HART COUNTY SCHOOL DISTRICT

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

Year Ended June 30, 2022

HART COUNTY SCHOOL DISTRICT

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Heartland CPAs and Advisors PLLC

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Hart County School District
Munfordville, Kentucky

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 Hart County School District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the 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 District as of June 30, 2022, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hart County School District and 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

310 Ring Road, P.O. Box 622 / Elizabethtown, KY 42702-0622 / Phone 270-769-6371 / Fax 270-765-7934
713 McDowell Blvd. / Bardstown, KY 40004 / Phone 502-348-1433 / Fax 502-349-6365

Auditor's 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 auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the 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 Hart County School District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hart County School District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended June 30, 2022, the District adopted Governmental Accounting Standards Board Statement 87, *Leases* and Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 10, budgetary comparison information on pages 56 to 57, schedule of proportionate share of the net pension and OPEB liabilities on pages 58 to 62 and schedule of contributions on pages 63 to 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hart County School District's basic financial statements. The accompanying combining financial statements, school schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022, on our consideration of Hart County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to 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 Hart County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hart County School District's internal control over financial reporting and compliance.

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
November 3, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

HART COUNTY SCHOOL DISTRICT – MUNFORDVILLE, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2022

The discussion and analysis of Hart County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2022. The intent of this discussion and analysis is to review the School District's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was $7.9 million. The most significant cash balance was for the General Fund of $2.3 million and the Construction Fund of $3.3 million. The General Fund had $3 million in cash at June 30, 2021.

- The General Fund had $22.9 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments, property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were $23.4 million in expenditures.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) 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 deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

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

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

The basic governmental fund financial statements can be found on pages 13 - 21 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 22 - 55 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by $11.4 million at June 30, 2022.

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

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

Net Position for the periods ending June 30, 2022 and 2021
(Table 1)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Current and Other Assets	$ 10,138,661	$ 6,253,217	$ 833,261	$ 536,675	$ 10,971,922	$ 6,789,892
Capital Assets	62,799,617	63,120,876	514,390	455,698	63,314,007	63,576,574
Total Assets	72,938,278	69,374,093	1,347,651	992,373	74,285,929	70,366,466
Deferred Outflows	3,354,345	3,537,660	425,770	535,715	3,780,115	4,073,375
Long-term Debt	54,005,902	55,385,138	1,687,175	2,117,511	55,693,077	57,502,649
Other Liabilities	5,226,340	4,086,941	-	16,905	5,226,340	4,103,846
Total Liabilities	59,232,242	59,472,079	1,687,175	2,134,416	60,919,417	61,606,495
Deferred Inflows	5,250,372	3,340,246	504,839	178,843	5,755,211	3,519,089
Net Position						
Net investment in capital assets	18,900,334	20,543,388	514,390	455,698	19,414,724	20,999,086
Restricted	5,606,397	2,176,698	-	-	5,606,397	2,176,698
Unrestricted	(12,696,722)	(12,620,658)	(932,983)	(1,240,869)	(13,629,705)	(13,861,527)
Total Net Position	$ 11,810,009	$ 10,099,428	$ (418,593)	$ (785,171)	$ 11,391,416	$ 9,314,257

The following are significant current year transactions that have had an impact on the Statement of Net Position.

The District had $1.5 million in additions to capital assets and issued the 2022 energy bonds for $4.2 million.

Comments on Budget Comparisons

- The District's total governmental revenues for the fiscal year ended June 30, 2022, net of interfund transfers were $33.5 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being $6.1 million more than budget or approximately 37%. This is due to not budgeting on-behalf payments of $6.2 million.
- The total cost of all governmental programs and services was $24.2 million including debt service.
- General fund budget expenditures to actual varied significantly in Instruction and Other expenses. This resulted from not having to spend budgeted contingency funds and changes in on-behalf payments.

The following Table 2 presents a summary of changes in net position for the fiscal years ended June 30, 2022 and 2021.

(Table 2)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
REVENUES:						
Program revenues:						
Charges for services	$ 328,986	$ 159,350	$ 71,737	$ 9,076	$ 400,723	$ 168,426
Operating grants and contributions	6,120,958	5,312,117	2,338,226	1,180,567	8,459,184	6,492,684
Capital grants	3,505,030	3,895,348	-	-	3,505,030	3,895,348
General revenues:						
Property taxes	4,594,559	4,505,078	-	-	4,594,559	4,505,078
Motor vehicle taxes	678,612	569,664	-	-	678,612	569,664
Utility taxes	1,249,743	1,157,976	-	-	1,249,743	1,157,976
Revenue in lieu of taxes	79,342	90,536	-	-	79,342	90,536
Other taxes	-	30	-	-	-	30
Gain on disposal of capital assets	14,313	19,625	-	-	14,313	19,625
Investment earnings	67,081	59,285	692	852	67,773	60,137
State and formula grants	7,124,716	7,909,565	-	-	7,124,716	7,909,565
Miscellaneous	75,491	151,538	-	-	75,491	151,538
Total revenues	23,838,831	23,830,112	2,410,655	1,190,495	26,249,486	25,020,607
EXPENSES						
Program Activities						
Instruction	8,890,255	9,570,088	-	-	8,890,255	9,570,088
Student support	1,851,260	1,568,308	-	-	1,851,260	1,568,308
Instructional staff support	1,148,649	1,157,389	-	-	1,148,649	1,157,389
District administrative support	1,477,883	808,939	-	-	1,477,883	808,939
School administrative support	1,464,668	1,491,909	-	-	1,464,668	1,491,909
Business support	690,845	770,590	-	-	690,845	770,590
Plant operation and maintenance	2,993,634	2,635,303	-	-	2,993,634	2,635,303
Student transportation	1,616,399	1,477,824	-	-	1,616,399	1,477,824
Community service activities	272,964	241,583	-	-	272,964	241,583
Other	425,697	219,680	-	-	425,697	219,680
Interest costs	1,335,868	1,385,605	-	-	1,335,868	1,385,605
Business-type Activities:						
Food service	-	-	2,004,205	1,622,884	2,004,205	1,622,884
Total expenses	22,168,122	21,327,218	2,004,205	1,622,884	24,172,327	22,950,102
Transfers	39,872	94,698	(39,872)	(94,698)	-	-
Change in net position	$ 1,710,581	$ 2,597,592	$ 366,578	$ (527,087)	$ 2,077,159	$ 2,070,505

Governmental Activities

Instruction comprises 40% of governmental program expenses. Support services expenses make up 51% of government expenses. The remaining expense for community services, interest and other items accounts for the remaining 9% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2022	2021	2022	2021
Instruction	$ 8,890,255	$ 9,570,088	$ 3,381,937	$ 4,669,945
Support Services	11,243,338	9,910,262	10,695,802	9,608,543
Community services	272,964	241,583	(2,350)	17,335
Facilities acquistion	-	-	(1,300,749)	(1,691,067)
Other	425,697	219,680	306,921	174,323
Interest costs	1,335,868	1,385,605	(868,413)	(818,676)
Total Expenses	$ 22,168,122	$ 21,327,218	$ 12,213,148	$ 11,960,403

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of $2.4 million and expenses of $2 million for fiscal year 2022. Of the revenues, $71 thousand was charges for services, $2.3 million was from State and Federal grants and $692 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of $39.5 million and expenditures and other financing uses of $33.1 million. Net changes in fund balances for the year were most significant in the General Fund and Construction Fund.

General Fund-Budget Highlights

The School 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. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at $16.8 million with actual amounts of $22.9 million. Budgeted expenditures of $20.1 million compare with actual expenditures of $23.4 million.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2022 the School District had $63.3 million invested in land, buildings and equipment and construction in progress, and $62.8 million in governmental activities. Table 4 shows fiscal year 2022 and 2021 balances.

(Table 4)
Capital Assets at June 30, 2022 and 2021
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Land and land improvements	$ 1,063,133	$ 1,070,755	$ -	$ -	$ 1,063,133	$ 1,070,755
Construction in progress	1,215,490	2,375,631	-	-	1,215,490	2,375,631
Buildings and improvements	58,388,960	57,870,502	424,064	439,770	58,813,024	58,310,272
Technology	332,437	479,029	-	-	332,437	479,029
Vehicles	943,690	666,926	12,201	16,384	955,891	683,310
General equipment	855,907	658,033	78,125	(456)	934,032	657,577
Total	$ 62,799,617	$ 63,120,876	$ 514,390	$ 455,698	$ 63,314,007	$ 63,576,574

Table 5 shows changes in capital assets for the years ended June 30, 2022 and 2021.

(Table 5)
Change in Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2022	2021	2022	2021	2022	2021
Beginning balance	$ 63,120,876	$ 63,757,415	$ 455,698	$ 476,043	$ 63,576,574	$ 64,233,458
Additions	3,952,287	1,150,186	79,419	-	4,031,706	1,150,186
Retirements	(2,415,691)	-	-	-	(2,415,691)	-
Depreciation	(1,857,855)	(1,786,725)	(20,727)	(20,345)	(1,878,582)	(1,807,070)
Ending balance	$ 62,799,617	$ 63,120,876	$ 514,390	$ 455,698	$ 63,314,007	$ 63,576,574

Debt

At June 30, 2022, the School District had $44.3 million in bonds outstanding, of this amount $20.5 million is to be paid from the KSFCC funding provided by the State of Kentucky. A total of $2.8 million is due within one year. The District issued $4.2 million in energy conservation bonds during the fiscal year.

District Challenges for the Future

Hart County School District's financial status has improved in the last fiscal year. However, as we look forward, we expect the long-term effects of COVID-19 and the national economic climate to have an impact on our District.

The District is experiencing increased personnel costs associated with COVID-19; special needs programs that have not been funded through state or federal programs. In addition, retirement costs of TRS and CERS continue to increase.

Most costs associated with growth have, in the past, been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. As the average service time of employees continues to increase and shift toward a more experienced staff, however, costs will continue to increase. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

With careful planning and monitoring of our finances, Hart County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2022 – 2023 with a 5.9% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any question about this report or need additional information contact Chris Russell, Finance Director, 25 Quality Street, Munfordville, Kentucky 42765, (270) 524-2631.

BASIC FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

NOTES TO THE BASIC STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Hart County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Hart County School District. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

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

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

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

Government-wide Financial Statements

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

<u>Fund Financial Statements</u>

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

(C) The District Activity Fund is a Special Revenue Fund type and is used to account for funds received at the District level.

(D) The School Activity Fund is a Special Revenue Fund type and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

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

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a major fund of the District.
3. 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.

(E) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law. This is a major fund of the District.

Proprietary Funds

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

Fiduciary Funds

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

The Private Purpose Trust Fund is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments. Revenues consist of donations and investment income. Expenditures represent scholarships.

BASIS OF ACCOUNTING

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

Modified Accrual

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrual

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

Revenue Recognition

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

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

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

C. BUDGETARY POLICIES

Budgetary Process

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

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

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

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

D. ENCUMBRANCES

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. CASH AND CASH EQUIVALENTS

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

F. INVENTORIES

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

G. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period are allocated between or among accounting periods in the governmental funds. There were no prepaid items at June 30, 2022.

H. CAPITAL ASSETS

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

Description	Governmental Activities Estimated Lives
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. LONG-TERM DEBT

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

J. COMPENSATED ABSENCES

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

K. ACCOUNTING ESTIMATES

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

L. PENSION AND OPEB PLANS

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. NET POSITION

Net position is divided into three components:

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

N. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In June 2017, the GASB issued Statement 87, *Leases*. This statement is effective for periods beginning after December 15, 2019, but was delayed by eighteen months with the issuance of GASB 95. This adoption did not have an effect on the financial statements.

In June 2020, the GASB issued Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.* This adoption did not have an effect on the financial statements.

Recently Issued Accounting Pronouncements

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In May 2020, the GASB issued Statement 96, *Subscription-Based Information Technology Arrangements.* This statement is effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In October 2021, the GASB issued Statement 98, *The Annual Comprehensive Financial Report.* This statement is effective for periods beginning after December 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In October 2021, the GASB issued Statement 99, *Omnibus 2022.* This statement is effective for periods beginning after December 15, 2021. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2022, the GASB issued Statement 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62.* This statement is effective for periods beginning after June 15, 2023. Management is currently evaluating the impact of the adoption of this statement on the Board's financial statements.

In June 2022, the GASB issued Statement 101, *Compensated Absences.* This statement is effective for periods beginning after December 15, 2023. Management is currently evaluating the impact of the adoption of this statement on the Board's financial statements.

NOTE 2 – PROPERTY TAXES

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2022, to finance operations were $606 per $100 valuation for real property, $.606 per $100 valuation for business personal property and $.551 per $100 valuation for motor vehicles. The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2022, $10,661,086 of the District's bank balance of $10,911,086 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

Fund Financial Statements

From Fund	To Fund	Purpose	Amount
General	Special Revenue	Technology Match	$ 43,970
Nonmajor Governmental	Nonmajor Governmental	Operations	19,720
FSPK	Debt Service	Debt Payments	1,614,729
Food Service	General	Indirect Costs	119,291
			$ 1,797,710

Government-wide Financial Statements

From Fund	To Fund	Purpose	Amount
Food Service	General	Indirect Costs	$ 119,291
Govermental Activities	Food Service	Capital Assets	79,419

At June 30, 2022 the Special Revenue Fund owed the General Fund $401,017 for expenditures paid by the General Fund for the Special Revenue Fund and the Special Revenue Fund owed the Food Service Fund $79,419 for a freezer paid for by the Food Service Fund.

NOTE 5 – CAPITAL ASSETS

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

Governmental Activities	June 30, 2021	Additions	Deductions	June 30, 2022
Capital Assets Not Being Depreciated:				
Land	$ 948,795	$ -	$ -	$ 948,795
Construction in progress	2,375,631	1,255,550	(2,415,691)	1,215,490
Total Capital Assets Not Being Depreciated	3,324,426	1,255,550	(2,415,691)	2,164,285
Capital Assets Being Depreciated:				
Land improvements	152,449			152,449
Buildings and improvements	75,862,358	2,090,433		77,952,791
Technology equipment	3,376,239			3,376,239
Vehicles	4,392,733	366,046		4,758,779
General equipment	1,765,822	240,258		2,006,080
Total Capital Assets Being Depreciated at Historical Cost	85,549,601	2,696,737	-	88,246,338
Less Accumulated Depreciation For:				
Land improvements	30,489.00	7,622		38,111
Buildings and improvements	17,991,856	1,571,975		19,563,831
Technology equipment	2,897,210	146,592		3,043,802
Vehicles	3,725,807	89,282		3,815,089
General equipment	1,107,789	42,384		1,150,173
Total accumulated depreciation	25,753,151	1,857,855	-	27,611,006
Total Other Capital Assets, net	59,796,450	838,882	-	60,635,332
Governmental Activities Capital Assets - Net	$ 63,120,876	$ 2,094,432	$ (2,415,691)	$ 62,799,617

Function	Amount
Instruction	$ 1,682,694
Student support	104
Instructional staff	200
School administration	122
Business support	26,960
Plant	78,148
Transportation	69,627
	$ 1,857,855

NOTE 5 – CAPITAL ASSETS - CONTINUED

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

Business-Type Activities	June 30, 2021	Additions	Deductions	June 30, 2022
Capital Assets Being Depreciated:				
Buildings and improvements	$ 1,006,305	$ -	$ -	$ 1,006,305
Technology equipment	10,487			10,487
Vehicles	20,916			20,916
Food service equipment	482,789	79,419		562,208
Totals at historical cost	1,520,497	79,419	-	1,599,916
Less Accumulated Depreciation For:				
Buildings and improvements	566,535	15,706		582,241
Technology equipment	10,487			10,487
Vehicles	4,532	4,183		8,715
Food service equipment	483,245	838		484,083
Total accumulated depreciation	1,064,799	20,727	-	1,085,526
Business-Type Activities Capital Assets - Net	$ 455,698	$ 58,692	$ -	$ 514,390

NOTE 6 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for workers' compensation, errors and omissions and general liability coverage. The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – LONG-TERM LIABILITIES

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

	June 30, 2021	Additions	Reductions	June 30, 2022	Due Within 1 Year
Governmental Activities:					
Bonds and Financed Purchases Payable:					
Revenue bonds	$ 42,757,827	$ 4,180,000	$ (2,632,668)	$ 44,305,159	$ 2,798,816
Financed purchases	258,649		(258,649)	-	
	43,016,476	4,180,000	(2,891,317)	44,305,159	2,798,816
Less Discounts and Premiums	(438,988)		33,112	(405,876)	
Total Bonds and Financed Purchases Payable	42,577,488	4,180,000	(2,858,205)	43,899,283	2,798,816
Other Liabilities:					
Compensated absences	1,172,657	543,707	(157,053)	1,559,311	507,498
Total Other Liabilities	1,172,657	543,707	(157,053)	1,559,311	507,498
Total Governmental Activities Long-Term Liabilities	$ 43,750,145	$ 4,723,707	$ (3,015,258)	$ 45,458,594	$ 3,306,314

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences.

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

<u>Bond Liabilities</u>

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

Issue Date	Proceeds	Rate
2011R	$ 1,435,000	2.30% - 4.60%
2013R	2,540,000	2.00% - 2.35%
2014	360,644	2.00% - 3.25%
2015	3,335,000	2.00% - 3.125%
2016	2,870,000	2.00% - 3.625%
2017	30,060,000	2.00% - 3.50%
2020	2,130,000	2.00% - 2.75%
2021	1,450,000	1.00%
2022	4,180,000	3.50% - 3.75%

On May 26, 2022, the District issued $4,180,000 in Energy Conservation Revenue Bonds at an average interest rate of 3.76 percent. The net proceeds of $4,063,976 (after $116,024 in bond issuance costs) were deposited in Construction Fund.

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

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

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

Year	Principal	Interest	Participation	District's Portion
2023	$ 2,798,816	$ 1,315,753	$ 2,204,281	$ 1,910,288
2024	2,795,023	1,249,785	2,174,349	1,870,459
2025	2,876,320	1,180,485	2,174,324	1,882,481
2026	2,925,000	1,107,181	2,174,323	1,857,858
2027	2,405,000	1,031,836	1,568,699	1,868,137
2028-2032	12,895,000	4,147,407	7,750,465	9,291,942
2033-2037	15,275,000	2,010,469	7,560,948	9,724,521
2038-2042	2,335,000	240,456	-	2,575,456
	$ 44,305,159	$ 12,283,372	$ 25,607,389	$ 30,981,142

Financed Purchase Liabilities

The District had buses with an asset cost of $554,438 that were financed purchases. This was paid off during fiscal year 2022.

NOTE 8 – PENSION PLANS

Plan Descriptions

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

TRS

Benefits Provided

For Members Before July 1, 2008:

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

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

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

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

NOTE 8 – PENSION PLANS – CONTINUED

For Members On or After July 1, 2008:

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

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

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

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

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

<u>Contributions</u>

Contribution rates are established by Kentucky Revised Statutes. The State contributes 100 percent of school districts' contractually required contributions, which are actuarially determined. Employees are required to contribute 12.855 percent of their annual salary. The school districts' contractually required contribution rate for the year ended June 30, 2021, was 13.105 percent of salaries for members in the plan before July 1, 2008 and 14.105 percent of salaries for members who started their account after June 30, 2008. The District made no contributions to the pension plan for the year ended June 30, 2021. 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.

NOTE 8 – PENSION PLANS – CONTINUED

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

At June 30, 2022, the District reported no net pension liability because it did not have a proportionate share of the net pension liability. There was no amount recognized by the District as its proportionate share of the net pension liability. The related State share of the net pension liability was $41,185,326.

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 of June 30, 2020. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2021, the District's proportion was .3165 percent.

For the year ended June 30, 2022, the District recognized pension expense of negative $6,415,996 and revenue of negative $6,415,996 ($3,287,547 in the governmental funds and negative $9,703,543 in government-wide activities) for support provided by the State. At June 30, 2022, the District reported no deferred outflows of resources and no deferred inflows of resources related to TRS.

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 – 7.30 percent, including inflation
Investment rate of return	7.10 percent, net of pension plan investment expense, including inflation
Municipal Bond Index Rate	2.13%

Mortality rates were based on the Pub-2010 (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 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.

NOTE 8 – PENSION PLANS – CONTINUED

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	37.4%	4.2%
Small Cap U.S. Equity	2.6%	4.7%
Developed International Equity	16.5%	5.3%
Emerging Markets Equity	5.5%	5.4%
Fixed Income	15.0%	-0.1%
High Yield Bonds	2.0%	1.7%
Other	5.0%	2.2%
Real Estate	7.0%	4.0%
Private Equity	7.0%	6.9%
Cash	2.0%	-0.3%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed that Plan member contributions will be made at the current contribution rates and that Employer contributions will be made at the Actuarially Determined Contribution rates for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The District has no proportional share of the net pension liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 7.10 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
System's net pension liability (in thousands)	$ 18,389,990	$ 13,605,788	$ 9,631,759

NOTE 8 – PENSION PLANS – CONTINUED

Pension Plan Fiduciary Net Position

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

CERS

Benefits Provided

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

The Board of Trustees adopted new actuarial assumptions since June 30, 2018. These assumptions are documented in the report titled “Kentucky Retirement Systems 2018 Actuarial Experience Study for the Period Ending June 30, 2018”. The Total Pension liability as of June 30, 2020, was determined using these updated assumptions.

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

Contributions

For the fiscal year ended June 30, 2022, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts’ contractually required contribution rate for the year ended June 30, 2022, was 21.17 percent of annual creditable compensation. Contributions to the pension plan from the District were $732,102.

NOTE 8 – PENSION PLANS – CONTINUED

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

At June 30, 2022, the District reported a liability of $7,606,375 for its proportionate share of the net pension liability. 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 June 30, 2020. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2021, the District's proportion was 0.119301 percent, which was a decrease of .006056 percent from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the District recognized pension expense of $548,483. At June 30, 2022, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 87,345	$ 73,825
Changes in actuarial assumptions	102,086	
Difference between projected and actual investment earnings		1,013,802
Changes in proportion and differences between employer contributions and proportionate share of contributions	70,095	325,916
Contributions paid to CERS subsequent to the measurement date	732,102	
	$ 991,628	$ 1,413,543

The amount reported as deferred outflows for District contributions subsequent to the measurement date of $732,102 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 related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2023	$ (235,935)
2024	(363,521)
2025	(237,090)
2026	(317,471)
	$ (1,154,017)

NOTE 8 – PENSION PLANS – CONTINUED

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

Discount Rate

The projection of cash flows used to determine the discount rate of 6.25% for CERS Non-hazardous and CERS Hazardous assumes that the funds receive the required employer contributions each future year, as determined by the current funding policy established in Statute as last amended by House Bill 362 (passed in 2018). The discount rate determination does not use a municipal bond rate. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the Annual Comprehensive Financial Report (ACFR).

NOTE 8 – PENSION PLANS – CONTINUED

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

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

Description	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
District's proportionate share of the net pension liability	$ 9,755,536	$ 7,606,375	$ 5,827,994

Pension Plan Fiduciary Net Position

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS

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

TRS

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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

Medical Insurance Fund

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

<u>Benefits provided</u> – 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.

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

<u>OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs</u>

At June 30, 2022, the District reported a liability of $3,651,000 for its proportionate share of the collective net OPEB liability that reflected a reduction for state OPEB support provided to the District. The collective net OPEB liability was measured as of June 30, 2021, and the total OPEB liability used to calculate the collective net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2021, the District's proportion was .308306 percent which was an increase of .012523 percent from its proportion measured as of June 30, 2020.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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	$	3,651,000
State proportionate share of the net OPEB liability associated with the District		2,965,000
Total	$	6,616,000

For the year ended June 30, 2022, the District recognized OPEB expense of negative $275,000 and revenue of $245,255 for support provided by the Commonwealth. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 955,000	$ -
Differences between expected and actual economic experience		2,171,000
Difference between projected and actual investment earnings		389,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	169,000	546,000
Contributions paid to TRS subsequent to the measurement date	323,000	
	$ 1,447,000	$ 3,106,000

Of the total amount reported as deferred outflows of resources related to OPEB, $323,000 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	OPEB Expense Amount
2023	$ (503,000)
2024	(505,000)
2025	(471,000)
2026	(425,000)
2027	(107,000)
Thereafter	29,000
	$ (1,982,000)

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Actuarial assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.00 – 7.50%, including inflation
Inflation rate	2.50%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Healthcare cost trend rates	
Under 65	7.00% for FY 2021 decreasing to an ultimate rate of 4.50% by FY 2031
Ages 65 and Older	5.05% for FY 2022 decreasing to an ultimate rate of 4.50% by FY 2024
Medicare Part B Premiums	4.40% for FY 2021 with an ultimate rate of 4.50% by 2034
Municipal Bond Index Rate	2.13%
Discount Rate	7.10%
Single Equivalent Interest Rate	7.10%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the Pub-2010 (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 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 assumption was updated for the June 30, 2020 valuation and was shown as an assumption change in the TOL roll forward, while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	9.0%	-0.1%
Real Estate	6.5%	4.0%
Private Equity	8.5%	6.9%
High Yield	8.0%	1.7%
Other	9.0%	2.2%
Cash (LIBOR)	1.0%	-0.3%
	100.0%	

Discount rate - The discount rate used to measure the total OPEB liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

Description	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
District's proportionate share of the net OPEB liability	$ 4,674,000	$ 3,651,000	$ 2,805,000

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

Description	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 2,652,000	$ 3,651,000	$ 4,893,000

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Life Insurance Fund

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

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

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

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

At June 30, 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 was $0 and the Commonwealth's total portion of the net OPEB liability that was associated with the District was $39,000.

For the year ended June 30, 2022, the District recognized OPEB expense of $6,040 and revenue of $6,040 for support provided by the Commonwealth. At June 30, 2022, the District reported no deferred outflows of resources and deferred inflows of resources related to the OPEB.

Actuarial assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.10%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.00 – 7.50%, including inflation
Inflation rate	2.50%
Real Wage Growth	0.25%
Wage Inflation	2.75%
Municipal Bond Index Rate	2.13%
Discount Rate	7.10%
Single Equivalent Interest Rate	7.10%, net of OPEB plan investment expense, including inflation

Mortality rates were based on the Pub-2010 (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.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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 assumption was updated for the June 30, 2020 valuation and was shown as an assumption change in the TOL roll forward, while the change in initial per capita claims costs were included with experience in the TOL roll forward.

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Equity	40.0%	4.4%
International Equity	23.0%	5.6%
Fixed Income	18.0%	-0.1%
Real Estate	6.0%	4.0%
Private Equity	5.0%	6.9%
Other	6.0%	2.1%
Cash (LIBOR)	2.0%	-0.3%
	100%	

Discount rate - The discount rate used to measure the total OPEB liability for life insurance was 7.10%. The projection of cash flows used to determine the discount rate assumed that the employer contributions will be made at statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The District has no proportional share of the net OPEB liability. The following presents the sensitivity of the System's net pension liability calculated using the discount rate of 7.10 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

Description	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
System's net OPEB liability (in thousands)	$ 30,217	$ 13,078	$ (800)

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

CERS

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

Senate Bill 249 passed during the 2020 legislative session and changed the funding period for the amortization of the unfunded liability to 30 years as of June 30, 2019. Gains and losses incurring in future years will be amortized over separate 20-year amortization bases. This change does not impact the calculation of the Total Pension Liability and only impacts the calculation of the contribution rates that would be payable starting July 1, 2020. There were no other material plan provision changes.

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

Contributions – For the fiscal year ended June 30, 2022, plan members who began participating prior to September 1, 2008, were required to contribute 0% of their annual creditable compensation. Those members who began participating on, or after, September 1, 2008 and before January 1, 2014 were required to contribute 1% of their annual creditable compensation. Those members who began participating on, or after, January 1, 2014 were required to contribute 1% of their annual creditable compensation but their contribution is not credited to their account and is not refundable. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. The school districts' contractually required contribution rate for the year ended June 30, 2022, was 5.78 percent of annual creditable compensation. Contributions to the OPEB plan from the District were $193,651.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

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 $2,283,422 for its proportionate share of the net OPEB liability. 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. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2021, the District's proportion was 0.119273 percent, which was a decrease of .006276 percent from its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the District recognized OPEB expense of $259,056. At June 30, 2022, the District reported its proportionate share of the CERS deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 359,069	$ 681,756
Changes in actuarial assumptions	605,379	2,123
Difference between projected and actual investment earnings		357,209
Changes in proportion and differences between employer contributions and proportionate share of contributions	47,546	194,580
Contributions paid to CERS subsequent to the measurement date	193,651	
	$ 1,205,645	$ 1,235,668

Of the total amount reported as deferred outflows of resources related to OPEB, $193,651 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	OPEB Expense Amount
2023	$ 21,289
2024	(32,919)
2025	(46,215)
2026	(165,829)
	$ (223,674)

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Actuarial assumptions – The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	6.25%, net of OPEB plan investment expense, including inflation.
Projected salary increases	3.30% to 10.30%, varies by service
Inflation rate	2.30%
Real Wage Growth	2.00%
Healthcare Trend Rate:	
Pre-65	Initial trend starting at 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, then gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.
Municipal Bond Index Rate	1.92%
Discount Rate	5.20%

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

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

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by CERS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
US Equity	21.75%	5.70%
Non-US Equity	21.75%	6.35%
Private Equity	10.00%	9.70%
Specialty Credit/High Yield	15.00%	2.80%
Core Bonds	10.00%	0.00%
Cash	1.50%	-0.60%
Real Estate	10.00%	5.40%
Real Return	10.00%	4.55%
Total	100.00%	

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

Discount Rate

The projection of cash flows used to determine the discount rate of 5.20% assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 1.92%, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2021. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the ACFR.

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

The following table presents the District's proportionate share of the collective net OPEB liability of the System, calculated using the discount rate of 5.20%, as well as what the District's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.20%) or 1-percentage-point higher (6.20%) than the current rate:

Description	1% Decrease (4.20%)	Current Discount Rate (5.20%)	1% Increase (6.20%)
District's proportionate share of the net OPEB liability	$ 3,135,121	$ 2,283,422	$ 1,584,462

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

Description	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 1,643,792	$ 2,283,422	$ 3,055,465

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

NOTE 9 – OTHER POST-EMPLOYMENT BENEFIT PLANS – CONTINUED

DEFERRED COMPENSATION

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

NOTE 10 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2022, there were no nonspendable fund balances.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2022, the District had $69,519 restricted for grants in the Special Revenue Fund, $129,905 restricted for school activities in the District Activity Fund, $162,999 restricted for school activities in the School Activity Fund, $410,299 restricted for capital projects in the SEEK Capital Outlay Fund, $1,155,392 restricted for capital projects in the FSPK Fund, and $3,678,283 restricted for capital projects in the Construction Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitment at June 30, 2022 in the General Fund - $118,343 for site-based carryforward.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The District allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amounts assigned related to encumbrances at June 30, 2022, were $192,081 recorded in the General Fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. There were no amounts intended to be used for a specific purpose.

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

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

The District also has construction commitments for on-going projects at June 30, 2022.

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the basic financial statements as a result of the cases presently in progress. Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss.

NOTE 12 – DEFICIT OPERATING BALANCES

The Food Service Fund had a deficit net position at June 30, 2022 in the amount of $418,593. The deficit net position is a result of the recording of the net pension liability for CERS as part of GASB Statement 68 and the net OPEB liability for CERS as part of GASB Statement 75. The following fund had operations that resulted in a current year deficit of revenues over expenditures/expenses resulting in a corresponding reduction of fund balance/net position:

Fund	Amount
General Fund	$ 401,277

NOTE 13 – ON-BEHALF PAYMENTS

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amounts received and funds where these items were recorded for the fiscal year ended June 30, 2022 were as follows:

Description	Amount
Health	$ 2,887,908
Life	4,455
Admin	35,620
HRA	149,012
TRS Pension	3,287,547
TRS MIF	245,255
TRS LIFE	6,040
Technology	98,667
Debt Service	2,204,281
Less: Federal Reimbursement	(346,253)
Total on-behalf	$ 8,572,532

Recorded as follows:

General Fund	$ 6,230,188
Food Service Fund	138,063
Debt Service Fund	2,204,281
	$ 8,572,532

REQUIRED SUPPLEMENTARY INFORMATION

HART COUNTY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2022

CERS PENSION

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2022.

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

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

2015 and 2016 – No changes.

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

2018 – No changes.

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

2020 and 2021 – No changes.

CERS OPEB

Changes of benefit terms. There were no changes in benefit terms for 2018 to 2022.

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

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

2018 – No changes

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

2020 – The discount rate was changed from 5.68% to 5.34%.

2021 – The discount rate was changed from 5.34% to 5.20%. The municipal bond rate was changed from 2.45% to 1.92%.

TRS PENSION

Changes of benefit terms. There were no changes in benefit terms for 2015 through 2022.

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

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

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

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

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

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

2019 and 2020 – No changes

2021 – In the 2020 experience study, rates of withdrawal, retirement, disability, mortality, and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub-2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set forwards, set-backs, and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees, and actives. The assumed long-term investment rate of return was changed from 7.50 percent to 7.10 percent and the price inflation assumption was lowered from 3.00 percent to 2.50 percent. In addition, the calculation of the SEIR results in an assumption change from 7.50% to 7.10%

TRS OPEB

Changes of benefit terms.

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

LIF – No changes

2019, 2020, 2021 and 2022 – No changes for MIF or LIF

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

2017 – No changes for MIF or LIF

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

2019 – No changes for MIF or LIF

2020 – MIF updated the health care trend rates. No changes for the LIF

2021 – MIF and LIF – In the 2020 experience study, rates of withdrawal, retirement, disability, mortality, and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub-2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set forwards, set-backs, and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees, and actives.

The assumed long-term investment rate of return was changed from 8.00% for the MIF and .50% for the LIF to 7.10%. The price inflation assumption was lowered from 3.00% to 2.50%.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

HART COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of the Hart County School District under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Hart County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Hart County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – FOOD DISTRIBUTION

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

NOTE D – INDIRECT COST RATE

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HART COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

• Material weakness(es) identified?	___X__yes	______no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	______yes	___X__none reported
Noncompliance material to financial statements noted?	______yes	___X__no

Federal Awards:

Internal control over major programs:

• Material weakness(es) identified?	______yes	___X__no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	______yes	___X__none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	______yes	___X__no

Section I – Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
	DEPARTMENT OF EDUCATION
84.010	Title I Grants to Local Educational Agencies
84.425C/84.425D/84.425U	Education Stabilization Fund

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

Auditee qualified as low-risk auditee? _____yes __X__no

Section II – Financial Statement Findings

MATERIAL WEAKNESS

REFERENCE NUMBER 2022-001 ADJUSTMENTS

Criteria: The District's management is responsible for establishing and maintaining internal controls for the proper recording of all the District's accounting transactions.

Condition: As part of the audit we proposed material adjustments to the financial statements related to accounts payable.

Cause: The District did not identify items to be recorded.

Effect: The design of the internal controls identifying adjustments did not prevent material adjustments.

Recommendation: We recommend District management and financial personnel review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items.

Views of Responsible Officials: Management will review the procedures and processes involved in recording journal entries and enhance its internal control policies to ensure proper recording of these items by December 15, 2022.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

HART COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2022

FINDING 2021-001 – MATERIAL WEAKNESS – ADJUSTMENTS

Condition This finding was a material weakness stating that material adjustments were required to the financial statements.

Recommendation: The auditor recommended that the District review its procedures to ensure all adjustments are made to the financial statements.

Current Status: This finding was repeated as a material weakness as finding 2022-001 in the June 30, 2022 audit.

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

HCA

Heartland CPAs and Advisors PLLC

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Hart County School District
Munfordville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hart County School District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Hart County School District's basic financial statements, and have issued our report thereon dated November 3, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

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713 MCDOWELL BLVD. / BARDSTOWN, KY 40004 / PHONE 502-348-1433 / FAX 502-349-6365

Report on Compliance and Other Matters

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

We noted certain matters that we reported to management of Hart County School District in a separate letter dated November 3, 2022.

Hart County School District's Response to Findings

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

Purpose of this Report

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

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
November 3, 2022

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

HCA
Heartland CPAs and Advisors PLLC

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Hart County School District
Munfordville, Kentucky

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hart County School District's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hart County School District's major federal programs for the year ended June 30, 2022. Hart County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Hart County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

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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 Hart County School District's federal programs.

Auditor's 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 Hart County School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract 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 Hart County School District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Hart County School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Hart County School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Hart County School District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
November 3, 2022

MANAGEMENT LETTER AND COMMENTS

HCA

Heartland CPAs and Advisors PLLC

Kentucky State Committee for School District Audits
Members of the Board of Education of
Hart County School District
Munfordville, Kentucky

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated November 3, 2022, contains our report on the District's internal control. This letter does not affect our report dated November 3, 2022, on the financial statements of the Hart County School District.

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

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

Heartland CPAs and Advisors, PLLC

Heartland CPAs and Advisors, PLLC
Elizabethtown, Kentucky
November 3, 2022

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HART COUNTY SCHOOL DISTRICT

COMMENTS

June 30, 2022

UNCORRECTED PRIOR YEAR COMMENTS – NONE

CURRENT YEAR COMMENTS

MEMORIAL ELEMENTARY SCHOOL

CASH ADVANCE

We noted that check #4601, dated 2/23/22, in the amount of $2,255.49 was for a cash advance for a Beta Club convention from the Jr Beta Fund. The following was on file for this expense: a pre-numbered check and a Purchase Order Form (F-SA-7). There was no Advance Report (F-SA-9) or supporting documentation to reflect how the money was spent. Redbook states that cash advances be supported by the Advance Report (F-SA-9) and that the completed Form F-SA-9, related receipts, other support documents, and unused cash shall be returned by close of the next business day after the trip.

MANAGEMENT RESPONSE

This cash advance was used for a group of students to attend the National Beta Convention. Redbook procedures were followed to issue the cash advance to the sponsor. Upon return from the convention receipts for all purchases were turned in. I have made a note about completing the proper F-SA-9 form for any future cash advancements to ensure Redbook guidelines are followed.