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2025 with projection scale BB, set forward two project years for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with scale AA, which was used prior to the 2016 valuation.

June 30, 2016 – CERS Pension and CERS OPEB – Nonhazardous

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016 for either CERS pension or CERS OPEB.

June 30, 2016 – KTRS Pension

The following changes in assumptions were made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2016, for KTRS pension:

- The assumed municipal bond index rate decreased from 3.82% to 3.01%, resulting in a change in the Single Equivalent Interest Rate from 4.88% to 4.20%.

FRANKFORT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2022

2. CHANGES OF ASSUMPTIONS (CONTINUED)

June 30, 2015 – CERS Pension – Nonhazardous

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

- The assumed rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females).
- For Disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.
- The assumed rates of retirement, withdrawal, and disability were updated to reflect experience more accurately.

June 30, 2015 – KTRS Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2015 for KTRS pension.

June 30, 2014 – CERS Pension –Nonhazardous and KTRS Pension

There were no changes in assumptions made by the Kentucky Legislature and reflected in the valuation performed as of June 30, 2014.

June 30, 2013 – CERS Pension – Nonhazardous

The following assumptions were made by the Kentucky Legislature and reflected in the initial valuation performed as of June 30, 2013:

- The assumed rate of return was 7.75%.
- The assumed rate of inflation was 3.5%.
- The assumed rate of wage inflation was 1%.
- Payroll growth assumption was 4.5%.
- Mortality rates were based on the 1983 Group Annuity Mortality Table for all retired members and beneficiaries as of June 30, 2006. The 1994 Group Annuity Mortality Table was used for all other members.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2022**

| | Capital Outlay Fund | Building Fund | Debt Service Fund | School Activity Fund | District Activity Fund | Total |
|--------------------------------------|---------------------------|------------------|-------------------------|----------------------------|------------------------------|-------------------|
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 80,410 | \$ 44,760 | \$ - | \$ 164,775 | \$ 13,141 | \$ 303,086 |
| Investments - certificate of deposit | - | - | - | - | - | - |
| Accounts receivable | - | - | - | - | - | - |
| | | | | | | |
| Total assets | <u>\$ 80,410</u> | <u>\$ 44,760</u> | <u>\$ -</u> | <u>\$ 164,775</u> | <u>\$ 13,141</u> | <u>\$ 303,086</u> |
| LIABILITIES | | | | | | |
| Accounts payable | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 104</u> | <u>\$ 104</u> |
| | | | | | | |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>104</u> | <u>104</u> |
| FUND BALANCE | | | | | | |
| Restricted | | | | | | |
| Other | 80,410 | 3,259 | - | 164,775 | 13,037 | 261,481 |
| SFCC escrow | | 41,501 | - | - | - | 41,501 |
| Unassigned | - | - | - | - | - | - |
| | | | | | | |
| Total fund balance | <u>80,410</u> | <u>44,760</u> | <u>-</u> | <u>164,775</u> | <u>13,037</u> | <u>302,982</u> |
| | | | | | | |
| Total liabilities and fund balance | <u>\$ 80,410</u> | <u>\$ 44,760</u> | <u>\$ -</u> | <u>\$ 164,775</u> | <u>\$ 13,141</u> | <u>\$ 303,086</u> |

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2022**

| | Capital Outlay Fund | Building Fund | Debt Service Fund | Student Activity Fund | District Activity Fund | Total |
|--|---------------------------|------------------|-------------------------|-----------------------------|------------------------------|-------------------|
| REVENUES | | | | | | |
| Taxes | \$ - | \$ 284,194 | \$ - | \$ - | \$ - | \$ 284,194 |
| Other local sources | - | - | - | 367,328 | 12,617 | 379,945 |
| Intergovernmental-State | <u>80,410</u> | <u>452,360</u> | <u>235,305</u> | <u>-</u> | <u>-</u> | <u>768,075</u> |
| Total revenues | <u>80,410</u> | <u>736,554</u> | <u>235,305</u> | <u>367,328</u> | <u>12,617</u> | <u>1,432,214</u> |
| EXPENDITURES | | | | | | |
| Instruction | - | - | - | 359,141 | 2,392 | 361,533 |
| Instructional staff support services | - | - | - | - | - | - |
| Plant operation and maintenance | - | - | - | - | - | - |
| Capital outlay | - | - | - | - | - | - |
| Debt service | <u>-</u> | <u>-</u> | <u>968,600</u> | <u>-</u> | <u>-</u> | <u>968,600</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>968,600</u> | <u>359,141</u> | <u>2,392</u> | <u>1,330,133</u> |
| Excess (deficit) revenues over expenditures | <u>80,410</u> | <u>736,554</u> | <u>(733,295)</u> | <u>8,187</u> | <u>10,225</u> | <u>102,081</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Operating transfers in | - | - | 733,295 | - | - | 733,295 |
| Operating transfers out | <u>-</u> | <u>(733,295)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(733,295)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>(733,295)</u> | <u>733,295</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficit) revenues and other financing sources over expenditures and other financing uses | 80,410 | 3,259 | - | 8,187 | 10,225 | 102,081 |
| Fund balance-beginning | <u>-</u> | <u>41,501</u> | <u>-</u> | <u>156,588</u> | <u>2,812</u> | <u>200,901</u> |
| Fund balance-ending | <u>\$ 80,410</u> | <u>\$ 44,760</u> | <u>\$ -</u> | <u>\$ 164,775</u> | <u>\$ 13,037</u> | <u>\$ 302,982</u> |

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
 SCHOOL ACTIVITY FUNDS
 for the year ended June 30, 2022**

| | Cash Balances | Receipts | Disbursements | Cash Balances | Accounts | Accounts | Fund Balances |
|-----------------------------------|--------------------------|--------------------------|----------------------------|--------------------------|----------------------|----------------------|--------------------------|
| | July 01, 2021 | | | June 30, 2022 | Receivable | Payable | June 30, 2022 |
| | | | | | June 30, 2022 | June 30, 2022 | June 30, 2022 |
| Frankfort Independent High School | \$ 102,635 | \$ 300,636 | \$ (281,323) | \$ 121,948 | \$ - | \$ - | \$ 121,948 |
| Second Street Elementary | <u>49,276</u> | <u>63,797</u> | <u>(73,253)</u> | <u>39,820</u> | <u>-</u> | <u>-</u> | <u>39,820</u> |
| TOTAL ACTIVITY FUNDS | <u>\$ 151,911</u> | <u>\$ 364,433</u> | <u>\$ (354,576)</u> | <u>\$ 161,768</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 161,768</u> |

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
FRANKFORT INDEPENDENT HIGH SCHOOL
for the year ended June 30, 2022**

| | Cash Balances | | | | Cash Balances | Accounts | Accounts | Fund Balances |
|------------------------|----------------------|-----------------|----------------------|------------------|----------------------|-----------------|-----------------|----------------------|
| | July 01, 2021 | Receipts | Disbursements | Transfers | Year End | Year End | Year End | June 30, 2022 |
| ACADEMIC COMPETITION | \$ 24 | \$ - | \$ - | \$ - | \$ 24 | \$ - | \$ - | \$ 24 |
| CAPITOLIAN | 5,574 | 2,142 | (3,112) | - | 4,604 | - | - | 4,604 |
| HOSPITALITY FUND | 106 | 846 | (722) | - | 230 | - | - | 230 |
| INTEREST | 644 | 1,423 | (330) | - | 1,737 | - | - | 1,737 |
| GRADUATION | - | 180 | - | - | 180 | - | - | 180 |
| GUIDANCE | 1,969 | 225 | (502) | - | 1,692 | - | - | 1,692 |
| GENERAL | 4,119 | 620 | (1,694) | 1,750 | 4,795 | - | - | 4,795 |
| AP FEES | 1,365 | 15 | (1,030) | - | 350 | - | - | 350 |
| C.S.BOYD SCHOLARSHIP | 622 | - | - | - | 622 | - | - | 622 |
| FEES | - | 3,549 | (3,290) | - | 259 | - | - | 259 |
| TECH FEE | - | 70 | (50) | - | 20 | - | - | 20 |
| SOURCES OF STRENGTH | 1,083 | - | (382) | - | 701 | - | - | 701 |
| ATHLETIC START UP FUND | - | 1,100 | (1,100) | - | - | - | - | - |
| GENERAL ATHLETICS | 5,211 | 13,956 | (17,059) | 1,935 | 4,043 | - | - | 4,043 |
| BASEBALL | 7,862 | 14,900 | (18,614) | - | 4,148 | - | - | 4,148 |
| BOYS BASKETBALL | 6,019 | 24,411 | (22,170) | 875 | 9,135 | - | - | 9,135 |
| GIRLS BASKETBALL | 5,072 | 5,334 | (3,554) | 875 | 7,727 | - | - | 7,727 |
| CHEERLEADERS | 666 | 4,103 | (2,500) | - | 2,269 | - | - | 2,269 |
| CROSS COUNTRY | 963 | 19,100 | (5,447) | (4,735) | 9,881 | - | - | 9,881 |
| FOOTBALL | 4,763 | 14,977 | (17,002) | 300 | 3,038 | - | - | 3,038 |
| BOYS GOLF | 3,013 | 2,010 | (3,586) | - | 1,437 | - | - | 1,437 |
| GIRLS GOLF | 2,866 | 1,635 | (1,869) | - | 2,632 | - | - | 2,632 |
| BOYS SOCCER | 2,290 | 18,994 | (17,230) | (78) | 3,976 | - | - | 3,976 |
| GIRLS SOCCER | 1,875 | 14,843 | (9,631) | 42 | 7,129 | - | - | 7,129 |
| GIRLS SOFTBALL | 1,874 | 9,445 | (7,700) | 215 | 3,834 | - | - | 3,834 |
| BOYS TENNIS | 4 | 750 | (175) | - | 579 | - | - | 579 |
| GIRLS TENNIS | 33 | 876 | (554) | - | 355 | - | - | 355 |
| Subtotal | \$ 58,017 | \$ 155,504 | \$ (139,303) | \$ 1,179 | \$ 75,397 | \$ - | \$ - | \$ 75,397 |

FRANKFORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS
FRANKFORT INDEPENDENT HIGH SCHOOL
for the year ended June 30, 2022

| | Cash Balances | | | | Cash Balances | Accounts | Accounts | Fund Balances |
|------------------------|-------------------|-------------------|---------------------|-------------|-------------------|-------------|-------------|-------------------|
| | July 01, 2021 | Receipts | Disbursements | Transfers | Year End | Receivable | Payable | June 30, 2022 |
| | | | | | | Year End | Year End | |
| TRACK | \$ 22 | \$ 1,957 | \$ (1,907) | \$ 2,460 | \$ 2,532 | \$ - | \$ - | \$ 2,532 |
| SWIM TEAM | 622 | - | (46) | (40) | 536 | - | - | 536 |
| ATHLETIC TOURNEY | 5,627 | 41,291 | (39,932) | (1,679) | 5,307 | - | - | 5,307 |
| VOLLEYBALL | 3,433 | 11,865 | (14,684) | (40) | 574 | - | - | 574 |
| ESPORTS | - | 2,419 | (1,538) | - | 881 | - | - | 881 |
| BROADCASTING | - | 2,650 | (1,781) | - | 869 | - | - | 869 |
| ART CLUB | - | 582 | (507) | - | 75 | - | - | 75 |
| BETA CLUB | 472 | 6,491 | (6,506) | (40) | 417 | - | - | 417 |
| TSA | 120 | - | - | - | 120 | - | - | 120 |
| DRAMA CLUB | 5,168 | 5,325 | (5,867) | - | 4,626 | - | - | 4,626 |
| EQUITY & INCLUSION | 356 | - | - | - | 356 | - | - | 356 |
| SERVICE COMMITTEE | 268 | - | - | (40) | 228 | - | - | 228 |
| SPANISH HONOR SOCIETY | 78 | 30 | (30) | - | 78 | - | - | 78 |
| NATIONAL HONOR SOCIETY | 450 | 1,670 | (1,042) | - | 1,078 | - | - | 1,078 |
| PEP CLUB | 924 | 1,559 | (2,215) | - | 268 | - | - | 268 |
| STUDENT COUNCIL | 961 | 606 | (731) | (40) | 796 | - | - | 796 |
| MISS FHS PAG | 582 | 2,739 | (609) | (1,768) | 944 | - | - | 944 |
| ARCHERY CLUB | 270 | 4,772 | (4,313) | - | 729 | - | - | 729 |
| Y-CLUB | - | 7,573 | (7,887) | 315 | 1 | - | - | 1 |
| DANCE CLUB | - | 833 | (1,080) | 500 | 253 | - | - | 253 |
| TRAVELING PANTHERS | 192 | 2,742 | (2,934) | - | - | - | - | - |
| STUDENTS DEMAND ACTION | 219 | 20 | (95) | - | 144 | - | - | 144 |
| CLASS OF 2021 | 948 | - | - | (948) | - | - | - | - |
| CLASS OF 2022 | 5,036 | 1,883 | (4,746) | 460 | 2,633 | - | - | 2,633 |
| CLASS OF 2023 | 415 | 5,215 | (3,537) | 2,616 | 4,709 | - | - | 4,709 |
| CLASS OF 2024 | - | 911 | - | - | 911 | - | - | 911 |
| CLASS OF 2025 | - | 285 | (144) | (40) | 101 | - | - | 101 |
| PROJECT GRAD | 2,223 | 125 | (1,563) | - | 785 | - | - | 785 |
| ATHLETIC CONCESSIONS | 9,198 | 30,595 | (27,399) | (1,830) | 10,564 | - | - | 10,564 |
| BAND | 4,582 | 10,751 | (10,750) | - | 4,583 | - | - | 4,583 |
| SPECIAL ED | 530 | - | - | (530) | - | - | - | - |
| AVIATION | 535 | - | - | (535) | - | - | - | - |
| SCIENCE ACADEMY | 593 | - | - | - | 593 | - | - | 593 |
| PHOTOGRAPHY | - | 48 | - | - | 48 | - | - | 48 |
| FCCLA/FACS | 677 | 195 | (177) | - | 695 | - | - | 695 |
| JAG | 17 | - | - | - | 17 | - | - | 17 |
| CAMPBELL LEGACY | 100 | - | - | - | 100 | - | - | 100 |
| Total | \$ 102,635 | \$ 300,636 | \$ (281,323) | \$ - | \$ 121,948 | \$ - | \$ - | \$ 121,948 |



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

To the State Committee for School District Audits and
Members of the Board of Education
Frankfort Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Frankfort Independent School District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Frankfort Independent School District's basic financial statements, and have issued our report thereon dated November 15, 2022.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Frankfort Independent 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*.

We noted certain matters that we reported to management of the Frankfort Independent School District, in a separate letter dated November 15, 2022.

Frankfort Independent School District's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Frankfort Independent School District's responses to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Frankfort Independent School District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

RFH

RFH, PLLC
Lexington, Kentucky
November 15, 2022



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

To the State Committee for School District Audits and
Members of the Board of Education
Frankfort Independent School District

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Frankfort Independent 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 the Frankfort Independent School District's major federal programs for the year ended June 30, 2022. Frankfort Independent 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, Frankfort Independent 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Frankfort Independent 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 Frankfort Independent 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 the Frankfort Independent School District's federal programs.

Auditors' Responsibilities 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 the Frankfort Independent 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 the Frankfort Independent 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 the Frankfort Independent 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 the Frankfort Independent 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 Frankfort Independent 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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-003 to be a material weakness.

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 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.

Government Auditing Standards requires the auditor to perform limited procedures on the Frankfort Independent School District's response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Frankfort Independent School District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

RFH

RFH, PLLC
Lexington, Kentucky
November 15, 2022

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2022**

| GRANTOR/PROGRAM TITLE | Federal AL Number | Pass Through Grantor's Number | Expenditures |
|--|-------------------------|--|----------------------------|
| U.S. Department of Agriculture (USDA) | | | |
| Child Nutrition Cluster | | | |
| Passed through Kentucky Department of Education | | | |
| National School Breakfast Program | 10.553 | 7760005 | \$ 195,848 |
| National School Lunch Program | 10.555 | 7750002/7970000 | 500,182 |
| Summer Food Service Program for Children | 10.559 | 7690024/ 7740023 | 148,307 |
| Passed through Kentucky Department of Agriculture | | | |
| Commodities (Note 2) | 10.555 | Note 5 | <u>51,019</u> |
| Total Child Nutrition Cluster | | | <u>895,356</u> |
| Passed through Kentucky Department of Education | | | |
| State Administrative Expenses for Child Nutrition | 10.560 | 7700001 | 593 |
| Child and Adult Care Food Program | 10.558 | 7790021/7970000 | 1,262 |
| Direct Grant | | | |
| Specialty Crop Block Grant Program | 10.170 | Direct | 4,288 |
| Farm to School Grant Program | 10.575 | Direct | <u>24,642</u> |
| Total U.S. Department of Agriculture | | | <u>926,141</u> |
| U.S. Department of Education | | | |
| Passed through Kentucky Department of Education | | | |
| Title I, Part A Cluster | 84.010 | 3100002/3220002 | <u>332,460</u> |
| Special Education Cluster (IDEA) | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 4910002 | 258,254 |
| Special Education - Preschool Grants (IDEA, Preschool) | 84.173 | 3800002 | <u>22,312</u> |
| Total Special Education Cluster (IDEA) | | | <u>280,566</u> |
| Vocational Education | 84.048 | Note 5 | <u>3,310</u> |
| Rural Education | 84.358 | 3140002 | <u>35,971</u> |
| English Language Acquisition State Grants | 84.365 | Note 5 | <u>1,953</u> |
| Childcare and Development Block Grant | 93.375 | Note 5 | <u>1,441</u> |
| Student Support and Academic Enrichment Grant | 84.424 | 3420002 | <u>29,522</u> |
| Improving Teacher Quality State Grants | 84.367 | 3230002 | <u>33,224</u> |
| COVID -19 - Education Stabilization Fund - American Rescue Plan - ESSER II Funds | 84.425U | 4000002/4000003 | 1,622,189 |
| COVID -19 - Education Stabilization Fund - Elementary and Secondary School Emergency Relief (ESSER) Funds | 84.425D | 4000002/4000003 | <u>565,851</u> |
| Total Education Stabilization Fund | | | <u>2,188,040</u> |
| Direct Grant | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334A | Direct | <u>1,586</u> |
| Total U.S. Department of Education | | | <u>2,908,073</u> |
| U.S. Department of Health and Human Services | | | |
| Passed through Kentucky Department of Education | | | |
| Child Care and Development Block Grant | 93.575 | Note 5 | <u>74,833</u> |
| Total U.S. Department of Health and Human Services | | | <u>74,833</u> |
| Total expenditures of federal awards | | | <u>\$ 3,909,047</u> |

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Frankfort Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in, or used, in the preparation of, the basic financial statements may differ from those numbers.

Note 2 - Nonmonetary assistance is reported in the schedule at the fair market value of the commodities disbursed.

Note 3 - The District did not pass through any funds to subrecipients.

Note 4 - Indirect Cost Rates

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

Note 5 - Passthrough entity numbers are presented when available. Pass through grantor's number not available.

**FRANKFORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022**

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|---------------|------------------------|
| Material weaknesses identified | <u>X</u> Yes | <u> </u> No |
| Significant deficiencies identified that are not considered to be material weaknesses | <u> </u> Yes | <u>X</u> None reported |

| | | |
|---|---------------|-------------|
| Non-compliance material to financial statements noted | <u> </u> Yes | <u>X</u> No |
|---|---------------|-------------|

Federal Awards:

Internal control over major programs:

| | | |
|---|---------------|------------------------|
| Material weaknesses identified | <u>X</u> Yes | <u> </u> No |
| Significant deficiencies identified that are not considered to be material weaknesses | <u> </u> Yes | <u>X</u> None reported |

Type of auditors' report issued on compliance for major programs:

Unmodified for all major programs.

| | | |
|--|--------------|--------------|
| Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)? | <u>X</u> Yes | <u> </u> No |
|--|--------------|--------------|

Major Programs:

| CFDA Number | Name of Federal Program or Cluster |
|-------------------|---|
| 84.027 & 84.173 | Special Education Cluster (IDEA) |
| 84.425D & 84.425U | COVID-19 - Education Stabilization Fund |

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

| | | |
|--|---------------|-------------|
| Auditee qualified as a low-risk auditee? | <u> </u> Yes | <u>X</u> No |
|--|---------------|-------------|

II. FINDINGS RELATED TO FINANCIAL STATEMENTS

2022-001 The District should have internal controls in place that enable it to accurately record all year-end accrual transactions and to prepare complete financial statements.

Criteria: The District is required to have internal controls in place that enable it to apply generally accepted accounting principles to its transactions and prepare financial statements including note disclosures.

Condition: District personnel were unable to prepare all year-end accruals accurately and audit adjustments were needed for non-routine transactions. Management was unable to prepare draft financial statements, including the related notes to the financial statements.

Cause: The District employed a new finance officer right before fiscal year end. Accurately accounting for year-end accruals and preparation of the financial statements and related notes require significant training and/or experience.

**FRANKFORT INDEPEDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS (CONTINUED)

Effect: Significant adjustments for year-end accruals and non-routine transactions were required in order for the District's financial statements to be in compliance with generally accepted accounting principles. Management engaged the auditor to prepare draft financial statements, including the related notes to the financial statements. Management reviewed, approved and accepted responsibility for the adjustments and the financial statements and related notes prior to their issuance.

Recommendation: We recommend the District review its internal controls related to its fiscal year end close. The District should implement additional analysis' and reviews at year-end to ensure all transactions are accounted for properly. When the District has turnover at or near year end, the District should consider hiring a consultant with the required expertise to help assist with the fiscal year end accounting and the preparation of the financial statements and related notes.

Management's Response: In August, the new finance officer was assigned a mentor through the KDE Finance Officer Certification & Internship Program, a requirement for all new first time finance officers. She has also sought out professional growth opportunities through Central KY Educational Cooperative (CKEC), the KY Association of School Business Officials (KASBO) and the KY Association of School Administrators (KASA) via their KY Women in Education Leadership Program. Building this network will allow for additional support and learning of required processes as well as build relationships to partner with when additional assistance may be needed with new or unfamiliar tasks. The finance officer will also attend professional development trainings twice a year provided by KASBO as well as the annual training offered by MUNIS, the developer of our accounting software used.

2022-002 The District should have internal controls in place to ensure requests for federal funds from the Kentucky Department of Education are submitted both accurately and timely.

Criteria: The District receives significant funding from the federal government which is passed through to the District from the Kentucky Department of Education. Federal funds are vital to the District in order to be able to adequately serve all students of the District. General Fund revenue alone is not sufficient to cover the required expenditures of the District. The District is required to submit a federal cash request to the Kentucky Department of Education in order to obtain the majority of its federal grant funds.

Condition: District personnel failed to submit a federal cash request form between the months of June 2022 and the audit report date. Without federal funding the General Fund was required to cover budgeted expenditures that were eligible for reimbursement with federal funds.

Cause: The District had turnover in the finance department near fiscal year end. District personnel failed to submit the required federal cash request form in order to receive federal funds.

Effect: The General Fund has covered expenditures which were budgeted and eligible for reimbursement with federal funds.

Recommendation: We recommend the District review its internal controls related to the submission of federal cash request forms to the Kentucky Department of Education. Such forms should be submitted monthly and followed up upon to ensure funds are received and timely deposited.

Management's Response: The finance officer is aware of this requirement and will ensure recommended timelines are followed moving forward. A review of this will occur in the regular meetings between the finance officer and superintendent.

**FRANKFORT INDEPEDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2022**

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding 2022-003 – AL 84.425D & 84.425U – Material Weakness – Indirect Costs

Criteria: In accordance with 2 CFR 200, indirect cost rates must be applied in accordance with the terms of the grant agreement. For the Education Stabilization Fund the Kentucky Department of Education approves the indirect cost rates as well as the methodology of determining indirect costs.

Condition: The District made a material error when calculating the June 2022 indirect costs for the Education Stabilization Fund. The District used the correct indirect cost rate, however a formula error resulted in a material error that was not identified by the District's internal controls.

Cause: The District's internal controls failed to identify the calculation for indirect costs was materially incorrect.

Effect: The auditor proposed and the District posted an adjustment totaling \$126,000 to decrease indirect costs for the Education Stabilization Fund. If the auditor had not identified the error, the District would have incorrectly requested federal funds totaling \$126,000.

Recommendation: We recommend the District review its internal controls related to its calculation of indirect costs for all programs.

Management's Response: The District will review on a periodic basis the alignment of indirect cost rates and the calculations being used to ensure accuracy.

III. PRIOR AUDIT FINDINGS

Finding 2021-01: Compliance - Insufficient insurance coverage. (RESOLVED)



Members of the Board of Education
Frankfort Independent School District
Frankfort, Kentucky

In planning and performing our audit of the financial statements of the Frankfort Independent School District for the year ended June 30, 2022, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 15, 2022 on the financial statements of the Frankfort Independent School District. We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A stylized, handwritten signature of "RFH" in black ink.

RFH, PLLC
November 15, 2022

Frankfort Independent School District
Management Letter Comments
June 30, 2022

DISTRICT

Current Year Comments

2022-01: Segregation of Duties

Condition:

We recommend management be aware of the risks posed by a lack of segregation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records in all phases of a transaction. During our review of the District's internal controls we noted a lack of segregation of duties related to the check writing and payroll process. Specifically, we noted the finance officer has the ability to process payroll and accounts payable checks. Although the small size of the District's staff limits the extent of separation of duties, we believe that management and the board of directors should actively monitor and assess the risk posed by employees having incompatible duties. We recommend the superintendent review the monthly bank statements online, specifically focusing on checks written and electronic payments to identify anything that may be unusual. While not a preventive control this compensating control should help detect inappropriate activity and compensate for the District's lack of segregation of duties in the check writing and payroll process.

Response: Management agrees to review the monthly bank statements online as suggested. On a regular basis, payroll duties are performed by the payroll clerk and accounts payable duties are performed by the AP clerk with the finance officer acting in an approver role for those transactions.

Status of Prior Year Comments

There were no management letter comments at the District level in the prior year.

**Frankfort Independent School District
Management Letter Comments
June 30, 2022**

SCHOOL ACTIVITY FUNDS

Frankfort Independent High School

2022-01: Purchase Orders

Condition:

During testing, multiple instances of purchases approved after being obligated were noted. Purchase orders should be completed prior to all purchases.

Response: There is a new bookkeeper at FHS for FY23. Findings have been reviewed with the new bookkeeper along with the completion of annual Redbook training. She will make every effort to ensure all requirements are met moving forward. As a district, we continue to review this process with administrators and bookkeepers so they may, in turn, remind their staff of procedures.

2022-02: Supporting Documentation for Purchases

Condition: We noted multiple purchases the school made for which an invoice was not maintained. Invoices should be maintained to support all purchases.

Response: Findings have been reviewed with the new bookkeeper along with the completion of annual Redbook training. She will make every effort to ensure all requirements are met moving forward.

2022-03 Purchase Approvals

Condition:

During testing we noted several purchase orders (Form F-SA-7) were missing the signature of the School Treasurer/Bookkeeper. All purchase orders include all of the required signatures (Sponsor, bookkeeper and principal).

Response: Findings have been reviewed with the new bookkeeper along with the completion of annual Redbook training. She will make every effort to ensure all requirements are met moving forward.

2022-04: Daily Deposits

Condition:

During testing we noted several deposits that were not deposited timely in accordance with Redbook Guidelines.

Response: Findings have been reviewed with the new bookkeeper along with the completion of annual Redbook training. She will make every effort to ensure all requirements are met moving forward.

**Frankfort Independent School District
Management Letter Comments
June 30, 2022**

Status of Prior Year Comments

Prior year comments have been resolved.

Second Street Elementary School

2022-01: Purchase Orders

Condition:

During testing, multiple instances of purchases approved after being obligated were noted. One instance of a purchase order that was not signed by the sponsor was noted. Purchase orders should be completed prior to all purchases and include all required signatures.

Response: Findings have been reviewed with the school bookkeeper along with completion of annual Redbook training for both the bookkeeper and principal. They will continue to refine their practices and work to ensure all requirements are met, communicating to staff the procedures for purchasing. As a district, we continue to review this process with administrators and bookkeepers so they may, in turn, remind their staff of procedures.

In this particular example, an invoice was printed to use as quote, but not labeled as such. A change in procedure will take place moving forward to ensure there is no confusion on the documents and their timing.

Status of Prior Year Comments

Prior year comments have been resolved.