

HARLAN COUNTY
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2023

Prepared by:

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Harlan County School District
Harlan, Kentucky

And the State Committee for School District Audits

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 Harlan County School District as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Harlan County School District's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

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

Auditor's Responsibilities for the Audit of 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 Harlan 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 Harlan 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedules of the District's Proportionate Share of the Net Pension and OPEB Liability and Schedule of Contributions for CERS and TRS and Medical and Life and Health Insurance Plans comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2023, on our consideration of the Harlan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harlan 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 Harlan County School District's internal control over financial reporting and compliance.

White & Associates, PSC

Richmond, Kentucky
November 15, 2023

**HARLAN COUNTY SCHOOL DISTRICT-HARLAN, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
Year ended June 30, 2023**

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

FINANCIAL HIGHLIGHTS

- The beginning fund balance for the district was \$10,796,641 of which \$8,135,720 was General Fund, \$2,660,921 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$13,248,918 of which \$10,236,031 was General Fund, \$3,012,887 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$7,851,509 for General Fund.
- The General Fund Revenue (excluding transfers) totaled \$37,217,017 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures (excluding transfers) total \$35,704,673.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-Wide Financial Statements - The district-wide financial statements are designed to provide readers with a broad overview of the Harlan County School District’s finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the Harlan County School District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The district-wide financial statements can be found on the table of contents in this report.

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in 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 plus deferred outflows exceeded liabilities and deferred inflows by approximately \$21.58 as of June 30, 2023. The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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.

2023 District-Wide Governmental Net position compared to 2022 as follows:

Table 1
Net Position
\$ (in Millions)

	Governmental Activities		Business-type Activities		Totals	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Current assets	\$ 11.45	\$ 14.02	\$ 1.61	\$ 2.09	\$ 13.06	\$ 16.11
Non-current assets	63.34	62.10	0.15	0.12	63.49	62.22
Total assets	<u>74.79</u>	<u>76.12</u>	<u>1.76</u>	<u>2.21</u>	<u>76.55</u>	<u>78.33</u>
Deferred outflows	7.40	12.53	0.22	0.36	7.62	12.89
Current liabilities	4.97	4.99	0.01	0.02	4.98	5.01
Non-current liabilities	52.05	54.32	0.84	1.01	52.89	55.33
Total liabilities	<u>57.02</u>	<u>59.31</u>	<u>0.85</u>	<u>1.03</u>	<u>57.87</u>	<u>60.34</u>
Deferred inflows	8.59	7.75	0.24	0.22	8.83	7.97
Net position:						
Invested in capital assets, net of debt	30.57	33.15	0.15	0.12	30.72	33.27
Restricted	23.99	3.01	0.75	1.21	24.74	4.22
Unrestricted (deficit)	(37.99)	(14.58)	-	-	(37.99)	(14.58)
Total net position	<u>\$ 16.57</u>	<u>\$ 21.58</u>	<u>\$ 0.90</u>	<u>\$ 1.33</u>	<u>\$ 17.47</u>	<u>\$ 22.91</u>

GOVERNMENTAL ACTIVITIES

Ending net position was \$22.91 million for the District.

Table 2
Changes in Net Position
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2022-2023
	2022	2023	2022	2023	2022	2023	
Revenues:							
Charges for services	\$ 0.89	\$ 1.25	\$ 0.44	\$ 0.60	\$ 1.33	\$ 1.85	39%
Operating grants and contributions	24.41	24.33	3.39	3.97	27.80	28.30	2%
Capital grants and contributions	3.63	5.94	-	-	3.63	5.94	64%
General revenues	26.91	27.77	(0.20)	(0.16)	26.71	27.61	3%
Total revenue	\$ 55.84	\$ 59.29	\$ 3.63	\$ 4.41	\$ 59.47	\$ 63.70	7%
Expenses:							
Instruction	\$ 29.06	\$ 31.73	\$ -	\$ -	\$ 29.06	\$ 31.73	9%
Student	2.32	2.60	-	-	2.32	2.60	12%
Instructional staff	1.41	1.50	-	-	1.41	1.50	6%
District administration	1.18	1.40	-	-	1.18	1.40	19%
School administration	2.23	2.43	-	-	2.23	2.43	9%
Business	0.94	0.96	-	-	0.94	0.96	2%
Plant operation & maintenance	4.37	5.64	-	-	4.37	5.64	29%
Student transportation	3.06	3.22	-	-	3.06	3.22	5%
Community services operations	0.63	0.64	-	-	0.63	0.64	2%
Food Service Operations	0.24	0.26	3.07	3.95	3.31	4.21	27%
Depreciation/Amortization	2.71	2.86	0.04	0.03	2.75	2.89	5%
Non-instructional	0.51	0.32	-	-	0.51	0.32	37%
Interest on long-term debt	1.10	0.72	-	-	1.10	0.72	-35%
Total Expenses	\$ 49.76	\$ 54.28	\$ 3.11	\$ 3.98	\$ 52.87	\$ 58.26	10%
Change in net position	\$ 6.08	\$ 5.01	\$ 0.51	\$ 0.43	\$ 6.59	\$ 5.44	-17%

CAPITAL ASSETS

After depreciation, at the end of fiscal 2023, the District had \$62.22 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$ 1.27 million from the prior year, mainly due to the start of new construction projects throughout the district and purchase of vehicles.

**Capital Assets at Year-End
\$ (Net of Depreciation)**

	Governmental Activities		Business-type Activities		Totals	
	2022	2023	2022	2023	2022	2023
Land	\$ 2,026,472	\$ 2,026,472	\$ -	\$ -	\$ 2,026,472	\$ 2,026,472
Land Improvements	122,923	81,832	-	-	122,923	81,832
Buildings	47,913,545	46,124,286	-	-	47,913,545	46,124,286
Technology Equipment	211,389	144,059	-	-	211,389	144,059
Vehicles	4,775,840	4,241,459	7,393	-	4,783,233	4,241,459
General Equipment	748,106	662,242	145,321	122,419	893,427	784,661
Construction in Progress	7,073,574	8,537,697	-	-	7,073,574	8,537,697
Finance Purchases	276,712	206,209	-	-	276,712	206,209
Right-of-Use Asset	191,249	70,879	-	-	191,249	70,879
Totals	\$ 63,339,809	\$ 62,095,135	\$ 152,714	\$ 122,419	\$ 63,492,524	\$ 62,217,554

DEBT

Finance purchases and general obligation debt decreased \$3.93 million from FY 2022.

**Table 4
Outstanding Debt at Year-End**

	Government Activities	
	2022	2023
General Obligation Bonds	\$ 32,051,984	\$ 28,474,127
Finance Purchase Obligation	592,313	421,124
Leased Liabilities	121,443	51,145
Workers compensation liability	973,261	863,321
Total Obligations	\$ 33,739,001	\$ 29,809,717

THE DISTRICT'S FUNDS

As the District completed the year, the General Fund reflected a fund balance of \$8,135,720, which is more than last year's fund balance of \$7,234,009. The unassigned portion of the fund balance at the end of fiscal year 2022 is \$7,294,424 compared to \$5,973,819 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2022:

*Note This chart does not include beginning balances.

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	\$ 5,803,384	\$ 119,960	\$ -	\$ 855,452	\$ -	\$ -	\$ 657,340
State Revenue Sources	31,207,847	2,433,379	339,837	1,298,648	-	2,134,004	566,244
Federal Revenue Sources	131,495	13,474,508	-	-	-	-	3,403,970
Other	74,291	-	-	-	-	-	-
Transfers	838,552	5,000	-	-	1,263,314	2,169,911	-
TOTALS	\$ 38,055,569	\$16,032,847	\$ 339,837	\$ 2,154,100	\$ 1,263,314	\$ 4,303,915	\$ 4,627,554
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	\$ 20,241,974	\$10,698,297	\$ -	\$ -	\$ -	\$ -	\$ -
Student Support Services	1,562,524	1,039,546	-	-	-	-	-
Instructional Staff Support Services	678,313	820,650	-	-	-	-	-
District Admin Support	1,392,661	-	-	-	-	-	-
School Admin Support	2,431,381	-	-	-	-	-	-
Business Support Services	802,341	157,623	-	-	-	-	-
Plant Operation & Management	5,339,002	301,913	-	-	-	-	-
Student Transportation	3,132,514	263,746	-	-	-	-	-
Food Service Operations	-	256,535	-	-	-	-	3,953,233
Depreciation	-	-	-	-	-	-	30,295
Community Services	-	639,347	-	-	-	-	-
Building Improvements	-	-	-	-	1,464,122	-	-
Debt Service	123,963	-	-	-	-	4,303,915	-
Other	-	-	-	-	-	-	-
Transfers	250,585	1,855,190	339,837	1,614,255	-	-	216,910
TOTALS	\$ 35,955,258	\$16,032,847	\$ 339,837	\$ 1,614,255	\$ 1,464,122	\$ 4,303,915	\$ 4,200,438
Excess / (Deficit)	2,100,311	-	-	539,845	(200,808)	-	427,116

Comments on Budget Comparisons

- The District's total general fund balance for the fiscal year ended June 30, 2023, is \$10,236,031, which is more than last year's fund balance of \$8,135,720.
- The District's total revenue, including "On-behalf" payments for general fund fiscal year ending June 30, 2022 was \$37,142,726, net of other financing sources, transfers and uses. Transfers into general fund were \$838,552.
- The total cost of all general fund programs and services was \$35.96 million including transfers and "on-behalf" payments.

BUDGETARY IMPLICATIONS

By policy, the budget must have a minimum 2% contingency. The District had budgeted a general fund contingency of \$5,978,917 as of June 30, 2023. This is larger than the minimum required due to anticipated changes in SEEK funding as COVID funding is exhausted and schools will begin to rely on actual yearly ADA for future funding.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the "shared" KTRS and employer contribution rates for CERS, initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, reduced property tax collections, reduced unmined mineral tax collections and additional anticipated reductions in funding continues to press the district's ability to continue programs.
- Continued insufficient funding of the state transportation formula
- Continued maintenance on nine district school buildings
- COVID-19 issues and expenses

Questions regarding this report should be directed to the Finance Officer, Jody Gilliam or Superintendent, Brent Roark at (606) 573-4330 or by mail at Harlan County Board of Education, 251 Ball Park Road, Harlan, Kentucky 40831.

Harlan County School District
Statement of Net Position
June 30, 2023

Primary Government

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 9,738,293	\$ 1,572,066	\$ 11,310,359
Investments	2,761,290	250,000	3,011,290
Receivables (net)	1,520,751		1,520,751
Inventories		267,350	267,350
Capital assets:			
Land and construction in progress	10,564,170		10,564,170
Other capital assets, net of depreciation	51,253,877	122,419	51,376,296
Net finance purchases	206,209		206,209
Net intangible right-to-use assets	70,879		70,879
Total capital assets	<u>62,095,135</u>	<u>122,419</u>	<u>62,217,554</u>
Total assets	<u>76,115,469</u>	<u>2,211,835</u>	<u>78,327,304</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	4,808,244	236,360	5,044,604
Deferred outflows related to OPEB CERS	2,473,221	121,577	2,594,798
Deferred outflows related to OPEB TRS	4,309,335		4,309,335
Deferred savings from refunding bonds	938,412		938,412
Total deferred outflows of resources	<u>12,529,212</u>	<u>357,937</u>	<u>12,887,149</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>88,644,681</u>	<u>2,569,772</u>	<u>91,214,453</u>
LIABILITIES			
Accounts payable and accrued expenses	346,940	18,974	365,914
Accrued interest payable	324,378		324,378
Payroll taxes payable	301,200		301,200
Accrued salaries and benefit payable	123,276		123,276
Long-term liabilities:			
Due within 1 year:			
Bond obligations	3,645,000		3,645,000
Finance purchase obligations	200,909		200,909
Leased liabilities	33,510		33,510
Total due within 1 year	<u>3,879,419</u>	<u>-</u>	<u>3,879,419</u>
Due in more than 1 year:			
Bond obligations	24,829,127		24,829,127
Finance purchase obligations	220,215		220,215
Leased liabilities	17,635		17,635
Net pension liability	16,134,477	793,126	16,927,603
Net OPEB liability CERS	4,403,925	216,485	4,620,410
Net OPEB liability TRS	7,485,000		7,485,000
Workers compensation liability	863,321		863,321
Sick leave	384,291		384,291
Total due in more than 1 year	<u>54,337,991</u>	<u>1,009,611</u>	<u>55,347,602</u>
Total liabilities	<u>59,313,204</u>	<u>1,028,585</u>	<u>60,341,789</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	2,047,847	100,666	2,148,513
Deferred inflows related to OPEB CERS	2,352,295	115,632	2,467,927
Deferred inflows related to OPEB TRS	3,350,000		3,350,000
Total deferred inflows of resources	<u>7,750,142</u>	<u>216,298</u>	<u>7,966,440</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>67,063,346</u>	<u>1,244,883</u>	<u>68,308,229</u>
NET POSITION			
Net investment in capital assets	33,148,739	122,419	33,271,158
Restricted for:			
Capital projects	2,614,817		2,614,817
District activities	9,005		9,005
School activities	389,065		389,065
Food services		1,202,470	1,202,470
Unrestricted (deficit)	<u>(14,580,291)</u>		<u>(14,580,291)</u>
Total net position	<u>21,581,335</u>	<u>1,324,889</u>	<u>22,906,224</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 88,644,681</u>	<u>\$ 2,569,772</u>	<u>\$ 91,214,453</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Activities
For the year ended June 30, 2023

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT:							
Governmental activities:							
Instruction	\$ 31,731,145	\$ -	\$ 15,830,929	\$ -	\$ (15,900,216)	\$ -	\$ (15,900,216)
Support services							
Student	2,602,070	1,218,494	1,166,581		(216,995)		(216,995)
Instructional staff	1,498,963		672,027		(826,936)		(826,936)
District administration	1,392,661		624,369		(768,292)		(768,292)
School administration	2,431,381		1,090,056		(1,341,325)		(1,341,325)
Business	959,964		430,379		(529,585)		(529,585)
Plant operation & maintenance	5,640,915		2,528,980	1,638,485	(1,473,450)		(1,473,450)
Student transportation	3,218,230		1,442,823		(1,775,407)		(1,775,407)
Community services operations	639,346		286,637		(352,709)		(352,709)
Food service operations	256,535	26,904	115,012		(114,619)		(114,619)
Non-instructional	315,173		141,301		(173,872)		(173,872)
Interest on general long-term debt	719,367			4,303,915	3,584,548		3,584,548
Depreciation*	2,860,529				(2,860,529)		(2,860,529)
Total governmental activities	<u>54,266,279</u>	<u>1,245,398</u>	<u>24,329,093</u>	<u>5,942,400</u>	<u>(22,749,388)</u>		<u>(22,749,388)</u>
Business-type activities:							
Food service operations	3,953,233	602,248	3,970,214			619,229	619,229
Depreciation	30,295					(30,295)	(30,295)
Total business-type activities	<u>3,983,528</u>	<u>602,248</u>	<u>3,970,214</u>	<u>-</u>	<u>-</u>	<u>588,934</u>	<u>588,934</u>
Total primary government	\$ <u>58,249,807</u>	\$ <u>1,847,646</u>	\$ <u>28,299,307</u>	\$ <u>5,942,400</u>	<u>(22,749,388)</u>	<u>588,934</u>	<u>(22,160,454)</u>
General revenues:							
Taxes:							
Property taxes					3,829,357		3,829,357
Motor vehicle taxes					854,220		854,220
Utility taxes					1,463,252		1,463,252
State and formula grants					20,748,225		20,748,225
Unrestricted investment earnings					389,949	55,092	445,041
Other local revenue					263,397		263,397
Transfers					216,910	(216,910)	-
Total general revenues and transfers					<u>27,765,310</u>	<u>(161,818)</u>	<u>27,603,492</u>
Change in net position					5,015,922	427,116	5,443,038
Net position - beginning					16,572,183	897,773	17,469,956
Prior period adjustment					(6,770)		(6,770)
Restated net position - beginning					<u>16,565,413</u>	<u>897,773</u>	<u>17,463,186</u>
Net position - ending					\$ <u>21,581,335</u>	\$ <u>1,324,889</u>	\$ <u>22,906,224</u>

*Unallocated depreciation that excludes depreciation which is included in the direct expenses of various programs, if any.

See the accompanying notes to the financial statements.

Harlan County School District
Balance Sheet - Governmental Funds
June 30, 2023

	Governmental Funds					
	General	Special Revenue	FSPK	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and cash equivalents	\$ 7,851,509	\$ -	\$ 1,274,247	\$ -	\$ 612,537	\$ 9,738,293
Investments	1,608,999		1,152,291			2,761,290
Receivables						
Interfund receivable	827,416					827,416
Taxes	570,874					570,874
Accounts	4,240				3,351	7,591
Intergovernmental - federal		942,286				942,286
Total assets	<u>10,863,038</u>	<u>942,286</u>	<u>2,426,538</u>	<u>-</u>	<u>615,888</u>	<u>14,847,750</u>
LIABILITIES						
Accounts payable	202,531	114,870			29,539	346,940
Accrued salaries & benefits payable	123,276					123,276
Payroll taxes payable	301,200					301,200
Interfund payable		827,416				827,416
Total liabilities	<u>627,007</u>	<u>942,286</u>	<u>-</u>	<u>-</u>	<u>29,539</u>	<u>1,598,832</u>
FUND BALANCE						
Restricted			2,426,538		586,349	3,012,887
Committed	692,146					692,146
Assigned	340,732					340,732
Unassigned	9,203,153					9,203,153
Total fund balance	<u>10,236,031</u>	<u>-</u>	<u>2,426,538</u>	<u>-</u>	<u>586,349</u>	<u>13,248,918</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 10,863,038</u>	<u>\$ 942,286</u>	<u>\$ 2,426,538</u>	<u>\$ -</u>	<u>\$ 615,888</u>	<u>\$ 14,847,750</u>

See the accompanying notes to the financial statements.

Harlan County School District
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position
June 30, 2023

Fund balances-total governmental funds	\$	13,248,918
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.		62,095,135
Costs associated with bond issues and refundings are expensed in the fund financial statements because they are a use of current financial resources but are capitalized on the statement of net position using the economic resources focus		938,412
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, accrued interest payable, other accounts payable, and net pension obligations) are not due and payable in the current period and, therefore, are not reported in the funds		
Accrued interest payable		(324,378)
Bonds payable		(28,474,127)
Finance purchase obligations		(421,124)
Subscriptions payable		(51,145)
Self insurance payable		(863,321)
Sick leave liability		(384,291)
Net pension liability		(16,134,477)
Net OPEB liability		(11,888,925)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds		
Deferred outflows of resources related to pensions		4,808,244
Deferred outflows of resources related to OPEB		6,782,556
Deferred inflows of resources related to pensions		(2,047,847)
Deferred inflows of resources related to OPEB		(5,702,295)
		(11,888,925)
Net position of governmental activities	\$	<u>21,581,335</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the year ended June 30, 2023

	<u>General</u>	<u>Special Revenue</u>	<u>FSPK</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
From local sources						
Taxes						
Property	\$ 2,973,905	\$ -	\$ 855,452	\$ -	\$ -	\$ 3,829,357
Motor vehicle	854,220					854,220
Utilities	1,463,252					1,463,252
Earnings on investments	377,350	7,728			4,871	389,949
Other local revenue	134,657	112,232			16,508	263,397
Food service					26,904	26,904
Student activities					1,218,494	1,218,494
Intergovernmental - state	31,207,847	2,433,379	1,298,648	2,134,004	339,837	37,413,715
Intergovernmental - federal	131,495	13,474,508				13,606,003
Total revenues	<u>37,142,726</u>	<u>16,027,847</u>	<u>2,154,100</u>	<u>2,134,004</u>	<u>1,606,614</u>	<u>59,065,291</u>
EXPENDITURES						
Instruction	20,241,974	10,698,297			938,675	31,878,946
Support services						
Student	1,562,524	1,039,546				2,602,070
Instructional staff	678,313	820,650				1,498,963
District administration	1,392,661					1,392,661
School administration	2,431,381					2,431,381
Business	802,341	157,623				959,964
Other non-instruction					315,173	315,173
Plant operation & maintenance	5,339,002	301,913				5,640,915
Student transportation	3,132,514	263,746				3,396,260
Food service operation		256,535				256,535
Community services operations		639,347				639,347
Building improvements					1,464,122	1,464,122
Debt service	123,963			4,303,915		4,427,878
Total expenditures	<u>35,704,673</u>	<u>14,177,657</u>	<u>-</u>	<u>4,303,915</u>	<u>2,717,970</u>	<u>56,904,215</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,438,053	1,850,190	2,154,100	(2,169,911)	(1,111,356)	2,161,076
OTHER FINANCING SOURCES (USES)						
Loan proceeds	74,291					74,291
Operating transfers in	838,552	5,000		2,169,911	1,263,314	4,276,777
Operating transfers (out)	(250,585)	(1,855,190)	(1,614,255)		(339,837)	(4,059,867)
Total other financing sources and (uses)	<u>662,258</u>	<u>(1,850,190)</u>	<u>(1,614,255)</u>	<u>2,169,911</u>	<u>923,477</u>	<u>291,201</u>
NET CHANGE IN FUND BALANCE	2,100,311	-	539,845	-	(187,879)	2,452,277
FUND BALANCE-BEGINNING	<u>8,135,720</u>	<u>-</u>	<u>1,886,693</u>	<u>-</u>	<u>774,228</u>	<u>10,796,641</u>
FUND BALANCE-ENDING	<u>\$ 10,236,031</u>	<u>\$ -</u>	<u>\$ 2,426,538</u>	<u>\$ -</u>	<u>\$ 586,349</u>	<u>\$ 13,248,918</u>

See the accompanying notes to the financial statements.

Harlan County School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2023

Net change in fund balances-total governmental funds	\$	2,452,277
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report district pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
District pension contributions less costs of benefits earned net employee contributions		6,860
Governmental funds report district OPEB contributions as expenditures. However in the Statement of Activities, the cost of OPEB benefits earned net of employee contributions is reported as pension expense.		
District OPEB contributions less costs of benefits earned net employee contributions		92,438
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.		
		(1,244,674)
The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue.		
		(213,861)
The premium/discount on the sale of bonds is reported as revenue/expense by current financial resources but is unearned, therefore it is deferred and amortized over the life of the bond on the statement of net position.		
		17,857
Bond and finance purchase payments/proceeds are recognized as expenditures/revenues of current financial resources in the fund financial statement but are reductions/additions of liabilities in the statement of net position.		
		3,801,487
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Accrued interest payable		28,737
Self insurance payable		116,710
Noncurrent sick leave payable		(41,909)
		28,737
		116,710
		(41,909)
Change in net position of governmental activities	\$	5,015,922

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the year ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources				
Taxes				
Property	\$ 2,632,000	\$ 2,632,000	\$ 2,973,905	\$ 341,905
Motor vehicle	700,000	700,000	854,220	154,220
Utilities	1,300,000	1,300,000	1,463,252	163,252
Earnings on investments	4,000	4,000	377,350	373,350
Other local revenue			134,657	134,657
Intergovernmental - state	29,254,225	29,255,125	31,207,847	1,952,722
Intergovernmental - federal	50,000	50,000	131,495	81,495
Total revenues	<u>33,940,225</u>	<u>33,941,125</u>	<u>37,142,726</u>	<u>3,201,601</u>
EXPENDITURES				
Instruction	19,980,174	19,986,174	20,241,974	(255,800)
Support services				
Student	1,535,179	1,535,179	1,562,524	(27,345)
Instructional staff	788,090	788,090	678,313	109,777
District administration	1,469,087	1,469,087	1,392,661	76,426
School administration	2,223,727	2,223,727	2,431,381	(207,654)
Business	680,228	680,228	802,341	(122,113)
Plant operation & maintenance	4,725,804	4,725,804	5,339,002	(613,198)
Student transportation	3,877,630	3,877,630	3,132,514	745,116
Debt service	130,000	130,000	123,963	6,037
Total expenditures	<u>35,409,919</u>	<u>35,415,919</u>	<u>35,704,673</u>	<u>(288,754)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	(1,469,694)	(1,474,794)	1,438,053	2,912,847
OTHER FINANCING SOURCES (USES)				
Loan proceeds			74,291	74,291
Operating transfers in	205,000	205,000	838,552	633,552
Operating transfers (out)	<u>(215,819)</u>	<u>(215,819)</u>	<u>(250,585)</u>	<u>(34,766)</u>
Total other financing sources and (uses)	<u>(10,819)</u>	<u>(10,819)</u>	<u>662,258</u>	<u>673,077</u>
NET CHANGE IN FUND BALANCE	(1,480,513)	(1,485,613)	2,100,311	3,585,924
FUND BALANCE-BEGINNING	<u>7,684,468</u>	<u>7,464,529</u>	<u>8,135,720</u>	<u>671,191</u>
FUND BALANCE-ENDING	<u>\$ 6,203,955</u>	<u>\$ 5,978,916</u>	<u>\$ 10,236,031</u>	<u>\$ 4,257,115</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Special Revenue Fund
For the year ended June 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
From local sources				
Other local revenue	\$ -	\$ -	\$ 112,232	\$ 112,232
Earnings from investments			7,728	7,728
Intergovernmental - state	2,443,838	2,496,623	2,433,379	(63,244)
Intergovernmental - federal	6,482,764	6,253,241	13,474,508	7,221,267
Total revenues	<u>8,926,602</u>	<u>8,749,864</u>	<u>16,027,847</u>	<u>7,277,983</u>
EXPENDITURES				
Instruction	7,381,631	7,214,220	10,698,297	(3,484,077)
Support services				
Student	185,071	184,504	1,039,546	(855,042)
Instructional staff	518,201	509,441	820,650	(311,209)
Business			157,623	(157,623)
Student transportation	67,785	67,785	301,913	(234,128)
Food service operation			263,746	(263,746)
Community services operations	651,553	651,553	256,535	395,018
Plant operations & maintenance	122,361	122,361	639,347	(516,986)
Total expenditures	<u>8,926,602</u>	<u>8,749,864</u>	<u>14,177,657</u>	<u>(5,427,793)</u>
EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES	-	-	1,850,190	1,850,190
OTHER FINANCING SOURCES (USES)				
Operating transfers in			5,000	5,000
Operating transfers out			(1,855,190)	(1,855,190)
Total other financing sources and (uses)	<u>-</u>	<u>-</u>	<u>(1,850,190)</u>	<u>(1,850,190)</u>
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE-BEGINNING	-	-	-	-
FUND BALANCE-ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Net Position Proprietary Fund
June 30, 2023

	<u>School Food Services</u>
ASSETS	
Cash and cash equivalents	\$ 1,572,066
Investments	250,000
Inventories	267,350
Capital assets:	
Other capital assets, net of depreciation	122,419
Total assets	<u>2,211,835</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	236,360
Deferred outflows related to OPEB	121,577
Total deferred outflows of resources	<u>357,937</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2,569,772</u>
LIABILITIES	
Accounts payable	18,974
Net pension liability	793,126
Net OPEB liability	216,485
Total liabilities	<u>1,028,585</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	100,666
Deferred inflows related to OPEB	115,632
Total deferred inflows of resources	<u>216,298</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>1,244,883</u>
NET POSITION	
Net Investment in capital assets	122,419
Restricted	1,202,470
Total net position	<u>1,324,889</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,569,772</u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the year ended June 30, 2023

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
OPERATING REVENUES		
Lunchroom sales	\$	567,063
Other revenue from local sources		35,185
Total operating revenues		<u>602,248</u>
OPERATING EXPENSES		
Depreciation		30,295
Food service operations		
Employee services		2,077,997
Operational expenses		1,875,236
Total operating expenses		<u>3,983,528</u>
Operating income (loss)		<u>(3,381,280)</u>
NONOPERATING REVENUES (EXPENSES)		
Federal grants		3,403,970
State grants		566,244
Transfers in (out)		(216,910)
Earnings from investments		55,092
Total nonoperating revenues (expenses)		<u>3,808,396</u>
CHANGE IN NET POSITION		427,116
NET POSITION-BEGINNING		<u>897,773</u>
NET POSITION-ENDING	\$	<u><u>1,324,889</u></u>

See the accompanying notes to the financial statements.

Harlan County School District
Statement of Cash Flows Proprietary Fund
For the year ended June 30, 2023

	Enterprise Fund
	School Food Services
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 602,248
Payments to suppliers	(1,933,260)
Payments to employees	(2,077,997)
Net cash provided (used) by operating activities	(3,409,009)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(216,910)
Operating grants and contributions	3,970,214
Net cash provided (used) by noncapital financing activities	3,753,304
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	55,092
Net cash provided (used) by investing activities	55,092
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	399,387
CASH AND CASH EQUIVALENTS-BEGINNING	1,172,679
CASH AND CASH EQUIVALENTS-ENDING	\$ 1,572,066
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (3,381,280)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	30,295
Changes in assets and liabilities:	
Inventory	(83,441)
Outflow Deferrals	(136,263)
Inflow Deferrals	(22,256)
Pension liability	151,204
OPEB liability	23,132
Payables	9,600
Net cash provided (used) by operating activities	\$ (3,409,009)

NONCASH NONCAPITAL FINANCING ACTIVITIES

During the year, the district received \$123,341 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$547,444 provided by state government.

See the accompanying notes to the financial statements.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2023

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

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

Blended Component Unit

The Board authorized establishment of the Harlan County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Harlan County Board of Education.

Basis of Presentation

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

The District has the following funds:

I. Governmental Fund Types

(A) General Fund

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 always a major fund of the District.

(B) Special Revenue (Grant) Fund

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(C) Special Revenue (District Activity) Fund

The Special Revenue (District Activity) Fund accounts for funds collected at individual schools for operation costs of the schools or school district that allows for more flexibility in the expenditures of those funds.

(D) Special Revenue (Student Activity) Fund

Special Revenue (Student Activity) Fund accounts for activities of student groups and other types of activities requiring clearing accounts.

(E) Capital Project Funds

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

SEEK Capital Outlay Fund

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 as identified in the District's facility plan.

Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

(F) Debt Service Fund

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

II. Proprietary Funds (Enterprise Funds)

Food Service Fund

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

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

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

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

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

Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Investments

Investments are reported at fair value which is determined using selected bases. Short-term investments are stated at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying value, which reasonably estimates fair value.

Inventories

Inventory consists of food purchased by the District and commodities granted by the United States Department of Agriculture (USDA). The commodities are recognized as revenues and expenditures by the Food Service Fund when consumed. Any material commodities on hand at year end are recorded as inventory. All purchased inventory items are valued at the lower of cost or market (first-in, first-out) using the consumption method and commodities assigned values are based on information provided by the USDA.

Prepaid Assets

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

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 government funds. These assets are reported in the government activities column of the government-wide financial statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

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

Land and construction in progress are not depreciated. The other property, plant and equipment of the district are depreciated using the straight-line method over the following estimated useful lives:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

Accrued Liabilities and Long-Term Obligations

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

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

Accumulated Unpaid Sick Leave Benefits

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

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

Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose; unassigned amounts are reported only in the General Fund unless a fund has a deficit.

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted, committed, and assigned resources first, then unassigned resources as they are needed.

Net Position

The Statement of Net Position presents the reporting entity’s non-fiduciary assets and liabilities, the difference between the two being reported as Net Position. Net Position are reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District’s policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing.

The property tax rates assessed for the year ended June 30, 2023, to finance the General Fund operations were \$.548 per \$100 valuation of real property, \$.548 per \$100 valuation for business personal property and \$.464 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.

Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In-Kind

Local contributions, which include contributed services provided by individuals, private organizations and local governments, are used to match federal and state administered funding on various grants. The amounts of such services and donated commodities are recorded in the accompanying financial statements at their estimated fair market values.

Contributions of Capital

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

Interfund Receivables/Payables

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

Interfund Transfers

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position includes a section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the appropriate period. The District reports three types of deferred outflows – contributions to the CERS’s pension and OPEB plans after the measurement period and the unrecognized portion of a deferred loss on the refinancing of long-term debt.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until the appropriate period. The District reports two types of deferred inflows related to the net difference projected and actual earnings on pension and OPEB plan investments.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System Non-Hazardous (“CERS”) and Teachers Retirement System of the State of Kentucky (“TRS”) and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the pensions. For this purpose, benefit payments (including refunds of

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Postemployment Benefits (OPEB)

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

Bond and Related Premiums, Discounts, and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

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

Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end. The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The District's General Fund expenditures and Special Revenue Fund Expenditures exceeded budgeted appropriations by \$288,754 and \$5,427,793, respectively.

New Accounting Pronouncements

GASB Statement No. 96-In May, 2020, the GASB issued Statement No. 96, *Subscription-based information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government and users (governments). The Statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB Statement No. 99-In April, 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The Statement is effective on various dates, but no later than reporting periods beginning after June 15, 2023.

GASB Statement No. 94-In March, 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022.

There is no effect on current year financial statements for newly adopted accounting pronouncements.

Effective in Future Years:

The District is currently evaluating the potential impact of the following issued, but not yet effective, accounting standards:

GASB Statement No. 101- In June, 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The Statement is effective for reporting periods beginning after December 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100- In June, 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections—An Amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Statement is effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States; bonds or certificates of indebtedness of Kentucky and its agencies and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

instrumentalities; savings and loan associations insured by an agency of the United States up to the amount insured; and national or state banks chartered in Kentucky and insured by an agency of the United States providing such banks pledge as security obligations, as permitted by KRS 41.240(4), having a current quoted market value at least equal to uninsured deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At year end the District's bank balances were collateralized by securities held by the pledging bank's trust department in the District's name and FDIC insurance. At year end, the carrying amount of the District's cash and cash equivalents was \$11,310,359. The bank balance for the same time was \$13,136,767.

Due to the nature of the accounts and certain limitations imposed on the use of funds, each bank account within the following funds is considered to be restricted: SEEK Capital Outlay Fund, Facility Support Program (FSPK/Building) Fund, Special Revenue (Grant) Fund, Debt Service Fund, School Construction Fund, School Food Service Fund, and School Activity Fund.

Investments
June 30, 2023

Investments	Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	10 or More
Certificate of Deposits	N/R	\$ 98,953	\$ 98,953	\$ -	\$ -
Certificate of Deposit	N/R	99,415	99,415	-	-
Certificate of Deposit	N/R	247,920	247,920	-	-
Certificate of Deposit	N/R	240,933	240,933	-	-
Certificate of Deposit	N/R	243,660	-	243,660	-
Federal Home Ln Mtg Corp Debt	Aaa	2,080,393	-	2,080,393	-
Total		3,011,274	\$ 687,221	\$ 2,324,053	\$ -
Money Market Funds		16			
Total Investments		\$ 3,011,290			

Risks and Uncertainties – the District invest in various investment securities. Investment securities are exposed to various risks, such as interest rate, credit and market risks. Due to the level or risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the account balances and the amounts reported in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interest Rate Risk – the District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value loss arising from increasing interest rates.

Credit Risk – Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts for future delivery of purchase obligations backed by the full fair and credit of the United States or its agencies, obligations of any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories by nationally recognized rating agencies and securities in mutual funds shall be eligible investments pursuant to this section. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District’s investments are in Market Linked Certificate of Deposits, 13%, Federal Natl Mtg Assn Medium Term NTS, 30%, and Federal Home Ln Mtg Corp Debt, 57%.

Custodial Credit Risk – the District’s certificate of deposit investments are 100% FDIC insured and the balance of the investments are secured as US Government Bonds.

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

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in market that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources.

Investments by Fair Value Level:	Fair Value	Level 1
Certificates of Deposit	\$ 930,881	\$ 930,881
U.S. Bonds	<u>2,080,393</u>	<u>2,080,393</u>
Total Investments by Fair Value Level	<u>3,011,274</u>	<u>3,011,274</u>
Money Market Funds	<u>16</u>	<u>16</u>
Total Investments	<u>\$ 3,011,290</u>	<u>\$ 3,011,290</u>

NOTE C – CAPITAL ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Governmental Activities</u>	<u>July 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2023</u>
Land	\$ 2,026,472	\$ -	\$ -	\$ 2,026,472
Land improvements	1,301,811	-	-	1,301,811
Buildings	79,536,297	-	-	79,536,297
Technology equipment	4,387,840	-	-	4,387,840
Vehicles	12,942,081	178,030	-	13,120,111
General equipment	1,468,837	-	-	1,468,837
Construction in progress	7,073,574	1,464,123	-	8,537,697
Total at historical cost	<u>\$ 108,736,912</u>	<u>\$ 1,642,152</u>	<u>\$ -</u>	<u>\$ 110,379,065</u>
Less: Accumulated depreciation				
Land improvements	\$ 1,178,888	\$ 41,090	\$ -	\$ 1,219,979
Buildings	31,622,751	1,789,259	-	33,412,010
Technology equipment	4,176,452	67,329	-	4,243,781
Vehicles	8,166,241	712,411	-	8,878,652
General equipment	720,732	85,864	-	806,595
Total accumulated depreciation	<u>\$ 45,865,064</u>	<u>\$ 2,695,954</u>	<u>\$ -</u>	<u>\$ 48,561,018</u>
Finance Purchases				
General equipment	\$ 398,466	\$ 62,598	\$ -	\$ 461,064
Less: Accumulated depreciation	<u>(121,754)</u>	<u>(133,101)</u>	<u>-</u>	<u>(254,855)</u>
Finance Purchases-net	<u>\$ 276,712</u>	<u>\$ (70,503)</u>	<u>\$ -</u>	<u>\$ 206,209</u>
Right-of-Use Asset				
Leased equipment	\$ 366,002	\$ 11,693	\$ 100,589	\$ 277,106
Less: Accumulated amortization	<u>(174,753)</u>	<u>(31,474)</u>	<u>-</u>	<u>(206,227)</u>
Right-of-Use Asset-net	<u>\$ 191,249</u>	<u>\$ (19,781)</u>	<u>\$ 100,589</u>	<u>\$ 70,879</u>
Governmental Activities				
Capital Assets-net	<u>\$ 63,339,809</u>	<u>\$ (1,144,085)</u>	<u>\$ 100,589</u>	<u>\$ 62,095,135</u>
<u>Business-Type Activities</u>	<u>July 1, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2023</u>
Technology equipment	\$ 77,540	\$ -	\$ -	\$ 77,540
Vehicles	110,896	-	-	110,896
General equipment	1,030,543	-	10,794	1,019,749
Total at historical cost	<u>\$ 1,218,979</u>	<u>\$ -</u>	<u>\$ 10,794</u>	<u>\$ 1,208,185</u>
Less: Accumulated depreciation				
Technology equipment	77,540	-	-	77,540
Vehicles	103,503	7,393	-	110,896
General equipment	885,222	22,902	10,794	897,329
Total accumulated depreciation	<u>\$ 1,066,265</u>	<u>\$ 30,295</u>	<u>\$ 10,794</u>	<u>\$ 1,085,766</u>
Business-Type Activities				
Capital Assets-net	<u>\$ 152,714</u>	<u>\$ (30,295)</u>	<u>\$ -</u>	<u>\$ 122,419</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

NOTE D – LONG TERM DEBT OBLIGATIONS

Bonds

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Harlan County School District Finance Corporation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The bonds payable are collateralized by education facilities constructed by the District with bond proceeds. Bondholders are protected against default by a mechanism whereby the Commonwealth of Kentucky would withhold state SEEK payments and remit required debt service payments directly to the debt service paying agent. All bonds are subject to federal arbitrage regulations.

The original amount of outstanding issues, the issue dates, interest rates, maturity dates, and outstanding balances, at June 30, 2023, are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2022 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2023 Outstanding Balance</u>
2012R	2,990,000	6/1/2024	.90 - 2.0%	\$ 630,000	\$ -	\$ 310,000	\$ 320,000
2015R	26,635,000	8/1/2026	2.0 - 3.0%	13,105,000	-	2,440,000	10,665,000
2016R	4,225,000	8/1/2030	2-2.5%	3,285,000	-	190,000	3,095,000
2012B R	1,955,000	12/1/2024	1.0 - 2.125%	545,000	-	210,000	335,000
2012 Second Series	1,145,000	8/1/2032	1.0 - 3.0%	685,000	-	55,000	630,000
2019	3,920,000	5/1/2029	3.0-3.125%	3,665,000	-	105,000	3,560,000
2020	6,080,000	2/1/2040	2-2.375%	5,665,000	-	205,000	5,460,000
2020R	2,135,000	6/1/2031	1.7-1.8%	2,070,000	-	25,000	2,045,000
2021R	2,440,000	4/1/2033	1.75-2.05%	2,405,000	-	20,000	2,385,000
				<u>\$ 32,055,000</u>	<u>\$ -</u>	<u>\$ 3,560,000</u>	<u>\$ 28,495,000</u>
Add:	Premium			135,216	-	27,242	107,974
Less:	Discount			(138,232)	-	(9,385)	(128,847)
Totals				<u>\$ 32,051,984</u>	<u>\$ -</u>	<u>\$ 3,577,857</u>	<u>\$ 28,474,127</u>

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2023, for debt service, (principal and interest) are as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Fiscal Year Ended 30-Jun	Principal		Interest		Total	
	Local	SFCC	Local	SFCC	Principal	Interest
2024	\$ 1,746,941	\$ 1,898,059	\$ 433,387	\$ 236,043	\$ 3,645,000	\$ 669,430
2025	1,797,924	1,587,076	388,471	190,997	3,385,000	579,468
2026	1,880,654	1,639,346	334,699	146,772	3,520,000	481,471
2027	1,930,486	1,384,514	278,468	105,681	3,315,000	384,149
2028	1,488,797	456,203	242,301	82,244	1,945,000	324,545
2029-2033	6,334,339	1,540,661	764,442	300,780	7,875,000	1,065,223
2034-2038	2,294,562	1,265,438	291,899	151,208	3,560,000	443,106
2039-2040	700,175	549,825	23,427	19,648	1,250,000	43,075
	<u>\$ 18,173,878</u>	<u>\$ 10,321,122</u>	<u>\$ 2,757,095</u>	<u>\$ 1,233,372</u>	<u>\$ 28,495,000</u>	<u>\$ 3,990,467</u>

Finance Purchases

The following is an analysis of the financed property under finance purchases by class:

Finance Purchases	Original Amount	Maturity Dates	Interest Rates	2022			2023 Outstanding Balance
				Outstanding Balance	Additions	Retirements	
2013 Kista	433,036	3/1/2023	2.0%	\$ 39,171	\$ -	\$ 39,171	\$ -
2018 Kista	465,306	3/1/2028	2-3%	277,415	-	45,770	231,645
Food Service-HP E87740z	16,768	4/1/2028	2%	-	16,768	560	16,208
Evarts-Kyocera 004i,7003i,308ci,liiuci	45,830	5/30/2026	2%	-	45,830	11,800	34,030
Rosspoint Modular	398,466	6/18/2024	2%	275,727	-	136,486	139,241
Totals				<u>\$ 592,313</u>	<u>\$ 62,598</u>	<u>\$ 233,787</u>	<u>\$ 421,124</u>

The following is a schedule by years of the future minimum payments under finance purchases together with the present value of the net minimum payments as of June 30, 2023:

Fiscal Year Ended 30-Jun	Principal Local	Interest Local	Total Payments
2024	\$ 200,909	\$ 9,438	\$ 210,347
2025	63,195	6,218	69,413
2026	65,042	4,467	69,509
2027	45,628	2,664	48,292
2028	46,350	1,330	47,680
	<u>\$ 421,124</u>	<u>\$ 24,117</u>	<u>\$ 445,241</u>

Total minimum payments	\$ 445,241
Less: Amount representing interest	(24,117)
Present Value of Net Minimum Payments	\$ <u>421,124</u>

In order to secure the payment of all of the Board's obligations under a KISTA Lease, the Board grants to KISTA a security interest constituting a first lien on the Equipment and on all additions, attachments, accessories, and substitutions thereto, and on all proceeds therefrom. In the Event of Default, title to the Equipment shall immediately vest in KISTA, and the Board will immediately surrender possession of the Equipment to KISTA or to KISTA's order; by the execution of this Lease the Board agrees upon demand

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

by KISTA or the Second Trustee, and without order of court, to execute a bill of sale or such other instrument as may be required in favor of KISTA or the Second Trustee in order to permit liquidation of the equipment in an Event of Default by the Board.

Intangible Right-of-Use Assets

The following is an analysis of the operating leases under right-of-use assets by class as of June 30, 2023:

<u>Operating Leases (ROU)</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2022 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2023 Outstanding Balance</u>
Dpp copier-Xerox C8145H2	7,887	11/1/2025	2%-3%	\$ 5,336	\$ -	\$ 1,564	\$ 3,772
Cawood copiers-Kyocera 5002, 5003, 5004	26,566	9/14/2023	2%-3%	6,706	-	6,706	-
Cumberland-kyocera 7003i, 4003i, M4125idn	77,291	9/6/2024	2%-3%	36,139	-	17,890	18,249
Evarts-Kyocera 7002, 5003, 4003, 307ci	49,409	9/27/2023	2%-3%	12,597	-	12,597	-
High School-Kyocera 7003i, 5003i,3253ci, 3212i, M3645	74,221	8/28/2023	2%-3%	24,737	-	24,737	-
Jaces-4 Konica Minolta 458e Copier	37,065	3/5/2025	2%-3%	20,194	-	7,447	12,747
Tech Dept-xerox c8045H	7,991	8/22/2024	2%-3%	3,421	-	1,624	1,797
Title 1-Estudio 5008A	12,298	3/25/2023	2%-3%	1,631	-	1,631	-
Wallins-kyocera 5002i, 4052ci	23,769	3/22/2024	2%-3%	4,847	-	4,847	-
Finance copiers-2 xerox B7025	11,047	2/5/2025	2%-3%	5,835	-	2,223	3,612
Title 1-e-studio 4528A	11,693	5/15/2028	0	-	11,693	725	10,968
Totals				\$ 121,443	\$ 11,693	\$ 81,991	\$ 51,145

The following is a schedule by years of the future minimum payments under operating leases together with the present value of the net minimum payments as of June 30, 2023:

<u>Fiscal Year Ended 30-Jun</u>	<u>Principal Local</u>	<u>Interest Local</u>	<u>Total Payments</u>
2024	\$ 33,510	\$ 881	\$ 34,391
2025	10,450	229	10,679
2026	2,781	110	2,891
2027	2,276	64	2,340
2028	2,128	212	2,340
	\$ 51,145	\$ 1,496	\$ 52,641

Accumulated Sick Leave

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. The activity during the fiscal year 2023 for accumulated sick leave is as follows:

	<u>2022 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2023 Outstanding Balance</u>
Sick Leave	\$ 342,382	\$ 41,909	\$ -	\$ 384,291

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Workers Compensation Liability

The District participates in a self-insurance plan for worker’s compensation. The District provides coverage up to the retention factor of \$450,000 per occurrence. Claims in excess of that amount are covered 100% by an outside insurer for workers’ compensation claims. The activity during fiscal year 2023 for workers compensation liability is as follows:

	<u>2022 Outstanding Balance</u>	<u>Claims & Changes In Estimates Additions</u>	<u>Claims Payments Retirements</u>	<u>2023 Outstanding Balance</u>
Workers Compensation Liability	\$ 980,031	\$ 149,225	\$ 265,935	\$ 863,321

Net Pension & OPEB Liability

The net pension liability is \$16,134,477 for governmental activities and \$793,126 for business-type activities for a total of \$16,927,603 as of June 30, 2023. (See Note E for additional information) The net OPEB liability is \$11,888,925 for governmental activities and \$216,485 for business-type activities for a total of \$12,105,410 as of June 30, 2023. (See Note F for additional information)

A summary of activity in bond obligations and other debts is as follows:

<u>Description</u>	<u>2022 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2023 Outstanding Balance</u>	<u>Amount Due in One Year</u>
Bonds, Net of Premium and Discount	\$ 32,051,984	\$ -	\$ 3,577,857	\$ 28,474,127	\$ 3,645,000
Finance Purchases	592,313	62,598	233,787	421,124	200,909
Right-of-Use Asset	121,443	11,693	81,991	51,145	33,510
Sick Leave	342,382	41,909	-	384,291	-
Workers Compensation Liability	980,031	149,225	265,935	863,321	-
Net Pension Liability	13,769,144	3,158,459	-	16,927,603	-
Net OPEB Liability	9,004,388	3,101,022	-	12,105,410	-
Totals	\$ <u>56,861,685</u>	\$ <u>6,524,906</u>	\$ <u>4,159,570</u>	\$ <u>59,227,021</u>	\$ <u>3,879,419</u>

NOTE E – RETIREMENT PLANS

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

Teachers Retirement System Kentucky (TRS)

Retirement Annuity Trust

Plan description

Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers’ Retirement System of the State of Kentucky—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 <http://www.trs.ky.gov/financial-reports-information>.

Benefits provisions

For Members before July 1, 2008: Members become vested when they complete five years of credited service. To qualify for monthly benefits, payable for life, members must either:

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

Non-university members receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002, will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than 10 years. New members after July 1, 2002, who retire with 10 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 10 years. In addition, non-university members who retire July 1, 2004, and later with more than 30 years of service will have a multiplier for all years over 30 of 3%.

The final average salary is the member's five highest annual salaries except members at least age 55 with 27 or more years of service may use their three 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.

For Members On or After July 1, 2008: Members become vested when they complete five years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1. Attain age 60 and complete 5 years of Kentucky service, or
2. Complete 27 years of Kentucky service, or
3. Attain age 55 and complete 10 years of Kentucky service.

The annual retirement allowance for non-university members is equal to : (a) 1.7% of final average salary for each year of credited service if their service is 10 years or less; (b) 2% 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) 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) 2.5% of final average salary for each year of credited service if their service

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

is greater than 26 years but no more than 30 years; (e) 3% of final average salary for years of credited service greater than 30 years.

The final average salary is the member's five highest annual salaries except members at least age 55 with 27 or more years of service may use their three 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.

For Members on and after January 1, 2022:

Condition for Retirement Attainment of age 57 and 10 years of service or attainment of age 65
And 5 years of service.

Amount of Allowance
Foundational Benefit The annual foundational benefit for members is equal to service
Times a multiplier times final average salary.

Age	Years of Service			
	5-9.99	10-19.99	20-29.99	30 or More
57-60	- %	1.70 %	1.95 %	2.20 %
61	- %	1.74 %	1.99 %	2.24 %
62	- %	1.78 %	2.03 %	2.28 %
63	- %	1.82 %	2.07 %	2.32 %
64	- %	1.86 %	2.11 %	2.36 %
65 and over	1.90 %	1.90 %	2.15 %	2.40 %

The annual foundational benefit is reduced by 6% per year from the Earlier of age 60 on the date the member would have completed 30 Years of service.

Supplemental Benefit The annual supplemental benefit is equal to the account balance
Which includes member and employer contributions and interest
Credited annually on June 30. Options include annuitizing the
balance or receiving the balance as a lump sum either at the time of
retirement or at a later date.

Disability Retirement Allowance
Condition for Allowance Totally and permanently incapable of being employed as a teacher
and under age 60 but after completing 5 years of service

Amount of Allowance The disability allowance is equal to the greater of the service
Retirement allowance or 60% of the member's final average salary.
The disability allowance is payable over an entitlement period equal

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

to 25% of the service credited to the member at the date of the disability or 5 years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The Service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than \$6,000 per year. The service retirement allowance will not be reduced for Commencement of the allowance before age 60 or the completion of 27 years of service.

Benefits Payable on Separation
From Service

Any member who ceases to be in service is entitled to receive his Contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

Life Insurance

A separate Life Insurance fund has been created as June 30, 2000 to pay benefits on behalf of deceased TRS active and retired members.

Death Benefits

A surviving spouse of an active member with less than 10 years of Service may elect to receive an annual allowance of \$2,880 except that if income from other sources exceeds \$6,600 per year the annual allowance will be \$2,160.

A surviving spouse of an active member with 10 or more years of Service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement.

The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

If the deceased member is survived by unmarried children under age 18

The following schedule of annual allowances applies:

Number of Children	Annual Allowance
1	\$ 2,400
2	\$ 4,080
3	\$ 4,800
4 or more	\$ 5,280

The allowances are payable until a child attains age 18, or age 23 if A full-time student.

If the member has no eligible survivor, a refund of his accumulated

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Options	<p>Contributions is payable to his estate.</p> <p>In lieu of the regular Option 1, a retirement allowance payable in the Form of a life annuity with refundable balance, any member before Retirement may elect to receive a reduced allowance which is Actuarially equivalent to the full allowance, in one of the following forms:</p> <p>Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.</p> <p>Option 3. At the death of the member his allowance is continued Throughout the life of the beneficiary.</p> <p>Option 3(a). At the death of the beneficiary designated by the member</p> <p>Under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.</p> <p>Option 4. At the death of the member one half of his allowance is Continued throughout the life of the beneficiary.</p> <p>Option 4(a). At the death of the beneficiary designated by the member</p> <p>Under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.</p>
Post-Retirement Adjustments beneficiary	<p>The retirement allowance of each retired member and of each beneficiary</p> <p>Shall be increased by 1.5% each July 1.</p>
Member Contributions	
Members before 1/1/2022	9.105% of salary to the Retirement System.
Members on and after 1/1/2022	9% of salary to the Retirement System and an additional 2% of salary to the supplemental benefit account. Employers also contributes 2%.

Contributions

Contribution rates are established by Kentucky Revised Statutes (KRS). Employees are required to contribute 12.855% of their salaries to the system effective July 1, 2015. The state, as a non-employer contributing entity, pays matching contributions in the amount of 13.105% of salaries for local school district employees hired before July 1, 2008 and 14.105% for those who joined thereafter. Contributions for local school district employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

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

At June 30, 2023 the District did not report a liability for the District's proportionate share of the net pension liability, pension expense, and deferred inflows and outflows of resources because the

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The net pension liability that was associated with the District follows.

TRS

State's proportionate share of the TRS net pension liability associated with the District	\$ 70,363,724
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The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2022, the District's proportion was 0.4153%.

Actuarial Methods and Assumptions

A summary of the actuarial assumptions of the latest actuarial valuation follows.

Valuation Date	June 30, 2021
Prior Measurement Date	June 30, 2021
Measurement Date	June 30, 2022
Reporting Date	June 30, 2023
Actuarial Cost Method	Entry age
Inflation Rate	2.5%
Single Equivalent Interest Rate Prior	7.10%
Single Equivalent Interest Rate at Measurement Date	7.10%
Municipal Bond Index Rate Prior	2.13%
Municipal Bond Index Rate at Measurement Date	3.37%
Projected Salary Increase	3.0-7.5%, including inflation
Long-Term Expected Rate of Return	7.10

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Target Allocations

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.

A summary of the target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS’s investment consultant, follows.

Asset Class	Target Allocation	Long-Term Expected Rates of Return
Large Cap US Equity	37.4 %	4.2 %
Small Cap Equity	2.6 %	4.7 %
Developed International Equity	16.5 %	5.3 %
Emerging Markets Equity	5.5 %	54.4 %
Fixed Income	15.0 %	-0.1 %
High Yield Bonds	2.0 %	1.7 %
Other Additional Categories	5.0 %	2.2 %
Real Estate	7.0 %	4.0 %
Private Equity	7.0 %	6.9 %
Cash	2.0 %	-0.3 %
Total	<u>100 %</u>	

Discount Rate

The discount rate used to measure the total pension liability as of the Measurement Date 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 the Actuarially Determined Contribution (ADC) rates for all future fiscal years. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the net pension liability of the Commonwealth associated with the District, calculated using the discount rate of 7.10%, as well as what the Commonwealth’s net pension 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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

TRS	1% Decrease	Current Discount Rate	1% Increase
	6.10%	7.10%	8.10%
State's proportionate share of net pension liability	\$ 72,462,552	\$ 70,363,724	\$ 37,952,268

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued TRS financial report which is publically available at <http://www.TRS.ky.gov/>.

County Employees Retirement System

Non-Hazardous

Plan description

Substantially all full-time classified employees of the District participate in the County Employees Retirement System (“CERS”). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly and overseen by the Kentucky Public Pensions Authority (KPPA). The plan covers substantially all regular full-time members employed in non-hazardous duty positions of the school board. The plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601, or by calling (502) 564-4646 or at <https://kyret.ky.gov>.

Benefits provided

Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions

Funding for CERS:

Tier I plan is provided by members, who contribute 5.00% of their creditable compensation.

Tier II plan members hired after September 1, 2008 contribute 6.00% of their creditable compensation. Further, 1% of these contributions are deposited to an account created for the payment of health insurance benefits.

Tier III plan members, who began participating on or after January 1, 2014, are required to contribute to the Cash Balance Plan. That plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Employee contributions to the plan are the same as the Tier II contributions. Tier III member accounts are also credited with an employer pay credit in the amount of 4% of the member’s creditable compensation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ending June 30, 2023, employers were required to contribute 26.95% of the member’s salary, 22.78% pension and 4.17% for insurance. The District contributed \$1,950,313 to the CERS pension plan. The contribution requirements of CERS are established and may be amended by the CERS Board of Trustees.

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

At June 30, 2023, the District reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022 on an actuarial valuation as of that date. The District’s proportion of the net pension liability, \$16,927,603 was based on contributions to CERS during the fiscal year ended June 30, 2022. The District’s proportion was 0.234162%.

Deferred Inflows and Outflows of Resources, and Pension Expense included in the Schedule of Pension Amounts include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedule of Pension Amounts does not include deferred outflow/inflows of resources for changes in the employer’s proportionate share of contribution or employer contributions made subsequent to the measurement date. The net pension liability as of June 30, 2023, is based on the June 30, 2022, actuarial valuation rolled forward. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are amortized over a closed five-year period.

The District recognized pension revenue of \$3,757 and reported deferred outflows of resources and deferred inflows of resources related to pensions as follows.

CERS	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 18,098	\$ 150,748
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	2,303,340	1,869,377
Changes in proportion and differences between District contributions and proportionate share of contributions	885,581	128,389
District contributions subsequent to the measurement date	<u>1,837,585</u>	<u>-</u>
	<u>\$ 5,044,604</u>	<u>\$ 2,148,514</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The \$1,837,585 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions are amortized over the average service life of all members. These will be recognized in pension expense as follows:

	<u>Year Ended June 30,</u>
Year 1	\$ 310,670
Year 2	409,207
Year 3	(142,250)
Year 4	<u>480,878</u>
	<u>\$ 1,058,505</u>

Actuarial Valuation

KPPA’s actuary, Gabriel, Roeder, Smith & Co., completed the actuarial valuation for the calculation of the employer contribution rates for CERS and the Insurance Fund for the period ended June 30, 2022.

Summary of Actuarial Assumptions

The results of the actuarial valuation are based upon the assumptions and funding policies adopted by the Board and statutory funding requirements. Assumptions and funding policies are reviewed against actual plan experience every 5 years. In general, the assumptions and methods, used in the June 30, 2022 valuation are based on the most recent actuarial experience study for the five year period ending June 30, 2018.

1. Actuarial Cost Method-prepared using the entry age normal cost (EANC) method as required by state statute.
2. UAAL Amortization Method-the actuarial liability contribution is calculated by amortizing the unfunded accrued liability as of June 30, 2019 over a closed 30-year amortization.
3. Asset Valuation Method- recognizes a portion of the difference between the market value of assets and he expected market value of assets.
4. Retiree Insurance Funding Policy-calculated by amortizing the unfunded accrued liability as of June 30, 2019, over a closed 20-year amortization bases.
5. Investment Return Assumption-the future investment earnings of plan assets are assumed t accumulate at a rate of 6.25% per annum.
6. Salary Increase Assumptions-member’s salaries are assumed to increase, price inflation component is 2.3%, and productivity component is 1%.
7. Health Care Cost Trend Rate-medical premiums are assumed to increase in 2024 at 6.2% for Non-Medicare Plans, and 9% for Medicare Plans.
8. Payroll Growth Assumption-the amortization cost to finance the unfunded actuarial accrued liability, the active member payroll is assumed to increase at a rate of 0%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Retiree Cost of Living Adjustments (COLA)-SB2 only allows the Cost of Living Adjustments to be awarded on a biennial basis.
10. Retirement Rate Assumptions-retirement ages for Males to retire range from 35%, Females 27%, under 45 years of age to 30% for Males age 70, Females 27%.
11. Mortality Assumptions-refer to the tables included in the KPPA’s 2022 Annual Report.
12. Withdrawal Rates- the probability, or likelihood, of active member’s terminating employment range from 20% with 1 year of service to 1.35% for 25 years of service.
13. Rates of Disablement-disability benefits to active members range from .04% probability near age 20 to 1.02% near age 60.
14. Assumption Changes since Prior Valuation-in conjunction with the review of the healthcare per capita claims cost, the assumed increase in future healthcare costs, or trend assumption, is reviewed on an annual basis. The trend assumption for the Medicare Plans was increased during the select period as a result of this review.

Discount rate

A single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2022. This single discount rate was based on the expected rate of return on pension plan investments.

Sensitivity of the District’s proportionate share of 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%, 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%) or 1-percentage-point higher (7.25%) than the current rate:

CERS	1% Decrease	Current Discount Rate	1% Increase
	5.25%	6.25%	7.25%
District's proportionate share of net pension liability	\$ 21,157,403	\$ 16,927,603	\$ 13,429,207

The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below for CERS Pension and Insurance Funds:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity		
Public Equity	50 %	4.45 %
Private Equity	10 %	10.15 %
Fixed Income		
Core Fixed Income	10 %	0.28 %
Specialty Credit	10 %	2.28 %
Cash	0 %	-0.91 %
Inflation Protected		
Real Estate	7 %	3.67 %
Real Return	13 %	4.07 %

Pension plan fiduciary net position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

Payables to the pension plan

At June 30, 2023, there are no payables to CERS.

NOTE F – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

The District’s employees participate in retirement systems of either TRS or CERS as described earlier. The following describes the other postemployment benefits for both systems.

TRS – General Information about the OPEB Plans

Health Insurance Trust (Medical Insurance Fund)

Plan description

In addition to the retirement annuity plan as described earlier, KRS 161.675 requires TRS to provide postemployment healthcare benefits to eligible members and dependents. The TRS Health Insurance Trust is funded by employer and member contributions. Changes made to the medical plans provided through the trust may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

Medical coverage through TRS is funded by a combination of contributions from employees, the state and other employers. Coverage is provided through an account established pursuant to 26 U.S.C. sec. 401(h) and 115 trust fund that went into effect on July 1, 2010. The insurance trust fund includes employer and retired member contributions required under KRS 161.550 and KRS 161.675(4) (b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Benefits provided

To be eligible for medical benefits, the member must have retired either for service or disability and a required amount of service credit. The TRS medical plan offers members who are not eligible for Medicare and under age 65 coverage through the Kentucky Employees Health Plan (KEHP) administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are eligible for Medicare, coverage is obtained through the TRS Medicare Eligible Health Plan (MEHP) administered by TRS.

Contributions

Contributions are made on behalf of TRS retired members toward payment of health insurance premiums. The amount of the member's contribution is based on a table approved by the TRS board. Retired members pay premiums in excess of the monthly contribution. The Commonwealth of Kentucky bears risk for excess claims expenses that exceed the premium equivalents charged for the KEHP. The member postemployment medical contribution is 3.75% of salary. The employer postemployment medical contribution is 0.75% of member salaries. Also, employers contribute 3% of members' salaries and the state contributes the net cost of health insurance premiums for new retirees after June 30, 2010, in the non-Medicare eligible group.

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

The District reported a liability of \$7,485,000 for its proportionate share of the collective net OPEB liability (NOL). The collective net OPEB liability was valued as of June 30, 2021, and the total OPEB liability used to calculate 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 employers, actuarially determined. The District's proportion was .301525%.

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 as follows:

MIF		
District's proportionate share of TRS net OPEB liability	\$	7,485,000
State's proportionate share of the TRS net OPEB liability associated with the District		<u>2,459,000</u>
	\$	<u>9,944,000</u>

The District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

MIF	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,147,000
Changes of assumptions	1,520,000	-
Net difference between projected and actual earnings on pension plan investments	398,000	-
Changes in proportion and differences between District contributions and proportionate share of contributions	1,993,000	203,000
District contributions subsequent to the measurement date	398,335	-
	<u>\$ 4,309,335</u>	<u>\$ 3,350,000</u>

The \$398,335 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows:

	Year Ended June 30,
Year 1	\$ (200,000)
Year 2	(133,000)
Year 3	(57,000)
Year 4	435,000
Year 5	361,000
Thereafter	<u>155,000</u>
	<u>\$ 561,000</u>

Actuarial Methods and Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation follows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Valuation Date	June 30, 2021
Asset Valuation Method	Market Value of Assets
Price Inflation	2.5%
Payroll Growth	2.5% per annum
Salary Increase	2.75 per annum
Discount Rate	7.10%
Health Care Cost Trends	
Medicare Part B	6.97% at June 30, 2022, decreasing to an ultimate rate of 4.55% by June 30, 2034 and beyond.
Under Age 65	7% at June 30, 2020, decreasing to an ultimate rate of 4.5% by June 30, 2034 and beyond.
Age 65 and Older	5.125% at June 30, 2022 with an ultimate rate of 4.5% by June 30, 2034 and beyond.

Mortality rates were based on the Teachers Mortality Table, and set forward two years for males and multiplied by 102%. Rates for females are set forward 2 years and multiplied by 101%. Disabled male members are set forward 1 year and multiplied by 96%. Rates for female members are set back 2 years and multiplied by 94%.

Target Allocations

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

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

Asset Class	Target Allocation Percentage	30 Year Expected Geometric Real Rate of Return
Global Equity	58.00	5.10
Fixed Income	9.00	(0.10)
Real Estate	6.50	4.00
Private Equity	8.50	6.90
Additional Categories	17.00	2.20
Cash	1.00	(0.30)
Total	100.00	

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Discount Rate

The discount rate used to measure the TOL as of the measurement date was 7.10%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection's basis was an actuarial valuation performed as of June 30, 2021. In addition to actuarial methods and assumptions were used in the projection of cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 2.75%.
- The pre-65 retiree health care costs for members retired on or after July 1, 2010, were assumed to be paid by either the state or the retirees themselves.
- As administrative expenses, other than the administrative fee of \$8.00 per member per month (PMPM) paid to KEHP by TRS, were assumed to be paid in all years by the employer as they come due, they were not considered.
- Cash flows occur mid-year.
- Future contributions to the Health Insurance Trust were based upon the contribution rates defined in statute and the projected payroll of active employees. Per KRS 161.540(1)(c).3 and 161.550(5), when the health trust achieves a sufficient funded status, as determined by TRS's actuary, the following health trust statutory contributions are to be decreased, suspended, or eliminated:
 - Employee Contributions
 - Employer Contributions
 - State Contributions for KEHP premium subsidies payable to retirees who retire after June 30, 2010

To reflect these adjustments, open group projections were used and assumed an equal, pro rata reduction to the current statutory amount in the years if the health trust is projected to achieve a funded ratio of 100% or more. Here, the current statutory amounts are adjusted to achieve total contributions equal to the Actuarially Determined Contribution (ADC), as determined by the prior year's valuation and in accordance with the Health Trust's funding policy. As the specific methodology to be used for the adjustments has yet to be determined, there may be differences between the projected results and future experience. This may also include any changes to retiree contributions for KEHP coverage pursuant to KRS 161.675(4)(b).

- In developing the adjustments to the statutory contributions in future years the following was assumed:
 - Liabilities and cash flows are net of expected retiree contributions and any implicit subsidies attributable to coverage while participating in KEHP.
 - For the purposes of developing estimates for new entrants, active headcounts were assumed to remain flat for all future years.

Based on these assumptions, the Health Insurance Trust's fiduciary net position (FNP) was not projected to be depleted.

The following table presents the net OPEB liability of the District, calculated using the discount rate of 7.10%, and what the 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 discount rate:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

MIF	1% Decrease	Current Discount Rate	1% Increase
	6.10%	7.10%	8.10%
District's proportionate share of net OPEB liability	\$ 9,392,000	\$ 7,485,000	\$ 5,907,000

The following presents the District's proportionate share of the collective net OPEB liability, as well as what it 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:

MIF	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 5,612,000	\$ 7,485,000	\$ 9,816,000

Life Insurance Trust

Plan description and benefits provided

TRS administers the Life Insurance Trust as provided by KRS 161.655 to provide life insurance benefits to retired and active members. The benefit is financed by actuarially determined contributions from the 207 participating employers. The benefit is \$5,000 for members who are retired for service or disability, and \$2,000 for active contribution members.

Note: Members employed on a substitute or part-time basis and working at least 69% of a full contract year in a single fiscal year will be eligible for a life insurance benefit for the balance of the fiscal year or the immediately succeeding fiscal year under certain conditions. For non-vested members employed on a substitute or part-time basis, the life insurance benefit is provided if death occurs as the result of a physical injury on the job. For vested members employed on a substitute or part-time basis, death does not have to be the result of a physical injury on the job for life insurance benefits to be provided.

Contributions

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

Net OPEB Liability

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 as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

LIF

State's proportionate share of the TRS net OPEB liability associated with the District	\$	122,000
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Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below.

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Amortization Period	27 years, Closed
Asset Valuation Method	5-year smoothed value
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.20%, including wage inflation
Discount Rate	7.5%

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, rates of plan participation, and rates of plan election used in the June 30, 2019 valuation were based on the results of the most recent actuarial experience studies for the system, which covered the five year period ending June 30, 2015.

The remaining actuarial assumptions used in the June 30, 2019, valuation of the health trust were based on a review of recent plan experience done concurrently with the June 30, 2019, valuation. The health care cost trend rate assumption was updated for the June 30, 2019, valuation and was shown as an assumption change in the total OPEB liability (TOL) roll forward while the change in initial per capital claims costs were included with experience in the TOL roll forward.

The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20 year Municipal Bond index pushed weekly by the Board of Governors of the Federal Reserve System.

Target Allocations

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation Percentage	Expected Geometric Real Rate Percentage of Return
U.S. Equity	40.0	4.40
International Equity	23.0	5.6
Fixed Income	18.0	(.10)
Real Estate	6.0	4.0
Private Equity	5.0	6.9
Other Additional Categories	6.0	2.1
Cash	2.0	(0.3)
	100.0	

As the Life Trust investment policy is to change, the above reflects the pension allocation and returns that achieve the targeted 8.00% long-term rate of return.

Discount Rate

The discount rate used to measure the total OPEB liability (TOL) as of the measurement date was 7.1%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB Statement No. 74. The projection’s basis was an actuarial valuation performed as of June 30, 2021. In addition to actuarial methods and assumptions of the June 30, 2021, actuarial valuation, the following actuarial methods and assumptions were used in the projection of the life insurance cash flows:

- Total payroll for the initial projection year consists of the payroll of the active membership present on the valuation date. In subsequent projection years, total payroll was assumed to increase annually at a rate of 2.75%.
- The employer will contribute the actuarially determined contribution (ADC) in accordance with the Life Insurance Trust’s funding policy determined by a valuation performed on a date two years prior to the beginning of the fiscal year in which the ADC applies.
- As administrative expenses were assumed to be paid in all years by the employer as they come due, they were not considered.
- Active employees do not explicitly contribute to the plan.
- Cash flows occur mid-year.

Based on these assumptions, the Life Insurance Trust’s fiduciary net position (FNP) was not projected to be depleted.

Revenue or Expenses for TRS OPEB plans

For the year ended June 30, 2023, the District recognized OPEB revenue in the amount of \$329,926 for support provided on-behalf of the State.

CERS – General Information about the OPEB Plans

Employees' Health Plan

Plan description

The Insurance Fund was established to provide hospital and medical insurance for eligible members receiving benefits. CERS Non-hazardous Insurance Plan is a cost-sharing multiple employer defined benefit Other Postemployment Benefits (OPEB) plan. The plan covers all regular full-time members employed in non-hazardous duty positions of the school board. OPEB may be extended to beneficiaries of plan members under certain circumstances.

Benefits provided

The Plan provides hospital and medical insurance for eligible members receiving benefits. The Insurance Fund will pay the cost of insurance premium for participating members prior to July 1, 2003 greater than 4 years of service, 25%, greater than 10 years of service, 50%, greater than 15 years of service, 75%, and greater than 20 years of service, 100%. For participating members after July 1, 2003 the benefit paid by the Insurance Fund is based on years of service the dollar amount per year of service is \$13.99 to be applied to the current cost premium.

Contributions

Requirements for medical benefits are a portion of the actuarially determined rates of covered payroll, as disclosed above. Current employees pay 1% toward the insurance fund.

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

The District reported a liability of \$4,620,410 for its proportionate share of the collective net OPEB liability which is .234121%.

Deferred Inflows and Outflows of Resources, and OPEB Expense included in the Schedules of OPEB Amounts include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The Schedules of OPEB Amounts do not include deferred outflow/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The total OPEB liability, net OPEB liability (NOL), and sensitivity information are based on an actuarial valuation date of June 30, 2021. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year ended June 30, 2022, using generally accepted actuarial principles.

For the year ended June 30, 2023, the District recognized OPEB expense of \$250,201. The District reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 465,083	\$ 1,059,567
Changes of assumptions	730,750	602,134
Net difference between projected and actual earnings on pension plan investments	860,368	672,837
Changes in proportion and differences between District contributions and proportionate share of contributions	259,285	133,389
District contributions subsequent to the measurement date	279,312	-
	\$ 2,594,798	\$ 2,467,927

The \$279,312 (includes \$166,584 Implicit Subsidy) reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the collective net OPEB liability for the year ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the District's OPEB expense as follows.

	Year Ended June 30,
Year 1	\$ 224
Year 2	(1,040)
Year 3	(229,401)
Year 4	77,776
	\$ (152,441)

Implicit Employer Subsidy for non-Medicare retirees- The fully-insured premiums KRS pays for the Kentucky Employees' Health Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. GASB 74 and 75 requires that the liability associated with this implicit subsidy be included in the calculation of the total OPEB liability.

Changes of Benefit Terms

None

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Actuarial Methods and Assumptions to Determine the Total OPEB Liability and the Net OPEB Liability

For financial reporting, the actuarial valuation as of June 30, 2022, was performed by Gabriel Roeder Smith (GRA). The total OPEB liability, net OPEB liability, and sensitivity information, were based on an actuarial valuation as of June 30, 2021. The total OPEB liability was rolled-forward from the valuation to the plan's fiscal year ending June 30, 2022, using the generally accepted actuarial principles.

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2022:

Investment Rate of Return	6.25%
Inflation	2.3%
Payroll Growth Rate	2.0%
Salary Increases	3.3 to 10.3%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.4% at January 1, 2022, and Gradually decreasing to an ultimate trend rate of 4.05% Over period of 14 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 6.3% in 2023 then Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years.
Mortality	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.

Senate Bill 209 passed in the 2022 legislative session increased the insurance dollar contribution for members hired on or after July 1, 2003 by \$5 for each year of service each member attains over certain thresholds, depending on a member's retirement eligibility requirement. This increase in the insurance dollar contribution does not increase by 1.5% annually and is only payable for non-Medicare retirees. Additionally, it is only payable when the member's applicable insurance fund is at least 90% funded. The increase is first payable January 1, 2023.

Discount rate

Single discount rates of 5.7% were used to measure the total OPEB liability as of June 30, 2022. The single discount rates are based on the expected rate of return on OPEB plan investments of 6.25%, and a municipal bond rate of 3.69%, as reported in Fidelity Index's "20 Year Municipal GO AA Index" as of June 30, 2022. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the plan's fiduciary net position on future contributions were projected to be sufficient to finance the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on insurance plan investments was applied to all periods of the projected benefit payments paid from the plan. However, the cost associated with the implicit employer subsidy was not included in the calculation of the plans actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the plans trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The projection of cash flows used to determine the single discount rate must include an assumption regarding future employer contributions made each year. Future contributions are projected assuming that each participating employer in each insurance plan contributes the actuarially determined employer contribution each future year calculated in accordance with the current funding policy

The following table presents the Net OPEB Liability calculated using the discount rate of 5.7%, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.7%) or 1-percentage-point higher (6.7%) than the current rate:

CERS	1% Decrease	Current Discount Rate	1% Increase
	4.7%	5.7%	6.7%
District's proportionate share of net OPEB liability	\$ 6,176,751	\$ 4,620,410	\$ 3,333,834

Health Care Trend Rate Sensitivity

The following presents the health care sensitivity rate of the District’s proportionate share of the net pension liability calculated using the discount rate of 5.7%, 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 (4.7%) or 1-percentage-point higher (6.7%) than the current rate:

CERS	1% Decrease	Current Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 3,435,172	\$ 4,620,410	\$ 6,043,657

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 G – COMMITMENTS

The District has commitments for construction projects of \$9,628,807 as of June 30, 2023. In addition, the District has made a commitment for sick leave in the general fund of \$192,416 and \$500,000 for Self-Insurance claims.

NOTE H – RESTRICTED FUND BALANCES

Fund	Amount	Purpose
Construction	\$ 188,279	Future Construction
FSPK	2,426,538	School Facilities Construction Commission Requirement
Student Activity	389,065	Student Activity
District Activity	9,005	School Activity
Food Service	\$ 1,202,470	School Food Service Operations

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE I - CONTINGENCIES

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

NOTE J - LITIGATION

The District is self-insured for workers compensation and is subject to various legal actions in different stages of litigation in relation to this. During the audit period pending litigation is being defended by the District's insurance carrier, Liberty Mutual, limiting the District's financial liability in relation to these claims to a deductible owed to the insurance carrier not yet determined but anticipated to be immaterial. As of June 30, 2023, the District's risk of financial exposure relating to active litigation not yet rule on is low.

NOTE K – INSURANCE AND RELATED ACTIVITIES

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

NOTE L – DEFICIT FUND AND OPERATING BALANCES

The following funds had a deficit change in fund balance/net position and/or deficit fund balance/net position:

<u>Fund</u>		<u>Deficit change in Fund Balance / Net Position</u>
Construction	\$	(200,808)
District Activity	\$	(189)

NOTE M – COBRA

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

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
Operations	General Fund	Special Revenue Fund	Community Ed	\$ 5,000
Construction	General Fund	Construction Fund	Construction	29,766
Construction	Special Revenue	Construction Fund	Construction	1,233,548
Debt Service	General Fund	Debt Service Fund	Debt Payments	215,819
Debt Service	Capital Outlay Fund	Debt Service Fund	Debt Payments	339,837
Debt Service	Building Fund	Debt Service Fund	Debt Payments	1,614,255
Operations	Special Revenue Fund	General Fund	Volkswagen Rebate	228,365
Operations	Special Revenue Fund	General Fund	Indirect Costs	393,277
Operations	Food Service Fund	General Fund	Indirect Costs	\$ 216,910

NOTE O – ON-BEHALF PAYMENTS

For fiscal year 2023, the Commonwealth of Kentucky contributed estimated payments on behalf of the District as follows:

<u>Plan/Description</u>	<u>Amount</u>
Kentucky Teachers Retirement System (GASB 68 & 75)	\$ 6,560,842
Health Insurance	4,669,253
Life Insurance	7,476
Administrative Fee	60,057
HRA/Dental/Vision	306,425
Federal Reimbursement	(917,360)
Technology	121,179
KSITA Capital Lease Payments	-
SFCC Debt Service Payments	<u>2,134,004</u>
Total	<u>\$ 12,941,876</u>

These amounts are included in the financial statements as state revenue and an expense allocated to the different functions in the same proportion as full-time employees.

NOTE P – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to governmental activities to adjust the workers compensation amount from prior years. The net position-beginning was \$16,572,183, a prior period adjustment was made in the amount of (\$6,770) and restated net position-beginning is now \$16,565,413 for Governmental Activities.

NOTE Q– SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 15, 2023, the date the financial statements were available to be issued.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
CERS and TRS
For the year ended June 30, 2023

	Reporting Fiscal Year (Measurement Date) 2023 (2022)	Reporting Fiscal Year (Measurement Date) 2022 (2021)	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)	Reporting Fiscal Year (Measurement Date) 2017 (2016)	Reporting Fiscal Year (Measurement Date) 2016 (2015)
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):								
Districts' proportion of the net pension liability	0.234162%	0.215960%	0.221435%	0.22591%	0.22708%	0.23100%	0.235920%	0.24140%
District's proportionate share of the net pension liability	\$ 16,927,603	\$ 13,769,144	\$ 16,983,881	\$ 15,888,421	\$ 13,829,681	\$ 13,520,848	\$ 11,615,978	\$ 10,443,302
State's proportionate share of the net pension liability associated with the District	-	-	-	-	-	-	-	-
Total	\$ 16,927,603	\$ 13,769,144	\$ 16,983,881	\$ 15,888,421	\$ 13,829,681	\$ 13,520,848	\$ 11,615,978	\$ 10,443,302
District's covered-employee payroll	\$ 6,480,699	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919	\$ 5,711,804	\$ 5,528,321
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	261.20%	278.83%	299.43%	278.78%	245.59%	240.25%	203.37%	188.91%
Plan fiduciary net position as a percentage of the total pension liability	52.42%	57.33%	47.81%	50.54%	53.54%	53.30%	59.00%	59.97%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):								
Districts' proportion of the net pension liability	0.4153%	0.4226%	0.4227%	0.430%	0.440%	0.458%	0.454%	0.457%
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the District	70,363,724	54,999,050	59,902,160	57,726,962	57,669,901	123,534,828	133,984,475	106,334,109
Total	\$ 70,363,724	\$ 54,999,050	\$ 59,902,160	\$ 57,726,962	\$ 57,669,901	\$ 123,534,828	\$ 133,984,475	\$ 106,334,109
District's covered-employee payroll	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511	\$ 17,226,254	\$ 17,201,367	\$ 16,830,584
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Plan fiduciary net position as a percentage of the total pension liability	56.41%	65.59%	58.27%	58.80%	59.30%	39.80%	35.22%	42.29%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
CERS and TRS
For the year ended June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
COUNTY EMPLOYEE'S RETIREMENT SYSTEM (CERS):								
Contractually required contribution	\$ 1,837,585	\$ 1,677,748	\$ 1,118,974	\$ 1,285,803	\$ 1,165,930	\$ 1,029,296	\$ 1,065,710	\$ 974,431
Contributions in relation to the contractually required contributions	<u>1,837,585</u>	<u>1,677,748</u>	<u>1,118,974</u>	<u>1,285,803</u>	<u>1,165,930</u>	<u>1,029,296</u>	<u>1,065,710</u>	<u>974,431</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 6,480,768	\$ 6,480,699	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919	\$ 5,711,804
District's contributions as a percentage of it's covered-employee payroll	28.35%	25.89%	22.66%	22.67%	20.46%	18.28%	18.94%	17.06%
KENTUCKY TEACHER'S RETIREMENT SYSTEM (TRS):								
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 18,551,048	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511	\$ 17,226,254	\$ 17,201,367
District's contributions as a percentage of it's covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
For the year ended June 30, 2023

Teachers Retirement System (TRS)

Retirement Annuity Trust

Changes of Benefit Terms

A new benefit tier was added for members joining the System on and after January 1, 2022. A description of the benefit provisions applicable to these members can be found in Schedule D of the 2022 Actuary Report of the TRS.

Changes of assumptions

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

In 2015, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 5.23% to 4.88%.

In the 2016 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2016 valuation, the Assumed Salary Scale, Price Inflation, and Wage Inflation were adjusted to reflect a decrease. In addition, the calculation of the Single Equivalent Interest Rate (SEIR) resulted in an assumption change from 4.88% to 4.20%.

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

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

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

Actuarial Methods and Assumptions

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

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
 For the year ended June 30, 2023

A summary of the actuarial assumptions of the latest actuarial valuation follows.

Valuation Date	June 30, 2021
Actuarial Cost Method	Entry age
Inflation Rate	2.5%
Single Equivalent Interest Rate	7.10%
Municipal Bond Index Rate	2.13%
Projected Salary Increase	3.0-7.5%, including inflation
Investment Rate of Return	7.10%, net of pension plan investment expense, including inflation.

County Employee Retirement System (CERS)

Non-Hazardous

Changes of Benefit Terms

Please refer to P. 181 of KPPA’s 2022 Annual Report “Benefit Changes since the Prior Valuation”.

Changes of assumptions

None.

Actuarial Methods and Assumptions

Based on the actuarial valuation report, the actuarial methods and assumptions used to calculate the contribution rates are as follows.

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets recognized
Amortization Method	Level Percent of Pay
Amortization Period	30-year closed period at June 30, 2019, Gains/losses incurring After 2019 will be amortized over separate closed 20-year Amortization bases
Mortality	System-specific mortality table based on mortality experience From 2013-2018, projected with the ultimate rates from MP2014 mortality improvement scale using a base year of 2019
Phase-In Provision	Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
MEDICAL AND LIFE INSURANCE PLANS - TEACHERS' RETIREMENT SYSTEM
Year ended June 30, 2023

	Reporting Fiscal Year (Measurement Date) 2023 (2022)	Reporting Fiscal Year (Measurement Date) 2022 (2021)	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
MEDICAL INSURANCE PLAN						
District's proportion of the collective net OPEB liability (asset)	0.301525%	0.226351%	0.227735%	0.23060%	0.22841%	0.24268%
District's proportionate share of the collective net OPEB liability (asset)	\$ 7,485,000	\$ 4,857,000	\$ 5,747,000	\$ 6,749,000	\$ 7,925,000	\$ 8,653,000
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>2,459,000</u>	<u>3,944,000</u>	<u>4,604,000</u>	<u>5,450,000</u>	<u>6,830,000</u>	<u>7,069,000</u>
Total	<u>\$ 9,944,000</u>	<u>\$ 8,801,000</u>	<u>\$ 10,351,000</u>	<u>\$ 12,199,000</u>	<u>\$ 14,755,000</u>	<u>\$ 15,722,000</u>
District's covered-employee payroll	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511	\$ 17,226,254
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	40.35%	28.88%	34.62%	40.48%	48.02%	50.23%
Plan fiduciary net position as a percentage of the total OPEB liability	47.75%	39.05%	39.10%	32.60%	25.50%	21.20%
LIFE INSURANCE PLAN						
District's proportion of the collective net OPEB liability (asset)	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%	0.00000%
District's proportionate share of the collective net OPEB liability (asset)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>122,000</u>	<u>52,000</u>	<u>139,000</u>	<u>127,000</u>	<u>117,000</u>	<u>95,000</u>
Total	<u>\$ 122,000</u>	<u>\$ 52,000</u>	<u>\$ 139,000</u>	<u>\$ 127,000</u>	<u>\$ 117,000</u>	<u>\$ 95,000</u>
District's covered-employee payroll	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511	\$ 17,226,254
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total OPEB liability	73.97%	71.57%	71.60%	73.40%	75.00%	80.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS
MEDICAL AND LIFE INSURANCE PLANS
TEACHERS' RETIREMENT SYSTEM
Year ended June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
MEDICAL INSURANCE PLAN						
Contractually required contribution	\$ 398,335	\$ 399,409	\$ 401,775	\$ 402,243	\$ 402,096	\$ 406,867
Contributions in relation to the contractually required contribution	<u>398,335</u>	<u>399,409</u>	<u>401,775</u>	<u>402,243</u>	<u>402,096</u>	<u>406,867</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 18,551,048	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511
District's contributions as a percentage of it's covered-employee payroll	2.15%	2.15%	2.39%	2.42%	2.41%	2.47%
LIFE INSURANCE PLAN						
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 18,551,048	\$ 18,551,048	\$ 16,818,071	\$ 16,599,383	\$ 16,672,673	\$ 16,503,511
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year ended June 30, 2023

	Reporting Fiscal Year (Measurement Date) 2023 (2022)	Reporting Fiscal Year (Measurement Date) 2022 (2021)	Reporting Fiscal Year (Measurement Date) 2021 (2020)	Reporting Fiscal Year (Measurement Date) 2020 (2019)	Reporting Fiscal Year (Measurement Date) 2019 (2018)	Reporting Fiscal Year (Measurement Date) 2018 (2017)
HEALTH INSURANCE PLAN						
District's proportion of the collective net OPEB liability (asset)	0.234121%	0.216636%	0.221371%	0.22587%	0.22707%	0.23100%
District's proportionate share of the collective net OPEB liability (asset)	\$ 4,620,410	\$ 4,147,388	\$ 5,345,436	\$ 3,799,065	\$ 4,031,565	\$ 4,643,790
State's proportionate share of the collective net OPEB liability (asset) associated with the District	-	-	-	-	-	-
Total	<u>\$ 4,620,410</u>	<u>\$ 4,147,388</u>	<u>\$ 5,345,436</u>	<u>\$ 3,799,065</u>	<u>\$ 4,031,565</u>	<u>\$ 4,643,790</u>
District's covered-employee payroll	\$ 6,480,699	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180	\$ 5,627,919
District's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	71.29%	83.99%	94.24%	66.66%	71.59%	82.51%
Plan fiduciary net position as a percentage of the total OPEB liability	60.95%	62.91%	51.67%	60.44%	57.62%	13.00%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30.

HARLAN COUNTY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CONTRIBUTIONS - HEALTH INSURANCE PLAN
COUNTY EMPLOYEE RETIREMENT SYSTEM
Year ended June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
HEALTH INSURANCE PLAN						
Contractually required contribution	\$ 279,312	\$ 239,389	\$ 199,832	\$ 160,451	\$ 123,309	\$ 107,518
Contributions in relation to the contractually	<u>279,312</u>	<u>239,389</u>	<u>199,832</u>	<u>160,451</u>	<u>123,309</u>	<u>107,518</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 6,480,768	\$ 6,480,699	\$ 4,938,247	\$ 5,672,001	\$ 5,699,300	\$ 5,631,180
District's contributions as a percentage of it's covered-employee payroll	4.31%	3.69%	4.05%	2.83%	2.16%	1.91%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available. Amounts presented for each fiscal is determined as of June 30

See the accompanying notes to the required supplementary information.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 For the year ended June 30, 2023

Teachers Retirement System (TRS)

Health Insurance Trust

Changes of Benefit Terms

A new benefit tier was added for members joining the System on and after January 1, 2022. A description of the benefit provisions applicable to these members can be found in Schedule D of the 2022 Actuary Report of the TRS.

Changes of Assumptions

None.

Actuarial Methods and Assumptions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of June 30, 2019. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule.

Actuarial Cost Method	Entry age normal
Amortization Period	Level percentage of payroll
Amortization Method	21 years, closed
Asset Valuation Method	5-year smoothed market value
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.2%, including wage inflation
Discount Rate	8.0%
Health Care Cost Trends	
KEHP Group	7.25% at June 30, 2020, decreasing to an ultimate rate of 5% by June 30, 2029
MEHP Group	5.25% at June 30, 2020, decreasing to an ultimate rate of 5% by June 30, 2022
Medicare Part B Premiums	6.49% at June 30, 2020 with an ultimate rate of 5% by June 30, 2031
KEHP Group Claims	The current KEHP premium is used as the base cost and is projected Forward using only the health care trend assumption (no implicit rate Subsidy is recognized).

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
For the year ended June 30, 2023

Life Insurance Trust

Changes of Benefit Terms

A new benefit tier was added for members joining the System on and after January 1, 2022. A description of the benefit provisions applicable to these members can be found in Schedule D of the 2022 Actuary Report of the TRS.

Changes of Assumptions

None.

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule.

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal
Amortization Method	Level percentage of payroll
Amortization Period	27 years, Closed
Asset Valuation Method	5-year smoothed value
Inflation	3%
Real Wage Growth	0.5%
Wage Inflation	3.5%
Salary Increase	3.5 to 7.20%, including wage inflation
Discount Rate	7.5%

County Employee Retirement System (CERS)

Employees' Health Plan

Changes of Benefit Terms

Please refer to P. 181 of KPPA's 2022 Annual Report "Benefit Changes since the Prior Valuation".

Changes of Assumptions

None.

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-OPEB
 For the year ended June 30, 2023

Actuarial Methods and Assumptions

The following actuarial assumptions were used in performing the actuarial valuation as of June 30, 2022:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	20% of the difference between the market value of assets and the expected actuarial value of assets recognized
Amortization Method	Level Percent of Pay
Amortization Period	30-year closed period at June 30, 2019, Gains/losses incurring After 2019 will be amortized over separate closed 20-year Amortization bases
Mortality	System-specific mortality table based on mortality experience From 2013-2018, projected with the ultimate rates from MP2014 mortality improvement scale using a base year of 2019
Phase-In Provision	Board certified rate is phased into the actuarially determined Rate in accordance with HB 362 enacted in 2018
Inflation	2.30%
Payroll Growth Rate	2.0%
Salary Increase	3.30% to 10.30%, varies by service
Investment Rate of Return	6.25%
Healthcare Trend Rates (Pre-65)	Initial trend starting at 6.40% at January 1, 2022, and Gradually decreasing to an ultimate trend rate of 4.05 Over period of 14 years. The 2021 premiums were Known at the time of the valuation and were incorporated Into the liability measurement
Healthcare Trend Rates (Post-65)	Initial trend starting at 6.30% at January 1, 2023 then Gradually decreasing to an ultimate trend rate of 4.05% Over period of 13 years. The 2021 premiums were known At the time of the valuation and were incorporated into the Liability measurement. Additionally, Humana provided “Not to Exceed” 2022 Medicare premiums, which were Incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 1, 2022

Harlan County School District
Combining Balance Sheet - Nonmajor Governmental Funds
 June 30, 2023

	Other Governmental Funds				
	Special Revenue Student Activity	Capital Outlay	Construction	Special Revenue District Activity	Total
Assets					
Cash and cash equivalents	\$ 415,253	\$ -	\$ 188,279	\$ 9,005	\$ 612,537
Receivables	3,351				3,351
Total assets	418,604	-	188,279	9,005	615,888
Liabilities					
Accounts payable	29,539				29,539
Total liabilities	\$ 29,539	\$ -	\$ -	\$ -	\$ 29,539
Fund Balance					
Restricted	389,065		188,279	9,005	586,349
Total fund balance	389,065	-	188,279	9,005	586,349
Total liabilities & fund balance	\$ 418,604	\$ -	\$ 188,279	\$ 9,005	\$ 615,888

Harlan County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2023

	Other Governmental Funds				
	<u>Special Revenue Student Activity</u>	<u>Capital Outlay</u>	<u>Construction</u>	<u>Special Revenue District Activity</u>	<u>Total</u>
Revenues					
From local sources					
Earnings on investments	\$ 4,871	\$ -	\$ -	\$ -	\$ 4,871
Other local revenue	16,508				16,508
Intergovernmental - state		339,837			339,837
Food service	26,904				26,904
Student activities	1,214,344			4,150	1,218,494
	<u>1,262,627</u>	<u>339,837</u>	<u>-</u>	<u>4,150</u>	<u>1,606,614</u>
Total revenues					
Expenditures					
Instruction	934,336			4,339	938,675
Support services					
Other non-instruction	315,173				315,173
Building improvements			1,464,122		1,464,122
Total expenditures	<u>1,249,509</u>	<u>-</u>	<u>1,464,122</u>	<u>4,339</u>	<u>2,717,970</u>
Excess (Deficit) of Revenues Over Expenditures	<u>13,118</u>	<u>339,837</u>	<u>(1,464,122)</u>	<u>(189)</u>	<u>(1,111,356)</u>
Other Financing Sources (Uses)					
Operating transfers in			1,263,314		1,263,314
Operating transfers (out)		<u>(339,837)</u>			<u>(339,837)</u>
Total other financing sources (uses)	<u>-</u>	<u>(339,837)</u>	<u>1,263,314</u>	<u>-</u>	<u>923,477</u>
Net change in Fund Balances	13,118	-	(200,808)	(189)	(187,879)
Fund Balance Beginning	<u>375,947</u>	<u>-</u>	<u>389,087</u>	<u>9,194</u>	<u>774,228</u>
Fund Balance Ending	<u>\$ 389,065</u>	<u>\$ -</u>	<u>\$ 188,279</u>	<u>\$ 9,005</u>	<u>\$ 586,349</u>

Harlan County School District
Combining Balance Sheet
School Activity Funds
June 30, 2023

SCHOOL ACTIVITY FUNDS

	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	<u>TOTALS</u>
ASSETS										
Cash and cash equivalents	\$ 97,252	\$ 19,717	\$ 18,309	\$ 51,685	\$ 26,655	\$ 33,012	\$ 58,078	\$ 62,036	\$ 48,509	\$ 415,253
Accounts receivable				3,351						3,351
Total assets	<u>97,252</u>	<u>19,717</u>	<u>18,309</u>	<u>55,036</u>	<u>26,655</u>	<u>33,012</u>	<u>58,078</u>	<u>62,036</u>	<u>48,509</u>	<u>418,604</u>
LIABILITIES										
Accounts payable	23,201			1,332	444		3,562		1,000	29,539
Total liabilities	<u>23,201</u>	<u>-</u>	<u>-</u>	<u>1,332</u>	<u>444</u>	<u>-</u>	<u>3,562</u>	<u>-</u>	<u>1,000</u>	<u>29,539</u>
FUND BALANCE										
School activities	<u>74,051</u>	<u>19,717</u>	<u>18,309</u>	<u>53,704</u>	<u>26,211</u>	<u>33,012</u>	<u>54,516</u>	<u>62,036</u>	<u>47,509</u>	<u>389,065</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 97,252</u>	<u>\$ 19,717</u>	<u>\$ 18,309</u>	<u>\$ 55,036</u>	<u>\$ 26,655</u>	<u>\$ 33,012</u>	<u>\$ 58,078</u>	<u>\$ 62,036</u>	<u>\$ 48,509</u>	<u>\$ 418,604</u>

Harlan County School District
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity Funds
For the year ended June 30, 2023

SCHOOL ACTIVITY FUNDS										
	<u>HARLAN COUNTY HIGH SCHOOL</u>	<u>BLACK MTN ELEMENTARY</u>	<u>CAWOOD ELEMENTARY</u>	<u>CUMBERLAND ELEMENTARY</u>	<u>EVARTS ELEMENTARY</u>	<u>GREEN HILLS ELEMENTARY</u>	<u>JAMES A CAWOOD ELEMENTARY</u>	<u>ROSSPOINT ELEMENTARY</u>	<u>WALLINS ELEMENTARY</u>	<u>TOTALS</u>
REVENUES										
Student revenues	\$ 626,274	\$ 78,671	\$ 66,876	\$ 93,904	\$ 79,902	\$ 47,875	\$ 79,758	\$ 101,837	\$ 87,531	\$ 1,262,628
EXPENSES										
Student activities	637,390	64,734	55,215	93,483	92,396	41,523	80,888	104,071	79,810	1,249,510
Excess (Deficit) of Revenues Over Expenses	(11,116)	13,937	11,661	421	(12,494)	6,352	(1,130)	(2,234)	7,721	13,118
Fund balance, beginning	<u>85,167</u>	<u>5,780</u>	<u>6,648</u>	<u>53,283</u>	<u>38,705</u>	<u>26,660</u>	<u>55,646</u>	<u>64,270</u>	<u>39,788</u>	<u>375,947</u>
Fund balance, ending	<u>\$ 74,051</u>	<u>\$ 19,717</u>	<u>\$ 18,309</u>	<u>\$ 53,704</u>	<u>\$ 26,211</u>	<u>\$ 33,012</u>	<u>\$ 54,516</u>	<u>\$ 62,036</u>	<u>\$ 47,509</u>	<u>\$ 389,065</u>

Harlan County School District
Statement of Revenues, Expenses, and Changes in Fund Balance - Harlan County High School
For the year ended June 30, 2023

	<u>FUND BALANCE BEGINNING</u>	<u>REVENUES</u>	<u>EXPENSES</u>	<u>TRANSFERS</u>	<u>FUND BALANCE ENDING</u>
GENERAL FUND	\$ 555	\$ 12,300	\$ 10,112	\$ (358)	2,384
BLACK BEAR PHOTOGRAPHY	116				116
GRADUATION FUND					-
HCHS AMATEUR RADIO CLUB		11,000	3,140	500	8,360
CONTINGENCY	7				7
DUAL CREDIT COLLEGE TOURS	2,311	2,260	2,738	(605)	1,228
SCHOOL PICTURES	1,127	918			2,045
SENIOR PICTURES	24				24
1ST PRIORITY	31	3,389	3,386		34
1ST PRIORITY AQUARIUM					-
PEP CLUB	213	3,247	3,009		451
COMMUNITY PROBLEM SOLVING	39				39
ECLRP TEAM	43				43
ANATOMY FUNDS	519		96		422
FISHING TEAM	160	3,137	3,046	(250)	-
SCHOOL CONCESSION	1				1
LETTERMAN JACKET	14,229	23,696	41,229	3,884	581
HARLAN COUNTY WRESTLING	5				5
TECHNOLOGY STUDENT ASSOC	908	11,805	10,802	(500)	1,411
TEACHER VENDING		11,471	11,416		55
ESPORTS	2,122	1,117	1,690		1,549
PARKING	923	2,780	3,447		256
ATHLETICS	2,489	83,846	85,158	(1,063)	113
DECA	388	352	441		299
CHEERLEADING	15	66,900	66,579	2,035	2,370
DANCE TEAM	4,065	12,114	11,674		4,505
FOOTBALL	3,237	53,740	51,632		5,345
GIRLS BASKETBALL	2,256	1,594	3,176		673
BOYS BASKETBALL		72,352	66,500	(5,346)	507
SOFTBALL	4,171	37,737	38,467	291	3,731
BASEBALL	8,283	21,041	27,287		2,037
GOLF	1,524	3,050	4,487		86
BOYS SOCCER	923	1,232	1,667		487
TENNIS	85	1,022	1,398	500	209
ARCHERY	273				273
VOLLEYBALL	1,640	27,568	28,876		332
ACADEMIC TEAM	330		250		80
ART CLUB	1,148				1,148
AP/SAT PLAN	116				116
HCHS FEEDER BAND	197		56		141
BAND	24	3,330	2,719		635
HONOR BAND					-
BETA CLUB	5,128	4,206	4,070		5,264
BLACK BEAR STORE	1,120	23,430	22,066	402	2,886
CROSS COUNTRY/TRACK	4,224	31,742	30,752	(291)	4,923
CHORUS	327	600	900		27
DRAMA CLUB	2,543	10,681	9,206	14	4,032
FBLA	598	2,372	3,570	605	5
FCCLA	100	550	359		291
FFA-FUTURE FARMERS	1,030	2,221	3,129		122
FFA-GREENHOUSE	3,037	4,662	6,016		1,683
FUTURE EDUCATORS	52				52
HOME EC/MCCORMICK	9	4,130	3,887		252
JROTC		12,742	11,611	(444)	688
LIBRARY	247	504	393	(79)	280
NATIONAL HONORS	579	2,080	1,831		827
GEAR UP	558	1,870	2,149	(10)	269
PEP CLUB		10			10
PROM	3,066	15,245	14,978		3,333
SPECIAL NEEDS		2,318	2,318		-
YEARBOOK	6,129	21,645	22,032	780	6,523
SPANISH CLASS	57	234	279		12
SPANISH HONOR SOCIETY	8	2,191	2,170		29
YOUTH SERVICE CENTER	1,761	9,843	11,196	(65)	343
GUIDANCE OFFICE FUND	100				100
PEP CLUB					-
TOTALS	\$ 85,167	\$ 626,274	\$ 637,390	\$ (0)	\$ 74,051

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2023

Federal Grantor/ Pass-Through Grantor/ Program Title	Assisted Listing Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
US Department of Agriculture					
Passed Through State Department of Education					
School Breakfast Program	10.553				
Fiscal Year 22		7760005 22	\$ -	N/A	\$ 256,078
Fiscal Year 23		7760005 23	-	N/A	829,331
National School Lunch Program	10.555				
Fiscal Year 22		7750002 22	-	N/A	441,844
Fiscal Year 23		7750002 23	-	N/A	1,428,706
Fiscal Year 22		9980000 22	-	N/A	86,090
Fiscal Year 23		9980000 23	-	N/A	40,286
Fruit & Vegetable Program	10.582				
Fiscal Year 22		7720012 22	-	N/A	34,839
Fiscal Year 23		7720012 23	-	N/A	153,786
Child Nutrition Cluster Subtotal					<u>3,270,960</u>
Child & Adult Care Food Program	10.558				
Fiscal Year 22		7790021 22	-	N/A	1,130
Fiscal Year 23		7790021 23	-	N/A	2,541
Fiscal Year 22		7800016 22	-	N/A	56
Fiscal Year 23		7800016 23	-	N/A	134
					<u>3,861</u>
State Administrative Grant for Nutrition	10.560				
Fiscal Year 22		7700001 22	-	N/A	2,673
Passed Through State Department of Agriculture					
Food Donation-Commodities	10.565				
Fiscal Year 23		510.4950	-	N/A	123,341
Pandemic Electronic Benefit Transfer Administrative Costs	10.649				
Fiscal Year 22		9990000 22	-	N/A	3,135
Total US Department of Agriculture					<u>3,403,970</u>
US Department of Education					
Passed Through State Department of Education					
* Title I Grants to Local Educational Agencies	84.010A				
Fiscal Year 21		3100002 20	-	30,458	331
Fiscal Year 22		3100002 21	-	3,015,688	1,678,510
Fiscal Year 23		3100002 22	-	2,947,191	1,521,730
					<u>3,200,571</u>
Special Education Grants to States	84.027A				
Fiscal Year 22		3810002 21	-	1,076,171	438,357
Fiscal Year 23		3810002 22	-	1,081,835	882,150
COVID-19- ARP IDEA	84.027X				
Fiscal Year 22		4910002-21	-	225,351	98,874
Special Education - Preschool Grants	84.173A				
Fiscal Year 22		3800002 21	-	97,291	34,283
Fiscal Year 23		3800002 22	-	98,247	83,036
COVID-19- ARP IDEA- Preschool	84.173X				
Fiscal Year 22		4900002-21	-	31,259	12,247
Special Education Cluster Subtotal					<u>1,548,947</u>
Vocation Education - Basic Grants to States	84.048				
Fiscal Year 22 Carry Forward		3710002 21	-	4,753	4,753
Fiscal Year 23		3710002 22	-	66,216	65,111
					<u>69,864</u>
Rural Education	84.358B				
Fiscal Year 21		3140002 20	-	70,225	9,518
Fiscal Year 22		3140002 21	-	83,592	64,532
					<u>74,050</u>
* Improving Teacher Quality State Grants	84.367A				
Fiscal Year 21		3230002 20	-	289,427	1,322
Fiscal Year 22		3230002 21	-	284,021	217,514
Fiscal Year 23		3230002 22	-	266,728	36,559
					<u>255,395</u>
Title IV Part A	84.424				
Fiscal Year 22		3420002 21	-	224,085	70,060
Fiscal Year 23		3420002 22	-	231,647	182,264

See the accompanying notes to the schedule of expenditures of federal awards.

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2023

Federal Grantor/ Pass-Through Grantor/ Program Title	Assisted Listing Number	Pass-Through Grantor's Number	Passed Through to Subrecipients	Program or Award Amount	Expenditures
					<u>252,324</u>
* COVID-19- ESSER	84.425D				
FY21 ESSER Funds II		4200002 21	-	10,197,496	1,769,708
FY22 Digital Learning Coaches		4200003 21	-	4,462	27
* COVID-19- ARP ESSER	84.425U				
FY21 ARP ESSER Funds		4300002 21	-	21,984,227	4,960,378
FY23 Kentucky Virtual Library Reimbursement		4300003-21	-	4,554	4,554
FY23-24 Digital Learning Coaches		4300005-21	-	3,044	3,044
Post-School Predictor Implementation Project		4300005-21	-	75,393	75,393
Educational Cooperative ARP ESSER Deeper Learning		4300005-21	-	53,202	15,337
* COVID-19- ARP Homeless Children and Youth	84.425W				
Fiscal Year 22 Phase II		4980002-21	-	431,926	177,505
Educational Stabilization Fund Subtotal					<u>7,005,946</u>
Passed Through Berea College					
Gaining Early Awareness and Readiness for Undergraduate Programs II	84.334A				
Fiscal Year 22		379I	-	392,750	112,963
Fiscal Year 23		379J	-	622,750	592,682
					<u>705,645</u>
Total US Department of Education					<u>13,112,742</u>
US Department of Defense					
Passed directly from the US Department of the Army					
ROTC	12.000				
Fiscal Year 23		Direct	-	N/A	67,718
Total US Department of the Army					<u>67,718</u>
US Department of Health and Human Services					
Promoting Adolescent Health	93.079				
Fiscal Year 22		Direct	-	N/A	1,500
Total US Department of Health and Human Services					<u>1,500</u>
Total Expenditure of Federal Awards					<u>\$ 16,585,930</u>

* Major program

HARLAN COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2023

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. 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 represents 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

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. For the year ended June 30, 2023, the District received food commodities totaling \$123,341.

NOTE D – INDIRECT COST RATE

The Harlan County School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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*

To the Board of Education of the Harlan County School District
Harlan, Kentucky

And the State Committee for School District Audits

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits, in the *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit /Contract and requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harlan County School District, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Harlan County School District's basic financial statements, and have issued our report thereon dated November 15, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harlan County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly,

we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Harlan County School District in a separate letter dated November 15, 2023.

Purpose of This Report

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

White & Associates, PSC

Richmond, Kentucky

November 15, 2023

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

To the Board of Education of the Harlan County School District
Harlan, Kentucky

And the State Committee for School District Audits

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United 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 prescribed by the Kentucky State Committee for School District Audits in the *Auditor Responsibilities and State Compliance Requirements* sections contained in the Kentucky Public School Districts' Audit Contract and Requirements; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Harlan 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 Harlan County School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Harlan 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 Harlan County School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Harlan 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 Harlan 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 Harlan 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 Harlan 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.

White & Associates, PSC

Richmond, Kentucky

November 15, 2023

HARLAN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2023

SUMMARY OF AUDITOR’S RESULTS

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? If so, was any significant deficiencies material (GAGAS)?	None Reported N/A
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	None Reported
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in the Uniform Guidance?	No

Major Programs	Title I [ALN 84.010A] Educational Stabilization Fund [ALN 84.425D, 84.425U, & 84.425W] Improving Teacher Quality State Grants [ALN 84.367A]
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Dollar threshold of Type A and B programs	\$750,000
Low risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENT AUDIT

No findings at the financial statement level.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No major federal award findings.

HARLAN COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2023

There were no prior audit findings.

MANAGEMENT LETTER POINTS

Harlan County School District
Harlan, Kentucky

In planning and performing our audit of the financial statements of the Harlan County School District for the year ended June 30, 2023, we considered the District’s internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District’s internal control in our report dated November 15, 2023. This letter does not affect our report dated November 15, 2023, on the financial statements of the Harlan County School District. The conditions observed are as follows:

CAWOOD ELEMENTARY

1-23

Statement of Condition: Receipts are being written to the account or vendor instead of the person turning the money in.

Recommendation for Correction: Receipts should be written to the person who turns the money in and signs the Multiple Receipt Form (F-SA-6).

Management Response to the Recommendation:

GREEN HILLS ELEMENTARY

No conditions

BLACK MOUNTAIN ELEMENTARY

Nothing of concern

CUMBERLAND ELEMENTARY

No conditions

EVARTS ELEMENTARY

No conditions

JAMES A CAWOOD ELEMENTARY

Nothing of concern

ROSSPOINT ELEMENTARY

Nothing of concern

WALLINS ELEMENTARY

Nothing of concern

HARLAN COUNTY HIGH SCHOOL

Nothing of concern

All prior year conditions have been implemented and corrected. Brent Roark, Superintendent, is the person responsible for initiation of the corrective action plan for the above conditions which will be implemented immediately, if any. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Education, management, and others within the district and is not intended to be and should not be used by anyone other than these specified parties.

White & Associates, PSC

White & Associates, PSC
Richmond, Kentucky
November 15, 2023