

DATED DECEMBER 28, 2020

NEW ISSUE
Electronic Bidding via Parity®
Bank Interest Deduction Eligible
BOOK-ENTRY-ONLY SYSTEM

RATING
Moody's: " "

In the opinion of Bond Counsel, under existing law (i) interest on the Bonds will be excludable from gross income of the holders thereof for purposes of federal taxation and (ii) interest on the Bonds will not be a specific item of tax preference for purposes of the federal alternative minimum tax, all subject to the qualifications described herein under the heading "Tax Exemption." The Bonds and interest thereon are exempt from income taxation and ad valorem taxation by the Commonwealth of Kentucky and political subdivisions thereof (see "Tax Exemption" herein).

\$975,000*

SOUTHGATE INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION
SCHOOL BUILDING REFUNDING REVENUE BONDS,
SERIES OF 2021

Dated with Delivery: February 5, 2021

Due: as shown below

Interest on the Bonds is payable each May 1 and November 1, beginning May 1, 2021. The Bonds will mature as to principal on May 1, 2021 as shown below. The Bonds are being issued in Book-Entry-Only Form and will be available for purchase in principal amounts of \$5,000 and integral multiples thereof.

| <u>Maturing</u> <u>May 1</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Reoffering</u> <u>Yield</u> | <u>CUSIP</u> | <u>Maturing</u> <u>May 1</u> | <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Reoffering</u> <u>Yield</u> | <u>CUSIP</u> |
|---------------------------------|---------------|--------------------------------|-----------------------------------|--------------|---------------------------------|---------------|--------------------------------|-----------------------------------|--------------|
| 2021 | \$ 75,000 | % | % | | 2027 | \$ 90,000 | % | % | |
| 2022 | \$ 85,000 | % | % | | 2028 | \$ 90,000 | % | % | |
| 2023 | \$ 85,000 | % | % | | 2029 | \$ 90,000 | % | % | |
| 2024 | \$ 90,000 | % | % | | 2030 | \$ 90,000 | % | % | |
| 2025 | \$ 95,000 | % | % | | 2031 | \$ 95,000 | % | % | |
| 2026 | \$ 90,000 | % | % | | | | | | |

The Bonds are subject to redemption prior to their stated maturity as described herein.

Notwithstanding the foregoing, the Corporation reserves the right to call, upon thirty (30) days notice, the Bonds in whole or in part on any date for redemption upon the total destruction by fire, lightning, windstorm or other hazard of any of the building(s) constituting the Project(s) and apply casualty insurance proceeds to such purpose.

The Bonds constitute a limited indebtedness of the Southgate Independent School District Finance Corporation and are payable from and secured by a pledge of the gross income and revenues derived by leasing the Project (as hereinafter defined) on an annual renewable basis to the Southgate Independent Board of Education.

The Southgate Independent School District Finance Corporation will until January 5, 2021 at 11:00 A.M., E.S.T., receive competitive bids for the Bonds at the office of the Executive Director of the Kentucky School Facilities Construction Commission, 700 Louisville Road, Carriage House, Frankfort, Kentucky 40601.

***As set forth in the "Official Terms and Conditions of Bond Sale," the principal amount of Bonds sold to the successful bidder is subject to a Permitted Adjustment by increasing or decreasing the amount not to exceed \$100,000.**

PURCHASER'S OPTION: The Purchaser of the Bonds, within 24 hours of the sale, may specify to the Financial Advisor that any Bonds may be combined immediately succeeding sequential maturities into a Term Bond(s), bearing a single rate of interest, with the maturities set forth above (or as may be adjusted as provided herein) being subject to mandatory redemption in such maturities for such Term Bond(s).

The Bonds will be delivered utilizing the BOOK-ENTRY-ONLY-SYSTEM administered by The Depository Trust Company.

The Corporation deems this preliminary Official Statement to be final for purposes of the Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain information on the cover page hereof which has been omitted in accordance with such Rule and which will be supplied with the final Official Statement.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sales of these Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the laws of any such jurisdiction.



**SOUTHGATE INDEPENDENT
BOARD OF EDUCATION**

Diane Hatfield, Chairman
James Specht, Member
Drue Miller, Member
Jeff Paul, Member
William Shockney, Member

Greg Duty, Superintendent/Secretary

**SOUTHGATE INDEPENDENT SCHOOL DISTRICT
FINANCE CORPORATION**

Diane Hatfield, President
James Specht, Member
Drue Miller, Member
Jeff Paul, Member
William Shockney, Member

Greg Duty, Secretary/Treasurer

BOND COUNSEL

Steptoe & Johnson PLLC
Louisville, Kentucky

FINANCIAL ADVISOR

RSA Advisors, LLC
Lexington, Kentucky

PAYING AGENT AND REGISTRAR

U.S. Bank, National Association
Louisville, Kentucky

BOOK-ENTRY-ONLY-SYSTEM

REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Southgate Independent School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2021, identified on the cover page hereof. No person has been authorized by the Corporation or the Board to give any information or to make any representation other than that contained in the Official Statement, and if given or made such other information or representation must not be relied upon as having been given or authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the Board since the date hereof.

Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the Corporation will pass upon the accuracy or adequacy of this Official Statement or approve the Bonds for sale.

The Official Statement includes the front cover page immediately preceding this page and all Appendices hereto.

TABLE OF CONTENTS

| | Page |
|--|------------|
| Introduction | 1 |
| Book-Entry-Only System | 1 |
| The Corporation | 3 |
| Kentucky School Facilities Construction Commission | 3 |
| Biennial Budget for Period Ending June 30, 2022 | 4 |
| Outstanding Bonds | 4 |
| Authority | 5 |
| The Bonds | 5 |
| General | 5 |
| Registration, Payment and Transfer | 5 |
| Redemption | 5 |
| Security | 6 |
| General | 6 |
| The Lease; Pledge of Rental Revenues | 6 |
| State Intercept | 6 |
| Commission’s Participation | 6 |
| The Plan of Refunding | 7 |
| Purpose of the Prior Bonds | 7 |
| Estimated Bond Debt Service | 8 |
| Estimated Use of Bond Proceeds | 8 |
| District Student Population | 9 |
| State Support of Education | 9 |
| Support Education Excellence in Kentucky (SEEK) | 9 |
| Capital Outlay Allotment | 9 |
| Facilities Support Program of Kentucky | 10 |
| Local Support | 10 |
| Homestead Exemption | 10 |
| Limitation on Taxation | 10 |
| Local Thirty Cents Minimum | 11 |
| Additional 15% Not Subject to Recall | 11 |
| Assessment Valuation | 11 |
| Special Voted and Other Local Taxes | 11 |
| Local Tax Rates, Property Assessments and Revenue Collections | 12 |
| Overlapping Bond Indebtedness | 12 |
| SEEK Allotment | 13 |
| State Budgeting Process | 14 |
| COVID-19 | 14 |
| Potential Legislation | 15 |
| Continuing Disclosure; Exemption | 15 |
| Tax Exemption; Bank Qualified | 15 |
| Original Issue Premium | 16 |
| Original Issue Discount | 16 |
| Absence of Material Litigation | 16 |
| Approval of Legality | 17 |
| No Legal Opinion Expressed as to Certain Matters | 17 |
| Bond Rating | 17 |
| Financial Advisor | 17 |
| Approval of Official Statement | 17 |
| Demographic and Economic Data | APPENDIX A |
| Financial Data | APPENDIX B |
| Official Terms & Conditions of Bond Sale | APPENDIX C |
| Official Bid Form | APPENDIX D |

**OFFICIAL STATEMENT
Relating to the Issuance of**

\$975,000*

**SOUTHGATE INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION
SCHOOL BUILDING REFUNDING REVENUE BONDS,
SERIES OF 2021**

**Subject to Permitted Adjustment*

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth certain information pertaining to the Southgate Independent School District Finance Corporation (the "Corporation") School Building Refunding Revenue Bonds, Series of 2021 (the "Bonds").

The Bonds are being issued to (i) pay the maturing principal and accrued interest and refund on a current basis on May 1, 2021 the outstanding Southgate Independent School District Finance Corporation School Building Revenue Bonds, Series of 2011, dated May 1, 2011 (the "2011 Bonds") maturing May 1, 2021 and thereafter (the "Refunded Bonds"); and (ii) pay the cost of the Bond issuance expenses (see "Plan of Refunding" herein). The Board has determined that the plan of refunding the Refunded Bonds will result in considerable interest cost savings to the Southgate Independent School District (the "District") and is in the best interest of the District.

The Bonds are revenue bonds and constitute a limited indebtedness of the Corporation. The Bonds will be secured by a lien and a pledge of the rental income derived by the Corporation from leasing the Projects (as hereinafter defined) to the Southgate Independent Board of Education (the "Board") on a year to year basis (see "Security" herein).

All financial and other information presented in this Official Statement has been provided by the Southgate Independent Board of Education from its records, except for information expressly attributed to other sources. The presentation of financial and other information is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the Board. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered more or less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents.

Copies of the Bond Resolution authorizing the issuance of the Bonds, the Participation Agreement, and the Lease Agreement, dated February 5, 2021, may be obtained at the office of Steptoe & Johnson PLLC, Bond Counsel, 700 N. Hurstbourne Parkway, Suite 115, Louisville, Kentucky 40222.

BOOK-ENTRY-ONLY-SYSTEM

The Bonds shall utilize the Book-Entry-Only-System administered by The Depository Trust Company ("DTC").

The following information about the Book-Entry only system applicable to the Bonds has been supplied by DTC. Neither the Corporation nor the Paying Agent and Registrar makes any representations, warranties or guarantees with respect to its accuracy or completeness.

DTC will act as securities depository for the Bonds. The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Paying Agent and Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC or its nominee, the Paying Agent and Registrar or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as

may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Paying Agent and Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice the Corporation or the Paying Agent and Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Corporation may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-Entry system has been obtained from sources that the Corporation believes to be reliable but the Corporation takes no responsibility for the accuracy thereof.

THE CORPORATION

The Corporation has been formed in accordance with the provisions of Sections 162.120 through 162.290 and Section 162.385 of the Kentucky Revised Statutes ("KRS"), and KRS Chapter 273 and KRS 58.180, as a non-profit, non-stock corporation for the purpose of financing necessary school building facilities for and on behalf of the Board. Under the provisions of existing Kentucky law, the Corporation is permitted to act as an agency and instrumentality of the Board for financing purposes and the legality of the financing plan to be implemented by the Board herein referred to has been upheld by the Kentucky Court of Appeals (Supreme Court) in the case of White v. City of Middlesboro, Ky. 414 S.W.2d 569.

Any bonds, notes or other indebtedness issued or contracted by the Corporation shall, prior to the issuance or incurrence thereon, be specifically approved by the Board. The members of the Board of Directors of the Corporation are the members of the Board. Their terms expire when they cease to hold the office and any successor members of the Board are automatically members of the Corporation upon assuming their public offices.

KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION

The Kentucky School Facilities Construction Commission (the "Commission") is an independent corporate agency and instrumentality of the Commonwealth of Kentucky established pursuant to the provisions of KRS Sections 157.611 through 157.640, as amended, repealed and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet need.

The Commission will enter into a Participation Agreement with the Board whereunder the Commission, will agree to continue to pay approximately \$36,323 to be applied to the debt service of the Refunding Bonds through May 1, 2031; provided, however, that the contractual commitment of the Commission to pay the annual Agreed Participation is limited to the biennial budget period of the Commonwealth, with the first such biennial budget period terminating on June 30, 2022.

The General Assembly of the Commonwealth adopted the State's Budget for the biennium ending June 30, 2020. Inter alia, the Budget provides \$129,504,400 in FY 2018-19 and \$128,672,400 in FY 2019-20 to pay debt service on existing and future bond issues; \$58,000,000 of the Commission's previous Offers of Assistance made during the last biennium; and authorizes \$58,000,000 in additional Offers of Assistance for the current biennium to be funded in the Budget for the biennium ending June 30, 2022.

The 1986, 1988, 1990, 1992, 1994, 1996, 1998, 2000, 2003, 2005, 2006, 2008, 2010, 2012, 2014, 2016, 2018 and 2020 Regular Sessions of the Kentucky General Assembly appropriated funds to be used for debt service of participating school districts. The appropriations for each biennium are shown in the following table:

| <u>Biennium</u> | <u>Appropriation</u> |
|-----------------|----------------------|
| 1986-88 | \$18,223,200 |
| 1988-90 | 14,050,700 |
| 1990-92 | 13,542,800 |
| 1992-94 | 3,075,300 |
| 1994-96 | 2,800,000 |
| 1996-98 | 4,996,000 |
| 1998-00 | 12,141,500 |
| 2000-02 | 8,100,000 |
| 2002-04 | 9,500,000 |
| 2004-06 | 14,000,000 |
| 2006-08 | 9,000,000 |
| 2008-10 | 10,968,000 |
| 2010-12 | 12,656,200 |
| 2012-14 | 8,469,200 |
| 2014-16 | 8,764,000 |
| 2016-18 | 23,019,400 |
| 2018-20 | 7,608,000 |
| 2020-21 | <u>2,946,900</u> |
| Total | \$183,861,200 |

BIENNIAL BUDGET FOR PERIOD ENDING JUNE 30, 2022

The Kentucky General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

In the absence of a legislatively enacted budget, the Supreme Court has ruled the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of, premium, if any, and interest, when due, on obligations that are subject to appropriation.

Due to the unforeseen nature on the economy of the Commonwealth caused by the COVID-19 pandemic, in its 2020 regular session, the General Assembly adopted only a one-year budget for the biennial period ending June 30, 2022 which was approved and signed by the Governor. The biennial budget will be reviewed and supplemented during the General Assembly's 2021 regular session. Such budget became effective beginning July 1, 2020. The Office of the State Budget Director makes available on its website monthly updates to the General Fund receipts and other Funds of the commonwealth. When published, the updates can be found at www.osbd.ky.gov.

OUTSTANDING BONDS

The following table shows the outstanding Bonds of the Board by the original principal amount of each issue, the current principal outstanding, the amount of the original principal scheduled to be paid with the corresponding interest thereon by the Board or the School Facilities Construction Commission, the approximate interest range; and, the final maturity date of the Bonds:

| Bond Series | Original Principal | Current Principal Outstanding | Principal Assigned to Board | Principal Assigned to Commission | Approximate Interest Rate Range | Final Maturity |
|--------------------|---------------------------|--------------------------------------|------------------------------------|---|--|-----------------------|
| 2011 | \$ 1,355,000 | \$ 925,000 | \$ 871,637 | \$ 483,363 | 4.000% - 4.500% | 2031 |
| 2019 | \$ 640,000 | \$ 620,000 | \$ 523,881 | \$ 116,119 | 3.000% - 3.250% | 2039 |
| Totals: | \$ 1,995,000 | \$ 1,545,000 | \$ 1,395,518 | \$ 599,482 | | |

AUTHORITY

The Board of Directors of the Corporation has adopted a Bond Resolution which authorized among other things:

- i) the issuance of approximately \$975,000 of Bonds subject to a permitted adjustment of \$100,000;
- ii) the advertisement for the public sale of the Bonds;
- iii) the Official Terms and Conditions for the sale of the Bonds to the successful bidder; and,
- iv) the President and Secretary of the Corporation to execute certain documents relative to the sale and delivery of the Bonds.

THE BONDS

General

The Bonds will be dated February 5, 2021, will bear interest from that date as described herein, payable semi-annually on May 1 and November 1 of each year, commencing May 1, 2021, and will mature as to principal on May 1, 2021 and each May 1 thereafter in the years and in the principal amounts as set forth on the cover page of this Official Statement.

Registration, Payment and Transfer

The Bonds are to be issued in fully-registered form (both principal and interest). U.S. Bank, National Association, Louisville, Kentucky, the Bond Registrar and Paying Agent, shall remit interest on each semiannual due date to Cede & Co., as the nominee of The Depository Trust Company. Please see Book-Entry-Only-System. Interest on the Bonds will be paid at rates to be established upon the basis of competitive bidding as hereinafter set forth, such interest to be payable on May 1 and November 1 of each year, beginning May 1, 2021 (Record Date is 15th day of month preceding interest due date).

Redemption

The Bonds maturing on or after May 1, 2029 are subject to redemption at the option of the Corporation prior to their stated maturity on any date falling on or after May 1, 2028, in any order of maturities (less than all of a single maturity to be selected by lot), in whole or in part, upon notice of such prior redemption being given by the Paying Agent in accordance with DTC requirements not less than thirty (30) days prior to the date of redemption, upon terms of the face amount, plus accrued interest, but without redemption premium.

| Redemption Date | Redemption Price |
|----------------------------|-------------------------|
| May 1, 2028 and thereafter | 100% |

Notwithstanding the foregoing, the Corporation reserves the right, upon thirty (30) days notice, to call the Bonds in whole or in part on any date at par for redemption upon the total destruction by fire, lightning, windstorm or other hazard of any building constituting the Project and apply casualty insurance proceeds to such purpose.

SECURITY

General

The Bonds are revenue bonds and constitute a limited indebtedness of the Corporation. The Bonds are payable as to both principal and interest solely from the income and revenues derived from the leasing of the Project financed from the Bond proceeds from the Corporation to the Board. The Bonds are secured by a pledge of revenue on and from the Project; provided, however, said lien and pledge are on parity with the liens and pledges securing the Corporation's outstanding School Building Revenue Bonds issued to improve the building in which the Project is located.

The Lease; Pledge of Rental Revenues

The Board has leased the school Project securing the Bonds for an initial period from February 5, 2021 through June 30, 2021 with the option in the Board to renew said Lease from year to year for one year at a time, at annual rentals, sufficient in each year to enable the Corporation to pay, solely from the rental due under the Lease, the principal and interest on all of the Bonds as same become due. The Lease provides further that so long as the Board exercises its annual renewal options, its rentals will be payable according to the terms and provisions of the Lease until May 1, 2031, the final maturity date of the Bonds. Under the lease, the Corporation has pledged the rental revenue to the payment of the Bonds.

STATE INTERCEPT

Under the terms of the Lease, and any renewal thereof, the Board has agreed so long as the Bonds remain outstanding, and in conformance with the intent and purpose of Section 157.627(5) of the Act and KRS 160.160(5), in the event of a failure by the Board to pay the rentals due under the Lease, and unless sufficient funds have been transmitted to the Paying Agent, or will be so transmitted, for paying said rentals when due, the Board has granted under the terms of the Lease and Participation Agreement to the Corporation and the Commission the right to notify and request the Kentucky Department of Education to withhold from the Board a sufficient portion of any undisbursed funds then held, set aside, or allocated to the Board and to request said Department or Commissioner of Education to transfer the required amount thereof to the Paying Agent for the payment of such rentals.

COMMISSION'S PARTICIPATION

The Commission has determined that the Board is eligible for an average annual participation equal to approximately \$36,323 from the Commission's appropriation by the Kentucky General Assembly which will be used to meet a portion of the debt service of the Bonds. The plan for financing the Project will require the Commission to pay approximately thirty-six percent (36%) of the debt service of the Bonds.

The Participation Agreement to be entered into with the Board will be limited to the biennial budget period of the Commonwealth of Kentucky, with the first such biennial period terminating on June 30, 2021. The right is reserved in the Commission to terminate the commitment to pay the agreed participation every two years thereafter. The obligation of the Commission to make payments of the agreed participation shall be automatically renewed each two years thereafter unless the Commission gives notice to the Board of its intention not to participate not less than sixty days prior to the end of the biennium. However, the Commission has expressed its intention to continue to pay the agreed participation in successive biennial budget periods until the Bonds are retired, but the Commission is not required to do so.

THE PLAN OF REFUNDING

A sufficient amount of the proceeds of the Bonds at the time of delivery will be deposited into the Bond Fund for the Refunded Bonds. The Bond Fund deposit is intended to be sufficient to (i) pay the maturing principal and accrued interest and refund at or in advance of maturity all of the Southgate Independent School District

Finance Corporation School Building Revenue Bonds, Series of 2011, dated May 1, 2011, maturing May 1, 2021 and thereafter (the "Refunded Bonds") on May 1, 2021; and (ii) pay the cost of the Bond issuance expenses (see "Plan of Refunding" herein). The Board has determined that the plan of refunding the Refunded Bonds will result in considerable interest cost savings to the Southgate Independent School District (the "District") and is in the best interest of the District.

Any investments purchased for the Bond Fund shall be limited to (i) direct Obligations of or Obligations guaranteed by the United States government, or (ii) Obligations of agencies or corporations of the United States as permitted under KRS 66.480(1)(b) and (c) or (iii) Certificates of Deposit of FDIC banks fully collateralized by direct Obligations of or Obligations guaranteed by the United States.

The Plan of Refunding the Bonds of the Prior Issue as set out in the Preliminary Official Statement is tentative as to what Bonds of the Prior Issue shall be refunded and will not be finalized until the sale of the Refunding Bonds.

PURPOSE OF THE PRIOR BONDS

The Refunded Bonds were issued by the Corporation for the purpose of providing funds to finance improvements and renovations at Southgate School (the "Project").

ESTIMATED BOND DEBT SERVICE

The following table shows by fiscal year the current bond payments of the Board. The plan of financing provides for the Board to meet 64% of the debt service of the Bonds.

| Fiscal Year Ending June 30 | Current Local Bond Payments | 2021-Refunding Revenue Bonds | | | | | Total Local Bond Payments |
|-------------------------------------|--------------------------------------|------------------------------|-----------|--------------|-----------------|------------------|------------------------------------|
| | | Principal | Interest | Total | SFCC Portion | Local Portion | |
| 2019 | \$82,613 | | | | | | \$ 82,613 |
| 2020 | \$79,064 | | | | | | \$ 79,064 |
| 2021 | \$80,514 | \$ 75,000 | \$ 2,776 | \$ 77,776 | 27,999 | 49,777 | \$ 68,752 |
| 2022 | \$81,764 | \$ 85,000 | \$ 11,170 | \$ 96,170 | 34,621 | 61,549 | \$ 71,659 |
| 2023 | \$82,813 | \$ 85,000 | \$ 10,575 | \$ 95,575 | 34,407 | 61,168 | \$ 69,913 |
| 2024 | \$78,632 | \$ 90,000 | \$ 9,895 | \$ 99,895 | 35,962 | 63,933 | \$ 68,052 |
| 2025 | \$79,238 | \$ 95,000 | \$ 9,085 | \$ 104,085 | 37,471 | 66,614 | \$ 71,048 |
| 2026 | \$79,689 | \$ 90,000 | \$ 8,135 | \$ 98,135 | 35,329 | 62,806 | \$ 68,949 |
| 2027 | \$79,926 | \$ 90,000 | \$ 7,055 | \$ 97,055 | 34,940 | 62,115 | \$ 71,718 |
| 2028 | \$79,783 | \$ 90,000 | \$ 5,840 | \$ 95,840 | 34,502 | 61,338 | \$ 68,973 |
| 2029 | \$79,413 | \$ 90,000 | \$ 4,400 | \$ 94,400 | 33,984 | 60,416 | \$ 70,988 |
| 2030 | \$9,032 | \$ 90,000 | \$ 2,960 | \$ 92,960 | 33,466 | 59,494 | -\$ 1,783 |
| 2031 | \$7,895 | \$ 95,000 | \$ 1,520 | \$ 96,520 | 34,747 | 61,773 | -\$ 85 |
| 2032 | \$6,757 | | | | | | \$ 6,757 |
| 2033 | \$5,619 | | | | | | \$ 5,619 |
| 2034 | \$9,481 | | | | | | \$ 9,481 |
| 2035 | \$8,181 | | | | | | \$ 8,181 |
| 2036 | \$6,882 | | | | | | \$ 6,882 |
| 2037 | \$10,581 | | | | | | \$ 10,581 |
| Totals: | \$ 947,877 | \$ 975,000 | \$ 73,411 | \$ 1,048,411 | \$ 377,428 | \$ 670,983 | \$ 837,363 |

Note: Numbers are rounded to the nearest \$1.00.

ESTIMATED USE OF BOND PROCEEDS

The table below shows the estimated sources of funds and uses of proceeds of the Bonds, other than any portions thereof representing accrued interest:

| | |
|-----------------------------|---------------------|
| Sources: | |
| Par Amount of Bonds | <u>\$975,000.00</u> |
| Total Sources | \$975,000.00 |
| Uses: | |
| Deposit to Escrow Fund | \$945,030.00 |
| Underwriter's Discount (1%) | 9,750.00 |
| Cost of Issuance | <u>20,225.00</u> |
| Total Uses | \$975,000.00 |

DISTRICT STUDENT POPULATION

Selected school census and average daily attendance for the Southgate Independent School District is as follows:

| <u>Year</u> | <u>Average Daily Attendance</u> | <u>Year</u> | <u>Average Daily Attendance</u> |
|-------------|---------------------------------|-------------|---------------------------------|
| 2000-01 | 193.7 | 2010-11 | 193.7 |
| 2001-02 | 169.3 | 2011-12 | 185.8 |
| 2002-03 | 164.8 | 2012-13 | 179.1 |
| 2003-04 | 162.0 | 2013-14 | 169.8 |
| 2004-05 | 155.2 | 2014-15 | 157.3 |
| 2005-06 | 144.6 | 2015-16 | 153.9 |
| 2006-07 | 134.5 | 2016-17 | 160.5 |
| 2007-08 | 131.9 | 2017-18 | 154.4 |
| 2008-09 | 130.3 | 2018-19 | 166.9 |
| 2009-10 | 191.6 | 2019-20 | 160.6 |

Source: Kentucky State Department of Education.

STATE SUPPORT

Support Education Excellence in Kentucky (SEEK). In determining the cost of the program to Support Education Excellence in Kentucky (SEEK), the statewide guaranteed base funding level is computed by dividing the amount appropriated by the prior year's statewide average daily attendance. The SEEK fund is a guaranteed amount of money per pupil in each school district of Kentucky. The current SEEK allotment is \$3,866 per pupil. The \$100 capital outlay allotment per each average daily attendance is included within the guaranteed amounts. Each district's base funding from the SEEK program is adjusted for the number of at-risk students, the number and types of exceptional children in the district, and cost of transporting students from and to school in the district.

Capital Outlay Allotment. The per pupil capital outlay allotment for each district from the public school fund and from local sources shall be kept in a separate account and may be used by the district only for capital outlay projects approved by the State Department of Education. These funds shall be used for the following capital outlay purposes:

- a. For direct payment of construction costs.
- b. For debt service on voted and funding bonds.
- c. For payment or lease-rental agreements under which the board will eventually acquire ownership of the school plant.
- d. For retirement of any deficit resulting from over-expenditure for capital construction, if such deficit resulted from certain declared emergencies.
- e. As a reserve fund for the above named purposes, to be carried forward in ensuing budgets.

The allotment for each school board of education in the Commonwealth for fiscal year 1978-79 was \$1,800 per classroom unit. The 1979 Session of the Kentucky General Assembly approved increases in this allotment in 1979-80 to \$1,900 per classroom unit. This rate remained unchanged in 1980-81. The 1981 Session of the Kentucky General Assembly decreased the allotment per classroom to \$1,800 and this allotment rate did not change from the 1981-82 rate, until the 1990-91 school year. Beginning with 1990-91, the Capital Outlay allotment for each district is based on \$100 per average daily attendance.

The following table shows the computation of the capital outlay allotment for the Southgate Independent School District for certain preceding school years. Beginning 1990-91, the allotment is based on average daily attendance as required by law.

| <u>Year</u> | <u>Capital Outlay Allotment</u> | <u>Year</u> | <u>Capital Outlay Allotment</u> |
|-------------|---------------------------------|-------------|---------------------------------|
| 2000-01 | 19,370.0 | 2010-11 | 19,370.7 |
| 2001-02 | 16,930.0 | 2011-12 | 18,582.0 |
| 2002-03 | 16,480.0 | 2012-13 | 17,908.4 |
| 2003-04 | 16,200.0 | 2013-14 | 16,981.3 |
| 2004-05 | 15,520.0 | 2014-15 | 15,730.5 |
| 2005-06 | 14,460.0 | 2015-16 | 15,391.2 |
| 2006-07 | 13,450.0 | 2016-17 | 16,050.0 |
| 2007-08 | 13,190.0 | 2017-18 | 15,440.0 |
| 2008-09 | 13,025.0 | 2018-19 | 16,689.0 |
| 2009-10 | 19,160.3 | 2019-20 | 16,060.0 |

If the school district has no capital outlay needs, upon approval from the State, the funds can be used for school plant maintenance, repair, insurance on buildings, replacement of equipment, purchase of school buses and purchase of modern technological equipment for educational purposes. If any district has a special levy for capital outlay or debt service that is equal to the capital outlay allotment or a proportionate fraction thereof, and spends the proceeds of the levy for eligible purposes, the State may authorize the district to use all or a proportionate fraction of its capital outlay allotment for current expenses (school districts which use capital outlay allotments to meet current expenses are not eligible to participate in the School Facilities Construction Commission funds).

Facilities Support Program of Kentucky. School districts may be eligible to participate in the Facilities Support Program of Kentucky (FSPK), subject to the following requirements:

- 1) The district must have unmet needs as set forth and approved by the State Department of Education in a School Facilities Plan;
- 2) The district must commit to establish an equivalent tax rate of at least 5 cents, in addition to the 30 cents minimum current equivalent tax rate; and,
- 3) The new revenues generated by the 5 cent addition, must be placed in a restricted account for school building construction bonding.

LOCAL SUPPORT

Homestead Exemption. Section 170 of the Kentucky Constitution was amended at the General Election held November 2, 1971, to exempt from property taxes \$6,500 of value of single unit residential property of taxpayers 65 years of age or older. The 1972 General Assembly amended KRS Chapter 132 to permit counties and school districts to adjust their local tax revenues lost through the application of this Homestead Exemption. The "Single Unit" qualification has been enlarged to subsequent sessions of the General Assembly to provide that such exemption shall apply to such property maintained as the permanent resident of the owner and the dollar amount has been construed to mean \$6,500 in terms of the purchasing power of the dollar in 1972. Every two years thereafter, if the cost of living index of the U.S. Department of Labor has changed as much as 1%, the maximum exemption shall be adjusted accordingly. Under the cost of living formula, the maximum was increased to \$39,300 effective January 1, 2019.

Limitation on Taxation. The 1979 Special Session of the Kentucky General Assembly enacted House Bill 44 which provides that no school district may levy a general tax rate, voted general tax rate, or voted building tax rate which would generate revenues that exceeds the previous years revenues by four percent (4%).

The 1990 Regular Session of the Kentucky General Assembly in enacting the "School Reform" legislative package amended the provisions of KRS 160.470 which prohibited school districts from levying ad valorem property taxes which would generate revenues in excess of 4% of the previous year's revenues without said levy subject to recall to permit exceptions to the referendum under (1) KRS 160.470(12) [a new section of the statute] and (2) an amended KRS 157.440.

Under KRS 160.470(12)(a) for fiscal years beginning July 1, 1990 school districts are required to levy a "minimum equivalent tax rate" of thirty cents (\$.30) for general school purposes. The equivalent tax rate is defined as the rate which results when the income collected during the prior year from all taxes (including occupational or utilities) levied by the district for school purposes divided by the total assessed value of property plus the assessment for motor vehicles certified by the State Revenue Cabinet. Failure to levy the minimum equivalent rate subjects the board of the district to removal.

The exception provided by KRS 157.440(1)(a) permits school districts to levy an equivalent tax rate as defined in KRS 160.470(12)(a) which will produce up to 15% of those revenues guaranteed by the program to support education excellence in Kentucky. Levies permitted by this section of the statute are not subject to public hearing or recall provisions as set forth in KRS 160.470.

Local Thirty Cents Minimum. Effective for school years beginning after June 30, 1990, the board of education of each school district shall levy a minimum equivalent tax rate of thirty cents (\$.30) for general school purposes. If a board fails to comply, its members shall be subject to removal from office for willful neglect of duty.

Additional 15% Not Subject to Recall. Effective with the school year beginning July 1, 1990, each school district may levy an equivalent tax rate which will produce up to 15% of those revenues guaranteed by the SEEK program. Effective with the 1990-91 school year, the State will equalize the revenue generated by this levy at one hundred fifty percent (150%) of the statewide average per pupil equalized assessment. For 1993-94 and thereafter, this level is set at \$225,000. The additional 15% rate levy is not subject to the public hearing or recall provisions.

Assessment Valuation. No later than July 1, 1994, all real property located in the state and subject to local taxation shall be assessed at one hundred percent (100%) of fair cash value.

Special Voted and Other Local Taxes. Any district may, in addition to other taxes for school purposes, levy not less than four cents nor more than twenty cents on each one hundred dollars (\$100) valuation of property subject to local taxation, to provide a special fund for the purchase of sites for school buildings and the erection, major alteration, enlargement, and complete equipping of school buildings. In addition, districts may levy taxes on tangible and intangible property and on utilities, except generally any amounts of revenues generated above that provided for by House Bill 44 is subject to voter recall.

Local Tax Rates, Property Assessments and Revenue Collections

| Tax Year | Combined Equivalent Rate | Total Property Assessment | Property Revenue Collections |
|-----------------|---------------------------------|----------------------------------|-------------------------------------|
| 2000-01 | 55.7 | 74,842,357 | 416,872 |
| 2001-02 | 55.1 | 75,827,612 | 417,810 |
| 2002-03 | 58 | 93,637,827 | 543,099 |
| 2003-04 | 58 | 93,955,232 | 544,940 |
| 2004-05 | 67 | 92,246,768 | 618,053 |
| 2005-06 | 74.1 | 93,627,023 | 693,776 |
| 2006-07 | 69.3 | 102,933,405 | 713,328 |
| 2007-08 | 74.1 | 103,652,591 | 768,066 |
| 2008-09 | 71.8 | 105,495,707 | 757,459 |
| 2009-10 | 71.8 | 109,389,497 | 785,417 |
| 2010-11 | 78.6 | 114,575,536 | 900,564 |
| 2011-12 | 83.1 | 113,418,613 | 942,509 |
| 2012-13 | 87.9 | 113,483,474 | 997,520 |
| 2013-14 | 92 | 111,792,263 | 1,028,489 |
| 2014-15 | 97.5 | 108,839,251 | 1,061,183 |
| 2015-16 | 112.8 | 109,036,491 | 1,229,932 |
| 2016-17 | 113.1 | 111,168,490 | 1,257,316 |
| 2017-18 | 113.1 | 111,412,966 | 1,260,081 |
| 2018-19 | 118 | 110,850,497 | 1,308,036 |
| 2019-20 | 119 | 112,735,536 | 1,341,553 |

Overlapping Bond Indebtedness

The following table shows any other overlapping bond indebtedness of the Southgate Independent School District or other issuing agency within the County as reported by the State Local Debt Officer for the period ending June 30, 2020.

| Issuer | Original Principal Amount | Amount of Bonds Redeemed | Current Principal Outstanding |
|--------------------------------|----------------------------------|---------------------------------|--------------------------------------|
| County of Campbell | | | |
| General Obligation | \$19,550,000 | \$5,985,415 | \$13,564,585 |
| Elderly Care Facility Revenue | \$1,815,000 | \$430,000 | \$1,385,000 |
| Refinancing Refunding Revenue | \$903,088 | \$358,776 | \$544,312 |
| Manufacturing Facility Revenue | \$12,000,000 | \$0 | \$12,000,000 |
| City of Alexandria | | | |
| General Obligation | \$500,000 | \$0 | \$500,000 |
| City of Bellevue | | | |
| General Obligation | \$8,990,000 | \$1,120,000 | \$7,870,000 |
| City of Cold Spring | | | |
| General Obligation | \$2,000,000 | \$1,771,556 | \$228,444 |
| City of Dayton | | | |
| Infrastructure Revenue | \$1,150,000 | \$180,000 | \$970,000 |
| Improvement Project Refunding | \$1,150,000 | \$180,000 | \$970,000 |
| Fire Vehicles Revenue | \$685,973 | | \$564,252 |
| City of Ft. Thomas | | | |
| General Obligation | \$2,290,000 | \$1,470,000 | \$820,000 |
| City of Highland Heights | | | |
| General Obligation | \$10,230,000 | \$795,000 | \$9,435,000 |

| | | | |
|--------------------------------------|----------------------|----------------------|----------------------|
| City of Newport | | | |
| General Obligation | \$38,867,767 | \$19,639,009 | \$19,228,758 |
| Public Project Revenue | \$44,230,000 | \$25,745,000 | \$18,485,000 |
| KLC Funding Trust Program Revenue | \$50,000,000 | \$0 | \$50,000,000 |
| Courthouse & City Hall Lease Revenue | \$27,750,000 | \$8,870,000 | \$18,880,000 |
| City of Silver Grove | | | |
| General Obligation | \$1,005,000 | \$636,588 | \$368,412 |
| City of Southgate | | | |
| General Obligation | \$2,279,931 | \$697,801 | \$1,582,130 |
| City of Wilder | | | |
| General Obligation | \$11,155,000 | \$2,687,179 | \$8,467,821 |
| Special Districts | | | |
| Alexandria Fire Department | \$2,200,000 | \$790,788 | \$1,409,212 |
| Campbell County Dispatching Board | \$4,630,000 | \$884,000 | \$3,746,000 |
| Campbell County Fire District #1 | \$590,000 | \$337,619 | \$252,381 |
| Campbell County FPD #3 | \$358,500 | \$207,207 | \$151,293 |
| Campbell County Library District | \$3,070,000 | \$2,349,630 | \$720,370 |
| Northern Kentucky Water District | \$198,946,000 | \$65,808,853 | \$133,137,147 |
| Northern Kentucky Port Authority | \$1,500,000 | \$1,240,000 | \$260,000 |
| Totals: | \$447,846,259 | \$142,306,142 | \$305,540,117 |

Source: 2020 Kentucky Local Debt Report.

SEEK Allotment

The Board has reported the following information as to the SEEK allotment to the District, and as provided by the State Department of Education. These receipts are compared to the 1989-90 fiscal year funding prior to enactment of the Kentucky Education Reform Act:

| SEEK | Base Funding | Local Tax Effort | Total State & Local Funding |
|---------|--------------|------------------|-----------------------------|
| 2000-01 | 501,622 | 416,872 | 918,494 |
| 2001-02 | 455,156 | 417,810 | 872,966 |
| 2002-03 | 426,914 | 543,099 | 970,013 |
| 2003-04 | 408,506 | 544,940 | 953,446 |
| 2004-05 | 391,359 | 618,053 | 1,009,412 |
| 2005-06 | 364,629 | 693,776 | 1,058,405 |
| 2006-07 | 339,161 | 713,328 | 1,052,489 |
| 2007-08 | 332,604 | 768,066 | 1,100,670 |
| 2008-09 | 334,227 | 757,459 | 1,091,686 |
| 2009-10 | 604,724 | 785,417 | 1,390,141 |
| 2010-11 | 645,870 | 900,564 | 1,546,434 |
| 2011-12 | 651,330 | 942,509 | 1,593,839 |
| 2012-13 | 605,454 | 997,520 | 1,602,974 |
| 2013-14 | 560,598 | 1,028,489 | 1,589,087 |
| 2014-15 | 523,875 | 1,061,183 | 1,585,058 |
| 2015-16 | 524,390 | 1,229,932 | 1,754,322 |
| 2016-17 | 525,242 | 1,257,316 | 1,782,558 |
| 2017-18 | 529,642 | 1,260,081 | 1,789,723 |
| 2018-19 | 551,733 | 1,308,036 | 1,859,769 |
| 2019-20 | 508,024 | 1,341,553 | 1,849,577 |

- (1) Support Education Excellence in Kentucky (SEEK) replaces the minimum foundation program and power equalization funding. Capital Outlay is now computed at \$100 per average daily attendance (ADA). Capital Outlay is included in the SEEK base funding.

- (2) The Board established a current equivalent tax rate (CETR) of \$1.190 for FY 2019-20. The equivalent tax rate" is defined as the rate which results when the income from all taxes levied by the district for school purposes is divided by the total assessed value of property plus the assessment for motor vehicles certified by the Commonwealth of Kentucky Revenue Cabinet.

State Budgeting Process

- i) Each district board of education is required to prepare a general school budget on forms prescribed and furnished by the Kentucky Board of Education, showing the amount of money needed for current expenses, debt service, capital outlay, and other necessary expenses of the school during the succeeding fiscal year and the estimated amount that will be received from all sources.
- ii) By September 15 of each year, after the district receives its tax assessment data from the Department of Revenue and the State Department of Education, 3 copies of the budget are forwarded to the State Department for approval or disapproval.
- iii) The State Department of Education has adopted a policy of disapproving a school budget if it is financially unsound or fails to provide for:
 - a) payment of maturing principal and interest on any outstanding voted school improvement bonds of the district or payment of rental in connection with any outstanding school building revenue bonds issued for the benefit of the school district; or
 - b) fails to comply with the law.

COVID-19

The recent outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, which was first detected in China and has since spread to other countries, including the United States and the Commonwealth of Kentucky, has been declared a Pandemic by the World Health Organization. The outbreak of the disease has affected travel, commerce and financial markets globally and is widely expected to affect economic growth worldwide. On March 13, 2020, President Donald Trump declared a national emergency to unlock federal funds to help states and local governments fight the pandemic.

While the collection of property taxes, which are a significant source of building fund revenue for the payment of principal and interest due on the bonds (see "LOCAL SUPPORT" herein) may be impacted by the COVID-19 emergency, the District does not expect the impact to be significant unless the economic hardship is long term. In addition, the Commonwealth of Kentucky revenues are also likely to be impacted by a long-term economic hardship caused by declining collections of sales taxes, wage taxes, income taxes, property taxes and other revenue sources. The impact of those declining revenue collections on state education funds (see "STATE SUPPORT" herein) is unknown. Although the potential impact of the virus on the Commonwealth and the Board of Education's future ability to make payments under the Lease cannot be predicted at this time, the continued spread of the outbreak could have a material adverse effect on the Board of Education and ultimately, the Corporation.

On March 24, 2020 the Governor of Kentucky signed Senate Bill 177 which provides relief to Kentucky School Districts in light of the Coronavirus emergency. Among other things, it removes the limits on the number of days that a district can utilize an approved Non-Traditional Instruction program ("NTI"). Senate Bill 177 also authorizes Kentucky Superintendents to use their school year 2018-2019 attendance data on their Superintendent's Annual Attendance Report. The report determines a district's average daily attendance used in calculating Support Education Excellence in Kentucky ("SEEK") funds. On April 2, 2020, the Governor of Kentucky has recommended that all schools remain closed until at least May 1, 2020, and all 172 Kentucky school districts are utilizing KDE's Non-Traditional Instruction (NTI) Program. For more information on the Kentucky Department

of Education's response to COVID 19, please see their website at <https://education.ky.gov/comm/Pages/COVID-19-Updates.aspx>.

POTENTIAL LEGISLATION

No assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax exemption of such interest. In addition, current and future legislative proposals, if enacted into law, may cause interest on state or local government bonds (whether issued before, on the date of, or after enactment of such legislation) to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the amount of interest on such bonds that may currently be treated as tax exempt by certain individuals. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Bonds for audit examination, or the course or result of any IRS examination of the Bonds or obligations which present similar tax issues, will not affect the market price for the Bonds.

CONTINUING DISCLOSURE

As a result of the principal amount of Bonds being offered not exceeding \$1,000,000 Bond Counsel has advised the Corporation and the Board that they are exempt from application of the Rule 15c2-12c2-12(b)(5) of the Securities and Exchange Commission with respect to the Bonds.

Financial information regarding the Board may be obtained from Superintendent, Southgate Independent School District Board of Education, 6 William F. Blatt Avenue, Southgate, Kentucky 41071, Telephone 859-441-0743.

TAX EXEMPTION; BANK QUALIFIED

Bond Counsel is of the opinion that:

(A) The Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes under existing law and will not be a specific item of tax preference for purposes of calculating the Federal alternative minimum income tax.

(C) As a result of designations and certifications by the Board and the Corporation, indicating the issuance of less than \$10,000,000 of tax-exempt obligations during the calendar year ending December 31, 2021, the Bonds are "qualified tax-exempt obligations" within the meaning of the Internal Revenue Code of 1986, as amended.

The Corporation will provide the purchaser the customary no-litigation certificate, and the final approving Legal Opinions of Steptoe & Johnson PLLC, Bond Counsel and Special Tax Counsel, Louisville, Kentucky approving the legality of the Bonds. These opinions will accompany the Bonds when delivered, without expense to the purchaser.

Original Issue Premium

Certain of the Bonds are being initially offered and sold to the public at a premium ("Acquisition Premium" from the amounts payable at maturity thereon. "Acquisition Premium" is the excess of the cost of a

bond over the stated redemption price of such bond at maturity or, for bonds that have one or more earlier call dates, the amount payable at the next earliest call date. The Bonds that bear an interest rate that is higher than the yield (as shown on the cover page hereof), are being initially offered and sold to the public at an Acquisition Premium (the "Premium Bonds"). For federal income tax purposes, the amount of Acquisition Premium on each bond the interest on which is excludable from gross income for federal income tax purposes ("tax-exempt bonds") must be amortized and will reduce the bondholder's adjusted basis in that bond. However, no amount of amortized Acquisition Premium on tax-exempt bonds may be deducted in determining bondholder's taxable income for federal income tax purposes. The amount of any Acquisition Premium paid on the Premium Bonds, or on any of the Bonds, that must be amortized during any period will be based on the "constant yield" method, using the original bondholder's basis in such bonds and compounding semiannually. This amount is amortized ratably over that semiannual period on a daily basis.

Holders of any Bonds, including any Premium Bonds, purchased at an Acquisition Premium should consult their own tax advisors as to the actual effect of such Acquisition Premium with respect to their own tax situation and as to the treatment of Acquisition Premium for state tax purposes.

Original Issue Discount

Certain of the Bonds (the "Discount Bonds") are being initially offered and sold to the public at a discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond. The amount accrued will be based on a single rate of interest, compounded semiannually (the "yield to maturity") and, during each semi-annual period, the amount will accrue ratably on a daily basis. The OID accrued during the period that an initial purchaser of a Discount Bond at its issue price owns it is added to the purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Discount Bond. In practical effect, accrued OID is treated as stated interest, that is, as excludable from gross income for federal income tax purposes.

In addition, original issue discount that accrues in each year to an owner of a Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed above. Consequently, owners of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

Holders of Discount Bonds should consult their own tax advisors as to the treatment of OID and the tax consequences of the purchase of such Discount Bonds other than at the issue price during the initial public offering and as to the treatment of OID for state tax purposes.

ABSENCE OF MATERIAL LITIGATION

There is no controversy or litigation of any nature now pending or threatened (i) restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Board or Corporation taken with respect to the issuance or sale thereof or (ii) which if successful would have a material adverse effect on the financial condition of the Board.

APPROVAL OF LEGALITY

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving legal opinion of Steptoe & Johnson PLLC, Bond Counsel. The form of the approving legal opinion of Bond Counsel will appear on each printed Bond.

NO LEGAL OPINION EXPRESSED AS TO CERTAIN MATTERS

Bond Counsel has reviewed the information contained in the Official Statement describing the Bonds and the provisions of the Bond Resolution and related proceedings authorizing the Bonds, but Bond Counsel has not reviewed any of the financial data, computations, tabulations, balance sheets, financial projections, and general information concerning the Corporation or District, and expresses no opinion thereon, assumes no responsibility for same and has not undertaken independently to verify any information contained herein.

BOND RATING

As noted on the cover page of this Official Statement, Moody's Investors Service has given the Bonds the indicated rating. Such rating reflects only the respective views of such organization. Explanations of the significance of the rating may be obtained from the rating agency. There can be no assurance that such rating will be maintained for any given period of time or will not be revised or withdrawn entirely by the rating agency, if in their judgement circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

FINANCIAL ADVISOR

Prospective bidders are advised that RSA Advisors, LLC ("RSA") has been employed as Financial Advisor in connection with the issuance of the Bonds. RSA's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. Bidders may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.

APPROVAL OF OFFICIAL STATEMENT

The Corporation has approved and caused this "Official Statement" to be executed and delivered by its President. In making this "Official Statement" the Corporation relied upon information furnished to it by the Board of Education of the Southgate Independent School District and does not assume any responsibility as to the accuracy or completeness of any of the information in this Official Statement except as to copies of documents denominated "Official Terms and Conditions" and "Bid Form." The financial information supplied by the Board of Education is represented by the Board of Education to be correct. The Corporation deems this preliminary Official Statement to be final for purposes of Securities Exchange Commission Rule 15c2-12(b)(1) as qualified by the cover hereof.

No dealer, broker, salesman, or other person has been authorized by the Corporation, the Southgate Independent Board of Education or the Financial Advisor to give any information or representations, other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except when otherwise indicated, the information set forth herein has been obtained from the Kentucky Department of Education and the Southgate Independent School District and is believed to be reliable; however, such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Financial Advisor or by Counsel. The delivery of this Official Statement at any time does not imply that information herein is correct as of any time subsequent to the date hereof.

APPENDIX A

**Southgate Independent School District Finance Corporation
School Building Refunding Revenue Bonds
Series of 2021**

Demographic and Economic Data

NORTHERN KENTUCKY

Campbell County is a county located in the northern part of the U.S. state of Kentucky. Its county seats are Alexandria and Newport. The county was formed on December 17, 1794, from sections of Scott, Harrison, and Mason Counties and was named for Colonel John Campbell (1735–1799), a Revolutionary War soldier and Kentucky legislator. Campbell County, with Boone and Kenton Counties, is part of the Northern Kentucky metro community, and the Cincinnati-Middletown, OH-KY-IN Metropolitan Statistical Area.

The Bluegrass region was the most quickly settled part of the state and now is home to about half the state's population. The Northern Kentucky Area, covering a total land area of 559 square miles, is composed of Boone, Campbell, and Campbell Counties; and is ideally situated along and adjacent to the south bank of the Ohio River, immediately south of Cincinnati, Ohio. Campbell County had an estimated 2020 population of 93,543. Southgate had a 2020 population of 3,994.

The Northern Kentucky Area forms the northern apex of an industrial triangle anchored by Louisville on the southwest and Lexington on the southeast. Within the triangle are more than one-third of the state's population and nearly one-half of its manufacturing jobs. The interstate highway system places these three metropolitan areas within less than two hours driving from each other.

The Economic Framework

Campbell County has a labor force of 49,560 people with an unemployment rate of 3.5%. The total number of people employed in 2019 averaged 32,483. The top 5 jobs by occupation are as follows: office and administrative support - 3,846 (12.07%); sales - 3,770 (11.84%); production workers - 3,327 (10.44%); executive managers and administrators - 2,727 (8.56%); and food preparation/serving - 2,676 (8.4%).

Transportation

Major highways serving Boone, Kenton, and Campbell Counties include Interstates 71, 75, 275, and 471; U.S. Highways 42/127, 25, and 27. The Greater Cincinnati-Northern Kentucky International Airport, located in Campbell County, Kentucky, provides commercial airline service. The airport is a major hub for Delta Airlines. The Southern Railway System and CSX Transportation provide main line rail service to the area. Several barge and towing companies provide barge transportation on the Ohio River. The Port of Cincinnati extends 30 miles along both banks of the Ohio River.

Power and Fuel

Electric power is provided to Boone, Kenton, and Campbell Counties by Duke Energy Kentucky, E. ON US/KU, East Kentucky Power Cooperative and Owen Electric Cooperative, Inc. Natural gas service is provided to major portions of the three-county area by Duke Energy Kentucky.

LABOR MARKET STATISTICS

The Labor Market Area includes Boone, Campbell, Gallatin, Grant, Kenton and Pendleton counties in Kentucky. The Labor Market Area is supplemented by the Ohio counties of Hamilton, Butler, Clermont and Warren; and Dearborn County in Indiana.

Population

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Campbell County | 92,377 | 92,373 | 91,537 | 92,747 | 92,615 | 93,543 |
| Southgate | 3,983 | 3,864 | 3,806 | 3,926 | 3,938 | 3,994 |

Source: Kentucky State Data Center, University of Louisville.

Population Projections

| | <u>2025</u> | <u>2030</u> | <u>2035</u> |
|-----------------|-------------|-------------|-------------|
| Campbell County | 93,427 | 93,473 | 93,028 |

Source: Kentucky Data Center, University of Louisville.

EDUCATION

Public Schools

| | <u>2018-2019 Total Enrollment</u> | <u>2018-2019 Pupil to Teacher Ratio</u> |
|----------------------------------|---|---|
| Bellevue Independent Schools | 594 | 13-1 |
| Campbell County Schools | 4,735 | 15-1 |
| Dayton Independent Schools | 886 | 14-1 |
| Ft. Thomas Independent Schools | 3,057 | 16-1 |
| Newport Independent School | 1,458 | 11-1 |
| Silver Grove Independent Schools | 191 | 11-1 |
| Southgate Independent Schools | 175 | 10-1 |

Vocational - Technical Schools

| <u>Institution</u> | <u>Location</u> | <u>Enrollment (2018-2019)</u> |
|---------------------------------------|------------------|-----------------------------------|
| Campbell County ATC | Ft. Mitchell, KY | 286 |
| Kenton County Academies of Innovation | Alexandria, KY | 508 |
| Boone County ATC | Hebron, KY | 215 |
| Carroll County ATC | Carrollton, KY | 420 |
| Harrison County ATC | Cynthiana, KY | 556 |

Colleges and Universities

42.9% of the population in Campbell County have an Associate's degree or higher. 91.4% have a high school degree or higher.

| <u>Top 5 Universities within 50 miles</u> | <u>Enrollment</u> |
|---|-------------------|
| University of Cincinnati (Main Campus) | 38,062 |
| Miami University - Oxford | 19,933 |
| Northern Kentucky University | 14,783 |
| Xavier University | 7,132 |

Source: Kentucky Cabinet for Economic Development

EXISTING INDUSTRY

| <u>Firm</u> | <u>Product</u> | <u>Employment</u> |
|--|---|-------------------|
| <i>Alexandria</i> | | |
| Reis Concrete Products Inc | Ready-mixed concrete & precast septic tank | 30 |
| Tyson - Hillshire Brands | Little smokies (cocktails); hot dogs; lunch meat | 758 |
| <i>Bellevue</i> | | |
| Liberty Plastics Molding Corp Inc | Plastic injection molds, molding & prototypes; packaging machinery parts; plastic chemical transfer pump bodies, components, bowling alley parts, utility ind | 6 |
| Newforms Inc | Commercial printer | 4 |
| Otto Printing & Entertainment Graphics | Digital printing, brochures, business cards | 6 |
| Thompson Enamel Inc | Powdered glass colors (enamels) | 16 |
| <i>Cold Spring</i> | | |
| CCL Label | Flexographic and variable image printing | 75 |
| Fischer Special Manufacturing | Automatic screw machine products | 65 |
| <i>Dayton</i> | | |
| Active Radiator | Truck and industrial radiators | 15 |
| Advertiser Printers Inc | Commercial offset printing/binding | 28 |
| Cobb Inc | Electronic prepress work & typesetting | 7 |
| Fastemp Glass Co Inc | Glass products for lighting fixtures | 30 |
| Metal Solutions Design & Fabrication LLC | Manufacture DOT certified metal containers for nuclear waste & other hazardous products | 18 |
| <i>Highland Heights</i> | | |
| Busken Bakery Inc | Produces hamburger/hot dog buns, cakes, donuts | 4 |
| <i>Newport</i> | | |
| Dixie Chili Inc | Manufacture and distribute canned chili | 16 |
| International Identification Inc | Animal ID tags | 75 |
| Steinhauser Inc | Packaging, pressure sensitive labels | 34 |
| Wendling Printing Inc | Offset printing and binding | 20 |
| <i>Silver Grove</i> | | |
| Continental Building Products | Gypsum wallboard, joint compound | 275 |
| <i>Wilder</i> | | |
| Andrews Laser Works Corp | Laser processing; metal stamping; welding | 100 |
| Ferrous85 Company | Steel toll processor of rolled steel | 11 |
| TMK IPSCO Tubulars Kentucky | Manufacture steel pipes for oil & gas industry | 349 |
| Trophy Awards Manufacturing Inc | Awards, crystal awards, acrylic awards, trophies | 35 |

Source: Kentucky Directory of Manufacturers (2020).

APPENDIX B

**Southgate Independent School District Finance Corporation
School Building Refunding Revenue Bonds
Series of 2021**

Audited Financial Statement ending June 30, 2019

SOUTHGATE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2019

TABLE OF CONTENTS

| | |
|---|---------|
| Report of Independent Auditor | 1 - 2 |
| Management’s Discussion and Analysis | 3 - 5 |
| Basic Financial Statements | |
| <i>Government-wide Financial Statements</i> | |
| Statement of Net Position | 6 |
| Statement of Activities | 7 |
| <i>Fund Financial Statements</i> | |
| Balance Sheet – Governmental Funds | 8 |
| Reconciliation of Total Government Fund Balances to Net Position of Governmental Activities | 9 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds | 10 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 11 |
| Statement of Net Position – Proprietary Fund | 12 |
| Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund | 13 |
| Statement of Cash Flows – Proprietary Fund | 14 |
| Statement of Fiduciary Net Position – Fiduciary Fund | 15 |
| Notes to the Financial Statements | 16 - 40 |
| Supplementary Information | |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual - General Fund | 41 |
| Statement of Revenues, Expenditures, and Chang in Fund Balances – Budget and Actual – Special Revenue Fund | 42 |
| Combining Balance Sheet – Nonmajor Governmental Funds | 43 |
| Combining Statement of Revenues, Expenditures, and Changes In Fund Balances - Nonmajor Governmental Funds | 44 |
| Schedule of District’s Proportionate Share of the Net Pension Liability – County Employees Retirement System | 45 |
| Schedule of District’s Proportionate Share of the Net Pension Liability – Kentucky Teachers Retirement System | 46 |
| Schedule of District’s Proportionate Share of the Net OPEB Liability – Kentucky Teachers Retirement System | 47 |
| Schedule of District’s Proportionate Share of the Net OPEB Liability – County Employees Retirement System | 48 |
| Statement of Receipts and Disbursements – School Activity Fund | 49 |

| | |
|--|----------------|
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters required by Government Auditing Standards | 50 - 51 |
| Schedule of Prior Year Audit Findings | 52 |
| Management Letter Transmittal..... | 53 |
| Management Letter Comments..... | 54 |

REPORT OF INDEPENDENT AUDITOR

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**REPORT OF INDEPENDENT AUDITOR
(CONTINUED)**

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 5, budgetary comparison information on pages 41 to 42, and pension and OPEB schedules on pages 45 to 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the combining and individual nonmajor fund financial statements 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 11, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 District's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

November 11, 2019

As management of the Southgate Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2019 are as follows:

- The beginning cash balance for all funds of the District, excluding agency funds, was \$1,040,634 and the ending balance was \$1,555,418; an increase of \$514,784 for the year.
- The District's long-term debt increased by \$570,000 due to issuing new bonds of \$640,000 and making principal payments of \$70,000.
- The General Fund had \$2,538,364 in revenues and \$2,582,496 in expenditures.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

The government-wide financial statements outline functions of the District that are 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, and operation of non-instructional services.

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. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary, and fiduciary funds. The only proprietary fund is the food service fund. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. All other activities of the District are included in the governmental funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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 exceeded liabilities by \$630,022 at year end.

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

Net position for the period ending June 30, 2019:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|----------------------------------|----------------------|----------------------|
| Current assets | \$ 1,669,718 | \$ 1,171,727 |
| Non-current assets | <u>1,801,597</u> | <u>1,782,526</u> |
| Total assets | <u>3,471,315</u> | <u>2,954,253</u> |
| Deferred outflows | 228,588 | 209,850 |
| Current liabilities | 114,344 | 177,695 |
| Non-current liabilities | <u>2,862,767</u> | <u>2,189,348</u> |
| Total liabilities | <u>2,977,111</u> | <u>2,367,043</u> |
| Deferred inflows | 109,005 | 60,505 |
| Net investment in capital assets | 291,594 | 833,815 |
| Restricted | 660,041 | 93,835 |
| Unrestricted | <u>(321,613)</u> | <u>(216,599)</u> |
| Total net position | <u>\$ 630,022</u> | <u>\$ 711,051</u> |

COMMENTS ON GENERAL FUND BUDGET COMPARISONS

The District's total general fund revenue was \$2,538,364 compared to budgeted revenue of \$2,092,651. The favorable variance is mainly due to property taxes and state aid.

General Fund actual expenditures were \$2,582,496 compared to budgeted expenditures of \$3,071,732. The favorable variance is mainly due building improvements and the budgeted contingency.

The following table presents a summary of revenue and expense of total governmental funds for the year ended June 30, 2019:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|----------------------------------|----------------------------|----------------------------|
| Revenues and other sources: | | |
| Local revenue | \$ 1,328,361 | \$ 1,288,402 |
| State/federal revenue | 1,894,175 | 1,630,894 |
| Investments | <u>27,463</u> | <u>17,371</u> |
| Total revenues | <u><u>\$ 3,249,999</u></u> | <u><u>\$ 2,936,667</u></u> |
| Expenditures: | | |
| Instruction | \$ 2,129,058 | \$ 1,849,642 |
| Student support | 152,024 | 116,184 |
| Instruction staff | 134,278 | 64,877 |
| District administrative | 323,074 | 296,322 |
| School administrative | 219,376 | 170,074 |
| Business support | 41,232 | 24,481 |
| Plant operations and maintenance | 293,306 | 216,968 |
| Food service operation | | 2,804 |
| Debt service | <u>112,575</u> | <u>114,325</u> |
| Total expenditures | <u><u>\$ 3,404,923</u></u> | <u><u>\$ 2,855,677</u></u> |

General Fund Expenditures

The District expended approximately 62% of total expenditures for instruction. The remaining 38% was expended mainly for support services and plant operation and maintenance.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with a contingency of \$271,001 (9%). The beginning general fund cash balance for the next fiscal year is \$962,830.

Contacting the District's Financial Management

Questions about this report should be directed to the Superintendent at (859) 441-0743 or by mail at 6 William Blatt Avenue, Southgate, Kentucky 41071.

Southgate Independent School District
Statement of Net Position
June 30, 2019

| | Governmental Activities | Business-Type Activities | Total |
|----------------------------------|----------------------------|-----------------------------|-------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 1,521,004 | 18,776 | \$ 1,539,780 |
| Receivables | 112,507 | | 112,507 |
| Inventories for consumption | | 1,793 | 1,793 |
| Capital assets, net | 1,767,337 | 19,257 | 1,786,594 |
| Bond issue costs | 34,260 | | 34,260 |
| Total assets | 3,435,108 | 39,826 | 3,474,934 |
| Deferred Outflows | | | |
| Related to pensions - CERS | 118,974 | | 118,974 |
| Related to OPEB - CERS | 34,614 | | 34,614 |
| Related to OPEB - KTRS | 75,000 | | 75,000 |
| Total deferred outflows | 228,588 | 0 | 228,588 |
| Liabilities: | | | |
| Accounts payable | 6,503 | 3,022 | 9,525 |
| Accrued salaries and benefits | 21,238 | | 21,238 |
| Accrued interest payable | 40,825 | | 40,825 |
| Unearned revenue | 65,600 | | 65,600 |
| Net pension liability - CERS | 432,655 | | 432,655 |
| Net OPEB liability - CERS | 126,112 | | 126,112 |
| Net OPEB liability - KTRS | 669,000 | | 669,000 |
| Long-term liabilities: | | | |
| Due within one year | 70,000 | | 70,000 |
| Due in more than one year | 1,565,000 | | 1,565,000 |
| Total liabilities | 2,996,933 | 3,022 | 2,999,955 |
| Deferred inflows | | | |
| Related to pensions - CERS | 42,945 | | 42,945 |
| Related to OPEB - CERS | 29,060 | | 29,060 |
| Related to OPEB - KTRS | 37,000 | | 37,000 |
| Total deferred inflows | 109,005 | 0 | 109,005 |
| Net position: | | | |
| Net investment in capital assets | 272,337 | 19,257 | 291,594 |
| Restricted | 642,494 | 17,547 | 660,041 |
| Unrestricted | (357,073) | | (357,073) |
| Total net position | \$ 557,758 | \$ 36,804 | \$ 594,562 |

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

Southgate Independent School District
Statement of Activities
Year Ended June 30, 2019

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|----------------------------------|---------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities |
| Governmental activities: | | | | | | |
| Instruction | \$ 2,256,635 | | \$ 691,577 | | \$ (1,565,058) | \$(1,565,058) |
| Support services: | | | | | | |
| Student | 152,024 | | | | (152,024) | (152,024) |
| Instruction staff | 134,278 | | | | (134,278) | (134,278) |
| District administrative | 358,534 | | | | (358,534) | (358,534) |
| School administrative | 219,376 | | | | (219,376) | (219,376) |
| Business support | 41,232 | | | | (41,232) | (41,232) |
| Plant operation and maintenance | 205,348 | | | | (205,348) | (205,348) |
| Interest on long-term debt | 40,825 | | | 35,255 | (5,570) | (5,570) |
| Total governmental activities | <u>3,408,252</u> | <u>0</u> | <u>691,577</u> | <u>35,255</u> | <u>(2,681,420)</u> | <u>0</u> |
| Business-type activities: | | | | | | |
| Food service | <u>121,859</u> | <u>2,264</u> | <u>135,855</u> | | | <u>16,260</u> |
| Total business-type activities | <u>121,859</u> | <u>2,264</u> | <u>135,855</u> | <u>0</u> | <u>0</u> | <u>16,260</u> |
| Total District | <u>\$ 3,530,111</u> | <u>\$ 2,264</u> | <u>\$ 827,432</u> | <u>\$ 35,255</u> | <u>(2,681,420)</u> | <u>16,260</u> |
| General Revenues: | | | | | | |
| Property taxes | | | | | 1,144,340 | 1,144,340 |
| Motor vehicle taxes | | | | | 59,390 | 59,390 |
| Utilities tax | | | | | 104,411 | 104,411 |
| State aid | | | | | 1,167,343 | 1,167,343 |
| Investment earnings | | | | | 27,463 | 27,463 |
| Other revenues | | | | | 20220 | 20220 |
| Funds transfer | | | | | 4,960 | (4,960) |
| Total general revenues | | | | | <u>2,528,127</u> | <u>(4,960)</u> |
| Change in net position | | | | | (153,293) | 11,300 |
| Net position - beginning of year | | | | | 711,051 | 25,504 |
| Net position - end of year | | | | | <u>\$ 557,758</u> | <u>\$ 36,804</u> |

Southgate Independent School District
 Balance Sheet
 Governmental Funds
 June 30, 2019

| | General Fund | Special Revenue | Construction Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------|----------------------|--------------------------------|--------------------------------|
| Assets: | | | | | |
| Cash and cash equivalents (deficit) | \$ 940,565 | \$ (62,074) | \$ 558,113 | \$ 84,400 | \$ 1,521,004 |
| Receivables: | | | | | |
| Taxes | | | | | 0 |
| Intergovernmental - federal | | 112,507 | | | 112,507 |
| Interfund receivable | | | | | 0 |
| Total assets | \$ 940,565 | \$ 50,433 | \$ 558,113 | \$ 84,400 | \$ 1,633,511 |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,074 | \$ 5,410 | \$ 19 | | \$ 6,503 |
| Accrued salaries and benefits | 12,121 | 9,117 | | | 21,238 |
| Total liabilities | 13,195 | 14,527 | 19 | 0 | 27,741 |
| Deferred inflows of resources: | | | | | |
| Deferred revenue | 0 | 65,600 | | | 65,600 |
| Total deferred inflows of resources | 0 | 65,600 | 0 | 0 | 65,600 |
| Fund balances: | | | | | |
| Restricted | | (29,694) | 558,094 | 84,400 | 612,800 |
| Assigned for sick leave | 25,882 | | | | 25,882 |
| Unassigned | 901,488 | | | | 901,488 |
| Total fund balances | 927,370 | (29,694) | 558,094 | 84,400 | 1,540,170 |
| Total liabilities, deferred inflows of resources, and fund balances | \$ 940,565 | \$ 50,433 | \$ 558,113 | \$ 84,400 | \$ 1,633,511 |

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

Southgate Independent School District
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2019

| | |
|---|-------------------|
| Total governmental fund balances | \$ 1,540,170 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | 1,767,337 |
| Deferred bond costs are not available to pay for current period expenditures and therefore are deferred in the funds | 34,260 |
| Deferred inflows and outflows related to pensions are not reported in the funds | |
| Deferred outflows related to pensions - CERS | 118,974 |
| Deferred outflows related to OPEB - CERS | 34,614 |
| Deferred outflows related to OPEB - KTRS | 75,000 |
| Deferred inflows related to pensions - CERS | (42,945) |
| Deferred inflows related to OPEB - CERS | (29,060) |
| Deferred inflows related to OPEB - KTRS | (37,000) |
| Certain liabilities are not due and payable from current resources and therefore are not reported in the funds | |
| Net pension liability | (432,655) |
| Net OPEB liability - CERS | (126,112) |
| Net OPEB liability - KTRS | (669,000) |
| Long-term liabilities | (1,635,000) |
| Accrued interest payable | (40,825) |
| Net position of governmental activities | <u>\$ 557,758</u> |

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

Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2019

| | General Fund | Special Revenue | Construction Fund | Other Governmental Funds | Total Governmental Funds |
|--|------------------|--------------------|----------------------|--------------------------------|--------------------------------|
| Revenues: | | | | | |
| From local sources: | | | | | |
| Taxes: | | | | | |
| Property | \$ 1,088,915 | | | \$ 55,425 | \$ 1,144,340 |
| Motor vehicle | 59,390 | | | 0 | 59,390 |
| Utilities | 104,411 | | | 0 | 104,411 |
| Earnings on investments | 27,106 | | 64 | 293 | 27,463 |
| Other local revenue | 11,358 | 8,862 | | 0 | 20,220 |
| Intergovernmental - State | 535,844 | 171,477 | | 30,859 | 738,180 |
| Intergovernmental - State on behalf | 691,577 | | | 35,255 | 726,832 |
| Intergovernmental - Indirect federal | 19,763 | 409,400 | | 0 | 429,163 |
| Total revenues | 2,538,364 | 589,739 | 64 | 121,832 | 3,249,999 |
| Expenditures: | | | | | |
| Instruction | 1,510,304 | 618,754 | | | 2,129,058 |
| Support services: | | | | | |
| Student | 152,024 | | | | 152,024 |
| Instruction staff | 131,138 | 3,140 | | | 134,278 |
| District administrative | 358,534 | | | | 358,534 |
| School administrative | 219,376 | | | | 219,376 |
| Business support | 41,232 | | | | 41,232 |
| Plant operation and maintenance | 205,348 | | 87,958 | | 293,306 |
| Debt service | | | | | |
| Principal | | | | 70,000 | 70,000 |
| Interest | | | | 42,575 | 42,575 |
| Total expenditures | 2,617,956 | 621,894 | 87,958 | 112,575 | 3,440,383 |
| Excess of revenues over (under) expenditures | (79,592) | (32,155) | (87,894) | 9,257 | (190,384) |
| Other financing sources (uses): | | | | | |
| Transfers in | 4,960 | 2,461 | | 77,320 | 84,741 |
| Transfers out | (2,461) | | | (77,320) | (79,781) |
| Original issue discount | | | (12,704) | | (12,704) |
| Bond proceeds | | | 640,000 | | 640,000 |
| Total other financing sources (uses) | 2,499 | 2,461 | 627,296 | 0 | 632,256 |
| Net change in fund balances | (77,093) | (29,694) | 539,402 | 9,257 | 441,872 |
| Fund balances - beginning of year | 1,004,463 | 0 | 18,692 | 75,143 | 1,098,298 |
| Fund balances - end of year | \$ 927,370 | \$ (29,694) | \$ 558,094 | \$ 84,400 | \$ 1,540,170 |

Southgate Independent School District
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 Year Ended June 30, 2019

Net change in fund balances - total governmental funds \$ 441,872

Amounts reported for governmental activities in the statement of

Governmental funds report capital outlays as expenditures; however in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|--------------------------|----------|-------|
| Capital asset additions | 3,776 | |
| Construction in progress | 72,918 | |
| Depreciation expense | (68,172) | |
| | | 8,522 |

Bond proceeds are reported as financing sources in the government funds; however they are reported as increases in long-term liabilities and do not affect the statement of activities. Similarly, the repayment of principal is an expenditure in the government funds but reduces the liability in the statement of net position.

| | | |
|---------------------|-----------|-----------|
| Principal paid | 71,750 | |
| Bond proceeds | (640,000) | |
| Bond issue costs | 15,040 | |
| Bond issue discount | 12,704 | |
| | | (540,506) |

Government funds report pension and OPEB contributions as expenditures; however, in the statement of activities the cost of pension and OPEB benefits earned is reported as an expense.

| | | |
|--------------------------|--|----------|
| Pension and OPEB expense | | (63,181) |
|--------------------------|--|----------|

| | |
|---|--------------|
| Change in net position of governmental activities | \$ (153,293) |
|---|--------------|

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

Southgate Independent School District
Statement of Net Position
Proprietary Fund
June 30, 2019

| | Food Service Fund |
|------------------------------------|-------------------------|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 18,776 |
| Inventories for consumption | 1,793 |
| Total current assets | <u>20,569</u> |
| Noncurrent assets: | |
| Capital assets, net | 19,257 |
| Total noncurrent assets | <u>19,257</u> |
| Total assets | <u><u>\$ 39,826</u></u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | \$ 3,022 |
| Total current liabilities | <u>3,022</u> |
| Total liabilities | <u>3,022</u> |
| Net position: | |
| Net investment in capital assets | 19,257 |
| Restricted | 17,547 |
| Total net position | <u>36,804</u> |
| Total liabilities and net position | <u><u>\$ 39,826</u></u> |

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

Southgate Independent School District
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2019

| | Food Service Fund |
|-------------------------------------|-------------------------|
| Operating revenues | |
| Lunchroom sales | \$ 2,264 |
| Total operating revenues | <u>2,264</u> |
| Operating expenses | |
| Salaries and wages | 38,051 |
| Employee benefits | 30,475 |
| Materials and supplies | 47,302 |
| Depreciation | 4,454 |
| Other operating expenses | 1,577 |
| Total operating expenses | <u>121,859</u> |
| Operating loss | <u>(119,595)</u> |
| Nonoperating revenues | |
| Federal grants | 116,484 |
| Intergovernmental - State on behalf | 19,371 |
| Transfers out | (4,960) |
| Total nonoperating revenues | <u>130,895</u> |
| Change in net position | 11,300 |
| Net position - beginning of year | <u>25,504</u> |
| Net position - end of year | <u>\$ 36,804</u> |

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

Southgate Independent School District
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2019

| | <u>Food Service Fund</u> |
|--|----------------------------------|
| Cash flows from operating activities: | |
| Cash received from: | |
| Lunchroom sales | \$ 2,264 |
| Cash paid for: | |
| Employees | (68,526) |
| Suppliers for goods and services | (44,280) |
| Other activities | <u>(1,577)</u> |
| Net cash used for operating activities | <u>(112,119)</u> |
| Cash flows from noncapital financing activities: | |
| Government grants | <u>135,855</u> |
| Net cash provided by noncapital financing activities | <u>135,855</u> |
| Cash flows from capital and related financing activities: | |
| Transfers out | <u>(4,960)</u> |
| Net cash flows used for capital and related financing activities | <u>(4,960)</u> |
| Net decrease in cash and cash equivalents | 18,776 |
| Cash and cash equivalents, beginning of year | <u>0</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 18,776</u></u> |
| Reconciliation of operating loss to net cash used for operating activities: | |
| Operating loss | \$ (119,595) |
| Adjustments to reconcile operating loss to net cash used for operating activities: | |
| Depreciation | 4,454 |
| Change in accounts payable | <u>3,022</u> |
| Net cash used for operating activities | <u><u>\$ (112,119)</u></u> |
| Non-cash items: | |
| On-behalf payments | \$ 19,371 |

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

Southgate Independent School District
Statement of Fiduciary Net Position
June 30, 2019

| | <u>Agency Funds</u> |
|---------------------------|-------------------------|
| Assets: | |
| Cash and cash equivalents | <u>\$ 7,455</u> |
| Total assets | <u><u>\$ 7,455</u></u> |
| Liabilities: | |
| Due to student groups | <u>\$ 7,455</u> |
| Total liabilities | <u><u>\$ 7,455</u></u> |

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

NOTE 1 – ACCOUNTING POLICIES

A. The Reporting Entity

The Southgate Independent Board of Education (Board), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Southgate Independent 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 by Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Board. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with the Board; such as Band Boosters, Parent-Teacher Associations, and others. The financial statements of the District include those 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:

Southgate Independent Board of Education Finance Corporation. – In 1992 the Board resolved to authorize the establishment of the Southgate Independent Board of Education Finance Corporation (Corporation), (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

B. Basis of Presentation

The District’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

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 statement of net position presents the financial condition of the governmental and business-type activities of the District at year end. The 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 – During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds, if any, are presented in a single column.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's proprietary funds are charges for services. Operating expenses for the proprietary funds include personnel and other expenses related to water and sewer operations. All revenues not meeting these definitions are reported as nonoperating revenues and expenses.

C. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflow, liabilities, and deferred inflows is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky. This is a major fund of the District

Special Revenue Fund – The special revenue fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as 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

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 used by Proprietary Funds).

Capital Outlay Fund – This Support Education Excellence in Kentucky (SEEK) fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified by the District’s facility plan.

Building Fund - This Facility Support Program of Kentucky (FSPK) fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission’s construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District’s facility plan.

Construction Fund – This fund accounts for proceeds from sales of bonds and other revenues used by the district for authorized construction. This is a major fund of the District. The District is committed to construction contracts in the amount of approximately \$600,000 for ongoing projects as of June 30, 2019.

Debt Service Fund – This 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, as required by state law.

Proprietary Fund Types (Enterprise Fund)

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

Fiduciary Fund Types (Agency Fund)

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

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the District are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government –wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

Like the government-wide financial statements, all proprietary funds are accounted for on a flow of

economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of these funds included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

E. 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. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 year end.

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

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future operating period.

Property taxes not received within the available period and grants and entitlements received before the eligibility requirements are met are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues. The measurement focus of governmental fund accounting is on the 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.

F. Property Taxes

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

The property tax rates assessed for the year ended June 30, 2019, to finance the General Fund operations were \$1.061 per \$100 valuation for real property, \$1.061 per \$100 for business real property, and \$0.504 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of gross receipts derived from telephone communication services, cablevision services, electric power, water, and gas furnished within the District’s boundaries.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The District’s infrastructure consists of sidewalks, streets, and water and sewer lines. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported. Capital assets utilized by the proprietary funds are reported in both 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 disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset’s life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the District’s historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund capital assets:

| Description | Estimated Lives |
|----------------------------|-----------------|
| Buildings and improvements | 25 – 50 Years |
| Land improvements | 20 Years |
| Technology | 5 Years |
| Vehicles | 5 – 10 Years |
| General equipment | 15 Years |
| Food service equipment | 10 – 12 Years |

H. Interfund Balances

On the fund financial statements, unpaid amounts for interfund services are reported as “due from/to other funds”. These amounts are eliminated in the governmental and business-type activity columns of the statement of net position, except any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

I. Accumulated Unpaid Sick Leave Benefits

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

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

For governmental fund financial statements the current portion of unpaid sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is not reported.

J. Budgetary Process

Budgetary Basis of Accounting - The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and GAAP basis are: (1) revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP); and (2) expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

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

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

K. Cash and Cash Equivalents

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

L. Inventories

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

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on 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, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

N. Fund Balance Classification

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of District Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless District Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of District Council.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which

restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

O. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component of “net investment in capital assets”, consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Operating expenses can be tied specifically to the production of the goods and services, such as materials, labor, and direct overhead.

Q. Interfund Activity

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

R. Subsequent Events

The Board has evaluated subsequent events for potential recognition and disclosure through November 11, 2019, the date the financial statements were available to be issued.

NOTE 2 – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District’s management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

At year end the carrying amount of the District’s total cash and cash equivalents was \$1,696,844 which was covered by Federal Deposit Insurance Corporation (FDIC) insurance and by collateral agreements and collateral held by the pledging bank’s trust department in the District’s name

Cash and cash equivalents at June 30, 2019 consisted of the following:

| | Book Balance | Bank Balance |
|------------------|-----------------|-----------------|
| General checking | \$ 1,555,418 | \$ 1,686,389 |
| School activity | 7,455 | 7,455 |
| | \$ 1,562,873 | \$ 1,693,844 |

Breakdown per financial statements

| | |
|--------------------|--------------|
| Governmental funds | \$ 1,536,642 |
| Proprietary fund | 18,776 |
| Agency fund | 7,455 |
| | \$ 1,562,873 |

Custodial Credit Risk – Deposits. For deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned. The District maintains deposits with financial institutions insured by the FDIC. As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times. As of June 30, 2019, all of the District’s deposits are insured by the FDIC or covered by security pledges.

SPACE INTENTIONALLY LEFT BLANK

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

| | Balance 7/1/2018 | Additions | Disposals | Balance 6/30/2019 |
|--|---------------------|-------------------|-------------|----------------------|
| Governmental Activities | | | | |
| Land | \$ 9,750 | \$ 0 | \$ 0 | \$ 9,750 |
| Buildings and improvements | 2,404,764 | 0 | 0 | 2,404,764 |
| Technology equipment | 327,925 | 3,776 | 0 | 331,701 |
| General equipment | 70,126 | 0 | 0 | 70,126 |
| Construction in progress | 0 | 72,918 | 0 | 72,918 |
| Total cost | 2,812,565 | 76,694 | 0 | 2,889,259 |
| Less Accumulated Depreciation | | | | |
| Buildings and improvements | 746,103 | 47,435 | 0 | 793,538 |
| Technology equipment | 286,215 | 16,051 | 0 | 302,266 |
| General equipment | 21,432 | 4,686 | 0 | 26,118 |
| Total accumulated depreciation | 1,053,750 | 68,172 | 0 | 1,121,922 |
| Governmental activities capital assets, net | \$ 1,758,815 | \$ 8,522 | \$ 0 | \$ 1,767,337 |
| Business-type Activities | | | | |
| Technology equipment | \$ 1,545 | \$ 0 | \$ 0 | \$ 1,545 |
| Food service equipment | 66,844 | 0 | 0 | 66,844 |
| Total cost | 68,389 | 0 | 0 | 68,389 |
| Less Accumulated Depreciation | | | | |
| Technology equipment | 1,545 | 0 | 0 | 1,545 |
| Food service equipment | 43,133 | 4,454 | 0 | 47,587 |
| Total accumulated depreciation | 44,678 | 4,454 | 0 | 49,132 |
| Business-type capital assets, net | \$ 23,711 | \$ (4,454) | \$ 0 | \$ 19,257 |

Depreciation was charged to the following functions:

| | Governmental | Business-type |
|-------------------------|------------------|-----------------|
| Instruction | \$ 50,594 | \$ |
| District administration | 9,167 | |
| School administration | 594 | |
| Plant operations | 4,776 | |
| Community service | 3,040 | |
| Food service | | 4,454 |
| | \$ 68,171 | \$ 4,454 |

NOTE 5 – BONDED DEBT AND LEASED OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Southgate Independent School District Financial Corporation.

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

| <u>Issue Date</u> | <u>Proceeds</u> | <u>Rates</u> |
|-------------------|-----------------|---------------|
| 2011 | \$ 1,355,000 | 2.00% - 4.50% |
| 2019 | \$ 640,000 | 3.00% - 3.25% |

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

The District entered into participation agreements with the Kentucky School Facilities Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs.

SPACE INTENTIONALLY LEFT BLANK

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District and the Commission at June 30, 2019 for debt service (principal and interest) are as follows:

| Fiscal Year Ending June 30 | Series 2011 and 2019 | | | | | | Total Requirements |
|----------------------------------|----------------------|-------------------|---------------------|-------------------|-------------------|---------------------|-----------------------|
| | District | | | Commission | | | |
| | Principal | Interest | Total | Principal | Interest | Total | |
| 2020 | 48,703 | 31,090 | 79,793 | 41,297 | 29,840 | 71,137 | 230,723 |
| 2021 | 52,712 | 29,902 | 82,614 | 42,288 | 28,849 | 71,137 | 236,365 |
| 2022 | 51,220 | 27,844 | 79,064 | 43,780 | 27,355 | 71,135 | 229,263 |
| 2023 | 54,673 | 25,840 | 80,513 | 45,327 | 25,809 | 71,136 | 232,162 |
| 2024 | 58,071 | 23,692 | 81,763 | 46,929 | 24,207 | 71,136 | 234,662 |
| 2025 | 61,410 | 21,403 | 82,813 | 48,590 | 22,547 | 71,137 | 236,763 |
| 2026 | 59,663 | 18,969 | 78,632 | 50,337 | 20,800 | 71,137 | 228,401 |
| 2027 | 62,783 | 16,454 | 79,237 | 52,217 | 18,919 | 71,136 | 229,610 |
| 2028 | 65,832 | 13,857 | 79,689 | 54,168 | 16,969 | 71,137 | 230,515 |
| 2029 | 68,805 | 11,120 | 79,925 | 56,197 | 14,941 | 71,138 | 230,988 |
| 2030 | 71,625 | 8,158 | 79,783 | 58,375 | 12,761 | 71,136 | 230,702 |
| 2031 | 74,356 | 5,056 | 79,412 | 60,642 | 10,492 | 71,134 | 229,958 |
| 2032 | 7,220 | 1,812 | 9,032 | 27,780 | 8,100 | 35,880 | 53,944 |
| 2033 | 6,317 | 1,578 | 7,895 | 28,683 | 7,198 | 35,881 | 51,671 |
| 2034 | 5,385 | 1,372 | 6,757 | 29,615 | 6,266 | 35,881 | 49,395 |
| 2035 | 4,422 | 1,198 | 5,620 | 30,578 | 5,302 | 35,880 | 47,120 |
| 2036 | 8,427 | 1,054 | 9,481 | 31,573 | 4,308 | 35,881 | 54,843 |
| 2037 | 7,401 | 780 | 8,181 | 32,599 | 3,282 | 35,881 | 52,243 |
| 2038 | 6,343 | 540 | 6,883 | 33,657 | 2,224 | 35,881 | 49,647 |
| 2039 | 10,248 | 334 | 10,582 | 34,752 | 1,130 | 35,882 | 57,046 |
| | <u>\$ 785,616</u> | <u>\$ 242,053</u> | <u>\$ 1,027,669</u> | <u>\$ 849,384</u> | <u>\$ 291,299</u> | <u>\$ 1,140,683</u> | <u>\$ 3,196,021</u> |

The schedule of changes in the District's bond obligations for the year ended June 30, 2019 is as follows:

| | Outstanding July 1, 2018 | Borrowings | Repayments | Outstanding June 30, 2019 | Amounts Expected to be Paid Within One Year |
|---------------|-----------------------------|-------------------|------------------|------------------------------|--|
| Bonds payable | <u>\$ 1,065,000</u> | <u>\$ 640,000</u> | <u>\$ 70,000</u> | <u>\$ 1,635,000</u> | <u>\$ 90,000</u> |

NOTE 6 – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District has no operating leases for equipment as of June 30, 2019.

NOTE 7 – RETIREMENT PLANS

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

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

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

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

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

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

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

| | <u>Required contribution</u> |
|--------|------------------------------|
| Tier 1 | 5% |
| Tier 2 | 5% + 1% for insurance |
| Tier 3 | 5% + 1% for insurance |

General information about the Teachers’ Retirement System of the State of Kentucky (KTRS)

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

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

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

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

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

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

Contributions—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.105% of their salaries to the System. University employees are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 15.355% 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.

Medical Insurance Plan

Plan description—In addition to the pension benefits described above, KRS 161.675 requires KTRS to provide post-employment healthcare benefits to eligible employees and dependents. The KTRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

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

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

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

At June 30, 2019, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for KTRS because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the

related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

The net pension liability for each plan was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

| | | |
|---|----|-------------------------|
| District's proportionate share of the CERS net pension liability | \$ | 432,655 |
| Commonwealth's proportionate share of the KTRS net pension liability associated with the District | | <u>4,894,985</u> |
| | \$ | <u><u>5,327,640</u></u> |

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2018, the District's proportion was 0.008% percent.

For the year ended June 30, 2019, the District recognized pension expense of \$54,288 related to CERS and \$384,605 related to KTRS. The Board also recognized revenue of \$384,605 for KTRS support provided by the Commonwealth. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Total | | |
|--|--------------------------|--------------------|------------------|
| | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ 14,112 | \$ 6,333 | |
| Change of assumptions | 42,283 | - | |
| Change in investment experience | 20,119 | 25,307 | |
| Change in proportionate share of contributions | 13,391 | 11,305 | |
| | <u>89,905</u> | <u>\$ 42,945</u> | <u>\$ 46,960</u> |
| Subsequent contributions | <u>29,069</u> | | |
| Total | <u><u>\$ 118,974</u></u> | | |

The contributions subsequent to the measurement date of \$29,069 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The net deferral of \$46,950 will be recognized in pension expense as follows:

| Year ending June 30 | Net Deferral |
|------------------------|-----------------|
| 2020 | \$ 39,133 |
| 2021 | 17,269 |
| 2022 | (7,120) |
| 2023 | (2,322) |
| | \$ 46,960 |

Actuarial assumptions—The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | CERS | KTRS |
|--|-------|---------------|
| Inflation | 2.30% | 3.00% |
| Projected salary increases | 3.05% | 3.50% - 7.30% |
| Investment rate of return, net of investment expense and inflation | 6.25% | 7.50% |

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For KTRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale BB to 2025 set forward for two years for males and one year for females. The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2015 adopted by the Board on November 19, 2016.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For KTRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

| Asset Class | CERS | | KTRS | |
|-----------------|-------------------|-----------------------------------|-------------------|-----------------------------------|
| | Target Allocation | Long-term Expected Nominal Return | Target Allocation | Long-term Expected Nominal Return |
| US Equity | 17.50% | 4.73% | 42.00% | 4.40% |
| Non US Equity | 17.50% | 6.71% | 20.00% | 5.30% |
| Global Bonds | 10.00% | 3.00% | 16.00% | 1.50% |
| Credit Fixed | 17.00% | 4.59% | | |
| Private Equity | 10.00% | 6.50% | 6.00% | 6.70% |
| Real Estate | 5.00% | 7.00% | 5.00% | 4.40% |
| Absolute Return | 10.00% | 5.00% | | |
| Real Return | 10.00% | 5.00% | 9.00% | 3.60% |
| Cash | 3.00% | 1.50% | 2.00% | 0.08% |
| | <u>100.00%</u> | | <u>100.00%</u> | |

Discount rate—For CERS, the discount rate used to measure the total pension liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 6.25%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For KTRS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2038 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 3.56% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

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

| | 1% Decrease <u>5.25%</u> | Current Rate <u>6.25%</u> | 1% Increase <u>7.25%</u> |
|------|-----------------------------|------------------------------|-----------------------------|
| CERS | \$ 544,668 | \$ 432,655 | \$ 338,808 |
| | <u>6.50%</u> | <u>7.50%</u> | <u>8.50%</u> |
| KTRS | \$ - | \$ - | \$ - |

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

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description – As more fully described in Note 8, the District participates in the County Employees’ Retirement System (CERS). CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in the System. In addition to retirement benefits, the plan provides for health insurance benefits to plan members (other postemployment benefits or OPEB). OPEB benefits may be extended to beneficiaries of plan members under certain circumstances.

Contributions – As more fully described in Note 8, plan members contribute to CERS for non-hazardous and hazardous job classifications. For the year ending June 30, 2019, the employer’s contribution was 5.26% to the insurance trust for non-hazardous job classifications. Employees hired after September 1, 2008 were required to contribute an additional 1% to cover the cost of medical insurance that is provided through CERS. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial basis adopted by the Board. The contribution rates are equal to the actuarially determined rate set by the Board. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Benefits – CERS provides health insurance benefits to Plan employees and beneficiaries. For retirement purposes, employees are grouped into three tiers based on hire date:

Tier 1

Participation date Before July 1, 2003
Insurance eligibility 10 years of service credit required
Benefit Set percentage of single coverage health insurance based on service credit accrued at retirement

Tier 1

Participation date Before September 1, 2008 but after July 1, 2003
Insurance eligibility 10 years of service credit required
Benefit Set dollar amount based on service credit accrued, increased annually

Tier 2

Participation date After September 1, 2008 and before December 31, 2013
Insurance eligibility 15 years of service credit required
Benefit Set dollar amount based on service credit accrued,
increased annually

Tier 3

Participation date After December 31, 2013
Insurance eligibility 15 years of service credit required
Benefit Set dollar amount based on service credit accrued,
increased annually

OPEB Liabilities, Expense, Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2019, the District reported a liability for its proportionate share of the net OPEB liability of \$126,112 related to CERS and \$669,000 related to KTRS.

The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District’s proportion of the net OPEB liability was based on a projection of the District’s long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. The District’s proportionate share at June 30, 2017 was 0.007% related to CERS and 0.017% related to TRS.

For the year ended June 30, 2018, the District recognized OPEB expense of \$92,503. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB – CERS from the following sources:

| | Total | | |
|--|---------------------|--------------------|-----------------|
| | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ - | \$ 14,697 | |
| Change of assumptions | 25,187 | 291 | |
| Change in investment experience | - | 8,687 | |
| Change in proportionate share of contributions | - | 5,385 | |
| | 25,187 | \$ 29,060 | \$ (3,873) |
| Subsequent contributions | 9,427 | | |
| Total | \$ 34,614 | | |

The contributions subsequent to the measurement date of \$9,427 will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The net deferral of \$(3,873) will be recognized in pension expense as follows:

SOUTHGATE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

| Year ending June 30 | Net Deferral |
|------------------------|-------------------|
| 2020 | \$ (580) |
| 2021 | (580) |
| 2022 | 1,107 |
| 2023 | (2,122) |
| 2024 | (1,119) |
| Thereafter | <u>(579)</u> |
| | <u>\$ (3,873)</u> |

For the year ended June 30, 2018, the District recognized OPEB expense of \$92,503. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB – KTRS from the following sources:

| | Total | | |
|--|---------------------|--------------------|------------------|
| | Deferred Outflow | Deferred Inflow | Net Deferral |
| Change in liability experience | \$ - | \$ 34,000 | |
| Change of assumptions | 9,000 | - | |
| Change in investment experience | - | 3,000 | |
| Change in proportionate share of contributions | 66,000 | - | |
| | <u>75,000</u> | <u>\$ 37,000</u> | <u>\$ 38,000</u> |
| Subsequent contributions | - | | |
| Total | <u>\$ 75,000</u> | | |

The net deferral of \$38,000 will be recognized in pension expense as follows:

| Year ending June 30 | Net Deferral |
|------------------------|------------------|
| 2020 | \$ 6,000 |
| 2021 | 6,000 |
| 2022 | 6,000 |
| 2023 | 8,000 |
| 2024 | 7,000 |
| Thereafter | <u>5,000</u> |
| | <u>\$ 38,000</u> |

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Non-hazardous and Hazardous

| | |
|------------------|-------------------------------------|
| Inflation | 2.30% |
| Salary increases | 3.05%, average, including inflation |

Investment rate of return 6.25%, net of Plan investment expense, including inflation
Healthcare trend

Pre – 65: Initial trend starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.

Post – 65: Initial trend starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.

Mortality rates were based on the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP- 2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013. The total OPEB liability was rolled-forward from the valuation date (June 30, 2016) to the plan’s fiscal year ending June 30, 2017. Subsequent to the actuarial valuation date (June 30, 2016) but prior to the measurement date, and before the required 2019 experience study, the KRS Board of Trustees reviewed investment trends, inflation, and payroll growth historical trends. Based on this review the Board adopted updated actuarial assumptions, which were used in performing the actuarial valuation as of June 30, 2018.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. Several factors are considered in evaluating the long-term rate of return assumptions including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer time frame. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

| Asset Class | Target Allocation | Long-Term Expected Nominal Return |
|-----------------|-------------------|-----------------------------------|
| U.S. Equity | 26.5% | 9.56% |
| Non-U.S. Equity | 26.5% | 2.84% |
| Fixed Income | 12.0% | 6.53% |
| Real Return | 8.0% | 3.68% |
| Real Estate | 5.0% | 8.99% |
| Absolute | 10.0% | 3.89% |
| Private Equity | 10.0% | 9.74% |

| | | |
|-----------------|------|-------|
| Cash Equivalent | 2.0% | 2.69% |
| Total | 100% | |

Discount Rate – The discount rate used to measure the total OPEB liability was 5.85%. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 year amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.56%, as reported in Fidelity Index’s “20 –Year Municipal GO AA Index” as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System’s actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System’s trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Sensitivity of the District’s Proportionate Share of the Net OPEB Discount Rate – The following presents the District’s proportionate share of the net OPEB liability calculated using discount rates that are 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

| | 1% Decrease 4.85% | Current Rate 5.85% | 1% Increase 6.85% |
|-------|----------------------|-----------------------|----------------------|
| CERS | \$ 163,800 | \$ 126,112 | \$ 94,010 |
| | 1% Decrease 6.50% | Current Rate 7.50% | 1% Increase 8.50% |
| KTRS | 579,676 | 452,872 | 34,418 |
| Total | \$ 743,476 | \$ 578,984 | \$ 128,428 |

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

| | 1% Decrease | Current Trend Rate | 1% Increase |
|-------|-------------|-----------------------|-------------|
| CERS | \$ 93,892 | \$ 126,112 | \$ 164,091 |
| KTRS | 335,125 | 452,872 | 588,734 |
| Total | \$ 429,017 | \$ 578,984 | \$ 752,825 |

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

NOTE 10 – CONTINGENCIES

A. Grants

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

B. Litigation

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

NOTE 11 – RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has obtained insurance coverage through a commercial insurance company. In addition, the District has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

Management estimates that the amount of actual or potential claims against the District as of June 30, 2019 will not materially affect the financial condition of the District. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded insurance coverage amounts in any of the past three fiscal years.

NOTE 12 – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss. District management believes it is in compliance with the COBRA requirements.

NOTE 13 – TRANSFER OF FUNDS

The following transfers were made during the year:

| From Fund | To Fund | Purpose | Amount |
|----------------|-----------------|------------------|------------------|
| General | Special Revenue | Technology Match | \$ 2,461 |
| Food Service | Geneal | Operating | 4,960 |
| Capital Outlay | Debt Service | Debt Service | 6,400 |
| Building Fund | Debt Service | Debt Service | 70,920 |
| | | | <u>\$ 84,741</u> |

NOTE 14 – ON-BEHALF PAYMENTS

For the year ended June 30, 2019 payments of \$746,203 were made by the Commonwealth of Kentucky on behalf of the District for insurance benefits, retirement benefits, technology, and debt service. The following amounts were recorded in the Statement of Activities and the Statement of Revenue, Expenditures, and Changes in Fund Balance:

| Type | | Fund | |
|--------------|-------------------|--------------|-------------------|
| Insurance | \$ 285,111 | General | \$ 691,577 |
| Retirement | 384,605 | Debt service | 32,255 |
| Technology | 41,232 | Food service | 19,371 |
| Debt service | 35,255 | | |
| | <u>\$ 746,203</u> | | <u>\$ 743,203</u> |

Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2019

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|--------------------|--------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes: | | | | |
| Property | \$ 1,020,523 | \$ 1,020,523 | \$ 1,088,915 | \$ 68,392 |
| Motor vehicle | 56,070 | 56,070 | 59,390 | 3,320 |
| Utilities | 110,000 | 110,000 | 104,411 | (5,589) |
| Earnings on investments | 10,400 | 10,400 | 27,106 | 16,706 |
| Other local revenue | 0 | 0 | 11,358 | 11,358 |
| Intergovernmental - State | 454,776 | 454,776 | 535,844 | 81,068 |
| Intergovernmental - State on behalf | 440,882 | 440,882 | 691,577 | 250,695 |
| Intergovernmental - Indirect federal | 0 | 0 | 19,763 | 19,763 |
| Total revenues | <u>2,092,651</u> | <u>2,092,651</u> | <u>2,538,364</u> | <u>445,713</u> |
| Expenditures: | | | | |
| Instruction | 1,477,748 | 1,477,748 | 1,510,304 | (32,556) |
| Support services: | | | | |
| Student | 105,975 | 105,975 | 152,024 | (46,049) |
| Instruction staff | 101,816 | 101,816 | 131,138 | (29,322) |
| District administrative | 304,708 | 304,708 | 358,534 | (53,826) |
| School administrative | 158,493 | 158,493 | 219,376 | (60,883) |
| Business support | 24,481 | 24,481 | 41,232 | (16,751) |
| Plant operation and maintenance | 241,256 | 241,256 | 205,348 | 35,908 |
| Building improvements | 386,254 | 386,254 | 0 | 386,254 |
| Other (contingency) | 271,001 | 271,001 | 0 | 271,001 |
| Total expenditures | <u>3,071,732</u> | <u>3,071,732</u> | <u>2,617,956</u> | <u>453,776</u> |
| Excess of Revenues Over (Under) Expenditures | (979,081) | (979,081) | (79,592) | 899,489 |
| Other financing sources (uses): | | | | |
| Transfer in | 0 | 0 | 4,960 | 4,960 |
| Transfers out | (10,000) | (10,000) | (2,461) | 7,539 |
| Total other financing sources (uses) | <u>(10,000)</u> | <u>(10,000)</u> | <u>2,499</u> | <u>12,499</u> |
| Net change in fund balances | (989,081) | (989,081) | (77,093) | 911,988 |
| Budgetary fund balance - beginning of year | 978,581 | 978,581 | 1,004,463 | 25,882 |
| Budgetary fund balance - end of year | <u>\$ (10,500)</u> | <u>\$ (10,500)</u> | <u>\$ 927,370</u> | <u>\$ 937,870</u> |

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

Southgate Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
Special Revenue Fund
Year Ended June 30, 2019

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|--------------------------|--------------------------|---------------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| From local sources: | | | | |
| Other local revenue | \$ - | \$ - | \$ 8,862 | \$ 8,862 |
| Intergovernmental - State | 223,310 | 223,310 | 171,477 | (51,833) |
| Intergovernmental - Indirect federal | 572,226 | 572,226 | 409,400 | (162,826) |
| Total revenues | <u>795,536</u> | <u>795,536</u> | <u>589,739</u> | <u>(205,797)</u> |
| Expenditures: | | | | |
| Instruction | 797,639 | 797,639 | 618,754 | 178,885 |
| Support services: | | | | |
| Instruction staff | <u>3,140</u> | <u>3,140</u> | <u>3,140</u> | <u>0</u> |
| Total expenditures | <u>800,779</u> | <u>800,779</u> | <u>621,894</u> | <u>178,885</u> |
| Excess of Revenues Over (Under) Expenditures | (5,243) | (5,243) | (32,155) | (26,912) |
| Other financing sources (uses): | | | | |
| Transfer in | <u>3,000</u> | <u>3,000</u> | <u>2,461</u> | <u>(539)</u> |
| Total other financing sources (uses) | <u>3,000</u> | <u>3,000</u> | <u>2,461</u> | <u>(539)</u> |
| Net change in fund balances | (2,243) | (2,243) | (29,694) | (27,451) |
| Budgetary fund balance - beginning of year | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Budgetary fund balance - end of year | <u><u>\$ (2,243)</u></u> | <u><u>\$ (2,243)</u></u> | <u><u>\$ (29,694)</u></u> | <u><u>\$ (27,451)</u></u> |

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

Southgate Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2019

| | Capital Outlay Fund | Building Fund | Debt Service Fund | Total Nonmajor Governmental Funds |
|--|---------------------------|------------------|-------------------------|--|
| Assets: | | | | |
| Cash and cash equivalents | \$33,121 | \$51,279 | \$ 0 | \$ 84,400 |
| Receivables: | | | | |
| Taxes | | | | 0 |
| Accounts | | | | 0 |
| Intergovernmental - federal | | | | 0 |
| Total assets | <u>\$ 33,121</u> | <u>\$ 51,279</u> | <u>\$ 0</u> | <u>\$ 84,400</u> |
| Liabilities: | | | | |
| Accounts payable | | | | \$ 0 |
| Cash deficit balance | | | | 0 |
| Total liabilities | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Deferred inflows of resources: | | | | |
| Unavailable taxes | | | | 0 |
| Unearned revenue | | | | 0 |
| Total deferred inflows of resources | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Fund balances: | | | | |
| Restricted | 33,121 | 51,279 | 0 | 84,400 |
| Unassigned | 0 | 0 | 0 | 0 |
| Total fund balances | <u>33,121</u> | <u>51,279</u> | <u>0</u> | <u>84,400</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 33,121</u> | <u>\$ 51,279</u> | <u>\$ 0</u> | <u>\$ 84,400</u> |

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

Southgate Independent School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2019

| | Capital Outlay Fund | Building Fund | Debt Service Fund | Total Nonmajor Governmental Funds |
|--|---------------------------|------------------|-------------------------|--|
| Revenues: | | | | |
| From local sources: | | | | |
| Taxes: | | | | |
| Property | | \$ 55,425 | | \$ 55,425 |
| Motor vehicle | | | | 0 |
| Utilities | | | | 0 |
| Earnings on investments | 103 | 190 | | 293 |
| Other local revenue | | | | 0 |
| Intergovernmental - State | 16,689 | 14,170 | | 30,859 |
| Intergovernmental - State on behalf | | | 35,255 | 35,255 |
| Intergovernmental - Indirect federal | | | | 0 |
| Total revenues | <u>16,792</u> | <u>69,785</u> | <u>35,255</u> | <u>121,832</u> |
| <u>Expenditures:</u> | | | | |
| Instruction | | | | 0 |
| Support services: | | | | |
| Student | | | | 0 |
| Instruction staff | | | | 0 |
| District administrative | | | | 0 |
| School administrative | | | | 0 |
| Plant operation and maintenance | | | | 0 |
| Debt service | | | | |
| Principal | | | 70,000 | 70,000 |
| Interest | | | 42,575 | 42,575 |
| Total expenditures | <u>0</u> | <u>0</u> | <u>112,575</u> | <u>112,575</u> |
| Excess of revenues over (under) expenditures | <u>16,792</u> | <u>69,785</u> | <u>(77,320)</u> | <u>9,257</u> |
| Other financing sources (uses): | | | | |
| Transfers in | | | 77,320 | 77,320 |
| Transfers out | <u>(6,400)</u> | <u>(70,920)</u> | | <u>(77,320)</u> |
| Total other financing sources (uses) | <u>(6,400)</u> | <u>(70,920)</u> | <u>77,320</u> | <u>0</u> |
| Net change in fund balances | 10,392 | (1,135) | 0 | 9,257 |
| Fund balances - beginning of year | <u>22,729</u> | <u>52,414</u> | <u>0</u> | <u>75,143</u> |
| Fund balances - end of year | <u>\$ 33,121</u> | <u>\$ 51,279</u> | <u>\$ 0</u> | <u>\$ 84,400</u> |

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

Southgate Independent School District
Schedule of District's Proportionate Share of the Net Pension Liability
County Employees Retirement System
June 30, 2019

Last Ten Fiscal Years*

| | <u>2018-19</u> | <u>2017-18</u> | <u>2016-17</u> | <u>2015-16</u> | <u>2014-15</u> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| District's proportion of the net pension liability | 0.007% | 0.007% | 0.007% | 0.007% | 0.008% |
| District's proportionate share of the net pension liability | \$ 432,655 | \$ 434,959 | \$ 329,589 | \$ 288,667 | \$ 276,336 |
| District's covered employee payroll | \$ 179,217 | \$ 206,867 | \$ 101,809 | \$ 117,069 | \$ 172,689 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 241.41% | 210.26% | 323.73% | 246.58% | 160.02% |
| Plan fiduciary net position as a percentage of the total pension liability | 53.54% | 55.50% | 53.32% | 59.97% | 66.80% |
| Contractually required contribution | \$ 29,069 | \$ 39,677 | \$ 19,018 | \$ 19,972 | \$ 32,621 |
| Contributions in relation to the contractually required contribution | <u>29,069</u> | <u>39,677</u> | <u>19,018</u> | <u>19,972</u> | <u>32,621</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered employee payroll | <u>\$ 179,217</u> | <u>\$ 206,867</u> | <u>\$ 101,809</u> | <u>\$ 117,069</u> | <u>\$ 172,689</u> |
| Contributions as a percentage of covered-employee payroll | 16.22% | 19.18% | 18.68% | 17.06% | 18.89% |

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Southgate Independent School District
 Schedule of Commonwealth of Kentucky's Proportionate Share of the
 Net Pension Liability - Kentucky Teachers Retirement System
 June 30, 2019

Last Ten Fiscal Years*

| | <u>2018-19</u> | <u>2017-18</u> | <u>2016-17</u> | <u>2015-16</u> | <u>2014-15</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| Commonwealth of Kentucky's proportion of the net pension liability | 0.03% | 0.03% | 0.03% | 0.03% | 0.04% |
| Commonwealth of Kentucky's proportionate share of the net pension liability | \$ 4,894,985 | \$ 8,761,297 | \$ 9,240,614 | \$ 6,992,493 | \$ 7,434,525 |
| Plan fiduciary net position as a percentage of the total pension liability | 35.22% | 35.22% | 35.22% | 55.30% | 45.59% |
| | <u>2018-19</u> | <u>2017-18</u> | <u>2016-17</u> | <u>2015-16</u> | <u>2014-15</u> |
| Statutorily required contribution | \$ 384,605 | \$ 311,284 | \$ 152,047 | \$ 144,616 | \$ 175,176 |
| Contributions in relation to the statutorily required contrib | 384,605 | 311,284 | 152,047 | 144,616 | 175,176 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Southgate Independent School District
 Schedule of District's Proportionate Share of the Net OPEB Liability
 County Employees Retirement System
 June 30, 2019

Last Ten Fiscal Years*

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| District's proportion of the net OPEB liability | 0.007% | 0.007% |
| District's proportionate share of the net OPEB liability | \$ 149,389 | \$ 149,389 |
| District's covered employee payroll | \$ 14,161,818 | \$ 14,161,818 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 1.05% | 1.05% |
| Plan fiduciary net position as a percentage of the total pension liability | 21.18% | 21.18% |
| Contractually required contribution | \$ 8,557 | \$ 8,557 |
| Contributions in relation to the contractually required contribution | <u>8,557</u> | <u>8,557</u> |
| Contribution deficiency (excess) | <u>\$ 0</u> | <u>\$ 0</u> |
| District's covered employee payroll | <u>\$ 311,164</u> | <u>\$ 311,164</u> |
| Contributions as a percentage of covered-employee payroll | 2.75% | 2.75% |

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Southgate Independent School District
 Schedule of District's and Commonwealth of Kentucky's
 Proportionate Share of the Net OPEB Liability - KTRS
 June 30, 2019

Last Ten Fiscal Years*

| | <u>2019</u> | <u>2018</u> |
|--|----------------------------|----------------------------|
| District's proportion of the net OPEB liability | 0.017% | 0.017% |
| Commonwealth of Kentucky's proportion of the net OPEB liability | <u>0.014%</u> | <u>0.014%</u> |
| Total proportion of the net OPEB liability | <u><u>0.031%</u></u> | <u><u>0.031%</u></u> |
| District's proportionate share of the net OPEB liability | \$ 669,000 | \$ 610,000 |
| Commonwealth of Kentucky's proportionate share of the net OPEB liability | <u>576,000</u> | <u>498,000</u> |
| Total proportionate share of the net OPEB liability | <u><u>\$ 1,245,000</u></u> | <u><u>\$ 1,108,000</u></u> |
| District's covered employee payroll | \$ 14,161,818 | \$ 14,161,818 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 4.72% | 4.31% |
| Plan fiduciary net position as a percentage of the total pension liability | 21.18% | 21.18% |
| District's contractually required contribution | \$ 29,321 | \$ 29,321 |
| Contributions in relation to the contractually required contribution | \$ 29,321 | \$ 29,321 |
| Contribution deficiency | <u>\$ 0</u> | <u>\$ 0</u> |
| District's covered employee payroll | <u>\$ 13,850,654</u> | <u>\$ 13,850,654</u> |
| District's contributions as a percentage of covered employee payroll | 0.212% | 0.212% |

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Southgate Independent School District
Statement of Receipts, Disbursements, and Cash Balances
Activity Funds
Year Ended June 30, 2019

| Fund Name | Cash Balance July 1, 2018 | Receipts | Disbursements | Cash Balance June 30, 2019 |
|-----------------------|------------------------------|------------------|------------------|-------------------------------|
| Preschool | \$ 157 | \$ 169 | \$ 132 | \$ 194 |
| Kindergarten | 482 | | 98 | 384 |
| First grade | 556 | | 98 | 458 |
| Second grade | 213 | | 98 | 115 |
| Third grade | 196 | | 98 | 98 |
| Fourth grade | 144 | 203 | 98 | 249 |
| Fifth grade | 35 | 1,165 | 610 | 590 |
| Sixth grade | 255 | | 98 | 157 |
| Seventh grade | 10 | | 10 | 0 |
| Eighth grade | 91 | 236 | 267 | 60 |
| Eighth grade trip | 236 | 987 | 1,223 | 0 |
| Band | 559 | 666 | 676 | 549 |
| NKOA | - | 6,250 | 6,248 | 2 |
| Student needs | 109 | 820 | 0 | 929 |
| Library | 166 | 1,476 | 1,258 | 384 |
| Student council | | 1,028 | 400 | 628 |
| Yearbook | (956) | 956 | 0 | 0 |
| Office | 2,811 | 819 | 2,036 | 1,594 |
| All school field trip | | 3,175 | 2,977 | 198 |
| Student services | 922 | 692 | 1,028 | 586 |
| GNT | | 131 | 131 | 0 |
| Dreamfest | (23) | 23 | 0 | 0 |
| Media | | 800 | 800 | 0 |
| Art | 219 | 172 | 117 | 274 |
| GOTR | 81 | 0 | 75 | 6 |
| Total | \$ 6,263 | \$ 19,768 | \$ 18,576 | \$ 7,455 |

Southgate Independent School District
Schedule of Prior Year Audit Findings
June 30, 2019

There were no audit findings in the prior year.

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

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Southgate Independent School District as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the Southgate Independent School District's basic financial statements and have issued our report thereon dated November 11, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southgate Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and

material effect on the determination of financial statement amounts. 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 District in a separate letter dated November 11, 2019.

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

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

November 11, 2019

Members of the Board of Education
Southgate Independent School District
6 William Blatt Avenue
Southgate, KY 41071

In planning and performing our audit of the financial statements of Southgate Independent School District (District) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the District's 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 matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. This letter does not affect our report dated November 11, 2019 on the financial statements of the District.

We will review the status of these comments during our next audit engagement.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky
November 11, 2019

PRIOR YEAR COMMENTS

2018-01 Activity Fund

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines that require the activity fund to be reconciled on a timely basis.

Condition: Activity fund account was not reconciled on a timely basis

Cause: Employee turnover.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that school personnel reconcile the activity fund on a timely basis.

Response: In the future school personnel will reconcile the activity fund on a timely basis to comply with Red Book guidelines.

CURRENT YEAR COMMENTS

2018-01 Activity Fund

Criteria: *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) sets forth accounting guidelines that require the activity fund to be reconciled on a timely basis.

Condition: Activity fund account reconciliations were not signed and dated by the preparer or reviewer. Without this information it is not possible to determine if reconciliations were performed timely

Cause: Employee turnover.

Effect: Compliance with *A Uniform Program of Accounting for School Activity Funds in Kentucky Schools* (Red Book) was not achieved.

Recommendation: We recommend that school personnel sign and date reconciliations of the activity fund on a timely basis.

Response: In the future school personnel will reconcile the activity fund on a timely basis to comply with Red Book guidelines.

APPENDIX C

**Southgate Independent School District Finance Corporation
School Building Refunding Revenue Bonds
Series of 2021**

Official Terms and Conditions of Bond Sale

OFFICIAL TERMS AND CONDITIONS OF BOND SALE

\$975,000*

**Southgate Independent School District Finance Corporation
School Building Refunding Revenue Bonds, Series 2021
Dated as of January 6, 2021**

SALE: December 8, 2020 AT 11:00 A.M., E.S.T.

As published on PARITY®, a nationally recognized electronic bidding system, the Southgate Independent School District Finance Corporation (the "Corporation") will until 11:00 A.M., E.S.T., on January 5, 2021 receive at the office of the Kentucky School Facilities Construction Commission, 700 Louisville Road, Carriage House, Frankfort, Kentucky, 40601, competitive bids for the purchase of \$975,000 principal amount of Southgate Independent School District Finance Corporation School Building Refunding Revenue Bonds, Series of 2021 (the "Refunding Bonds"), dated and bearing interest from February 5, 2021, payable on May 1, 2021, and semi-annually thereafter on November 1 and May 1 of each year, in denominations in multiples of \$5,000 within the same maturity, maturing on May 1 in each of the years as follows:

| <u>MATURITY</u> | <u>PRINCIPAL AMOUNT*</u> |
|-----------------|------------------------------|
| 2021 | \$ 75,000 |
| 2022 | 85,000 |
| 2023 | 85,000 |
| 2024 | 90,000 |
| 2025 | 95,000 |
| 2026 | 90,000 |
| 2027 | 90,000 |
| 2028 | 90,000 |
| 2029 | 90,000 |
| 2030 | 90,000 |
| 2031 | 95,000 |

* Subject to Permitted Adjustment as described herein.

REDEMPTION PROVISIONS

The Bonds maturing on or after May 1, 2029 are subject to redemption at the option of the Corporation prior to their stated maturity on any date falling on or after May 1, 2028, in whole or in part, upon notice of such prior redemption being given by the Paying Agent in accordance with DTC requirements not less than thirty (30) days prior to the date of redemption, upon terms of the face amount, plus accrued interest, but without redemption premium.

Notwithstanding the foregoing, the Corporation reserves the right, upon thirty (30) days notice, to call the Bonds in whole or in part on any date at par for redemption upon the total destruction by fire, lightning, windstorm or other hazard of any building constituting the Project and apply casualty insurance proceeds to such purpose.

The Refunding Bonds are to be issued in fully registered form (both principal and interest). U.S. Bank National Association, Louisville, Kentucky, the Bond Registrar and Paying Agent, shall remit interest on each semiannual due date to each Registered Owner of record as of the 15th day of the month preceding the due date which shall be Cede & Co., as the Nominee of The Depository Trust Company ("DTC"). Please see "Book-Entry-Only-System" below.

SOUTHGATE INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION

The Corporation has been formed in accordance with the provisions of Sections 162.120 through 162.290 and Section 162.385 of the Kentucky Revised Statutes ("KRS"), and KRS Chapter 273 and KRS 58.180, as a non-profit, non-stock corporation for the purpose of financing necessary school building facilities for and on behalf of the Board of Education of the Southgate, Kentucky Independent School District (the "Board"). Under the provisions of existing Kentucky law, the Corporation is permitted to act as an agency and instrumentality of the Board for financing purposes and the legality of the financing plan to be implemented by the Bonds herein referred to has been upheld by the Kentucky Court of Appeals (Supreme Court) in the case of *White v. City of Middlesboro, Ky.* 414 S.W.2d 569.

AUTHORITY AND PURPOSE

The Refunding Bonds are being issued under and in full compliance with the Constitution and Statutes of the Commonwealth of Kentucky, including Sections 162.120 through 162.290, 162.385, and Section 58.180 of the Kentucky Revised Statutes, within the meaning of the decision of the Court of Appeals of Kentucky (Supreme Court) in the case of *Hemlepp v. Aronberg*, 369 S.W.2d 121, for the purpose of providing funds to retire the outstanding Southgate Independent School District Finance Corporation School Building Revenue Bonds, Series of 2011, dated May 1, 2011 maturing May 1, 2022 and thereafter (the "Refunded Bonds") at or prior to their stated maturities on May 1, 2021.

SCHOOL FACILITIES CONSTRUCTION COMMISSION

The Kentucky School Facilities Construction Commission is an independent corporate agency and instrumentality of the Commonwealth of Kentucky established pursuant to the provisions of Sections 157.611 through 157.640 of the Kentucky Revised Statutes, as amended, repealed and reenacted (the "Act") for the purpose of assisting local school districts in meeting the school construction needs of the Commonwealth in a manner which will ensure an equitable distribution of funds based upon unmet need.

The Commission will enter into a Participation Agreement with the Board whereunder the Commission, will agree to continue to pay approximately \$36,323 to be applied to the debt service of the Refunding Bonds through May 1, 2031; provided, however, that the contractual commitment of the Commission to pay the annual Agreed Participation is limited to the biennial budget period of the Commonwealth, with the first such biennial budget period terminating on June 30, 2022.

The General Assembly of the Commonwealth adopted the State's Budget for the biennium ending June 30, 2020. Inter alia, the Budget provides \$129,504,400 in FY 2018-19 and \$128,672,400 in FY 2020-20 to pay debt service on existing and future bond issues; \$58,000,000 of the Commission's previous Offers of Assistance made during the last biennium; and authorizes \$58,000,000 in additional Offers of Assistance for the current biennium to be funded in the Budget for the biennium ending June 30, 2022.

PROCEEDS TO RETIRE ALL BONDS OF PRIOR ISSUE

The Refunded Bonds were issued under the authority of Sections 162.120 through 162.290 and 162.385 of the Kentucky Revised Statutes for the purpose of providing funds to finance renovations and additions to Southgate School (the "Project"). Under the terms of the Resolution authorizing the Refunded Bonds, the Refunded Bonds are payable from the income and revenues of the Project financed from the proceeds thereof. The Refunded Bonds are secured by a lien upon and a pledge of revenues from the rental of the Project to the Board under a Lease Agreement, dated May 1, 2011 (the "Prior Lease").

The total principal amount of the Refunded Bonds currently outstanding is \$925,000, scheduled to mature on May 1 in each of the years 2021 through 2031. The proceeds of the Refunding Bonds will be used to pay accruing interest on and retire on May 1, 2021 all of the Refunded Bonds. The Refunded Bonds constitute the only outstanding bonded indebtedness payable from or secured by the school Project financed from the proceeds thereof.

The 2021 Bond Resolution adopted by the Corporation's Board of Directors authorizes the payment and retirement of the Refunded Bonds including principal and accruing interest at or prior to their stated maturities through the deposit of the required amount of proceeds of the Refunding Bonds in the Bond and Interest Redemption Fund established for the Refunded Bonds or in a special Escrow Fund for application to the retirement of the Refunded Bonds.

The 2021 Bond Resolution expressly provides that upon delivery of the Refunding Bonds and the deposit of sufficient funds in accordance with the preceding paragraph neither the lien upon nor the pledge of the revenues from the rental of the Project under the Prior Lease shall constitute the security and source of payment for any of the Refunded Bonds and the Registered Owners of such Refunded Bonds shall be paid from and secured by the monies deposited in the Bond and Interest Redemption Fund established for the Refunded Bonds or in Escrow Fund for the retirement thereof upon the delivery of the Refunding Bonds.

SECURITY FOR REFUNDING BONDS

The Refunding Bonds will constitute a limited indebtedness of the Corporation and will be payable as to both principal and interest solely from the income and revenues of the school Project financed from the proceeds of the Refunded Bonds. The Refunding Bonds are secured by a lien upon and a pledge of the revenues derived from the rental of the school Project to the Board under a Lease Agreement dated February 5, 2021 (the "2021 Lease"); provided, however, that said lien and pledge are on parity with similar liens and pledges securing certain of the Corporation's outstanding School Building Revenue Bonds previously issued to improve the Project (the "Parity Bonds").

Under the 2021 Lease the Board has leased the school property securing the Refunding Bonds in accordance with the provisions of KRS 162.140 for an initial period from February 5, 2021 through June 30, 2021, with the option in the Board to renew said 2021 Lease from year to year for one year at a time, at annual rentals, sufficient in each year to enable the Corporation to pay, solely from the rentals due under the 2021 Lease, the principal and interest on all of the Refunding Bonds as same become due.

The 2021 Lease provides that the Prior Lease will be canceled effective upon the deposit of sufficient funds to provide for the retirement of the Refunded Bonds. The 2021 Lease provides further that so long as the Board exercises its annual renewal options, its rentals will be payable according to the terms and provisions of the 2021 Lease until May 1, 2031, the final maturity date of the Refunding Bonds, and such annual rentals shall be deposited as received in the Bond Fund for the Refunding Bonds and used and applied for the payment of all maturing principal of and interest on the Refunding Bonds.

Under the terms of the 2021 Lease, and any renewal thereof, the Board has agreed so long as the Bonds remain outstanding, and in conformance with the intent and purpose of Section 157.627(5) of the Act and KRS 160.160(5), in the event of a failure by the Board to pay the rentals due under the 2021 Lease, and unless sufficient funds have been transmitted to the Paying Agent, or will be so transmitted, for paying said rentals when due, the Board has granted under the terms of the 2021 Lease and Participation Agreement to the Corporation and the Commission the right to notify and request the Kentucky Department of Education to withhold from the Board a sufficient portion of any undisbursed funds then held, set aside, or allocated to the Board and to request said Department or Commissioner of Education to transfer the required amount thereof to the Paying Agent for the payment of such rentals.

BIDDING CONDITIONS AND RESTRICTIONS

(A) The terms and conditions of the sale of the Refunding Bonds are as follows:

(1) Bids must be made on Official Bid Form, contained in Information for Bidders available from the undersigned or RSA Advisors, LLC, Lexington, Kentucky, or by visiting www.rsamuni.com submitted manually, by facsimile or electronically via PARITY®.

(2) Electronic bids for the Bonds must be submitted through PARITY® and no other provider of electronic bidding services will be accepted. Subscription to the PARITY® Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription

nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY® conflict with the terms of the Official Terms and Conditions of Sale of Bonds, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY® shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY®. The use of PARITY® facilities are at the sole risk of the prospective bidders. For further information regarding PARITY®, potential bidders may contact PARITY®, telephone (212) 404-8102. Notwithstanding the foregoing non-electronic bids may be submitted via facsimile or by hand delivery utilizing the Official Bid Form.

(3) The bid shall be not less than \$965,250 (99% of par) plus accrued interest. Interest rates shall be in multiples of 1/8 or 1/20 of 1% or both. Only one interest rate shall be permitted per Bond, and all Bonds of the same maturity shall bear the same rate. Interest rates must be on an ascending scale, in that the interest rate stipulated in any year may not be less than that stipulated for any preceding maturity. There is no limit on the number of different interest rates.

(4) The determination of the best purchase bid for said Refunding Bonds shall be made on the basis of all bids submitted for exactly \$975,000 principal amount of Refunding Bonds offered for sale under the terms and conditions herein specified; provided, however, the Corporation reserves the right to increase or decrease the total principal amount of Refunding Bonds sold to such best bidder, in the amount of not exceeding \$100,000, with such increase or decrease to be made in any maturity, and the total amount of Refunding Bonds awarded to such best bidder will be a minimum of \$875,000 or a maximum of \$1,075,000. In the event of any such adjustment, no rebidding or recalculation of a submitted bid will be required or permitted. The price at which such adjusted principal amount of Bonds will be sold will be at the same price per \$5,000 of Refunding Bonds as the price per \$5,000 for the \$975,000 of Refunding Bonds bid.

(5) If three (3) or more bids for the Bonds are received as a result of this competitive sale, the successful purchaser will be required to certify on or before the issue date the reasonably expected initial offering price to the public as of the Sale Date for each Maturity of the Bonds which prices are the prices for each Maturity of the Bonds used by the successful purchaser in formulating its bid to purchase the Bonds.

If less than three (3) bids for the Bonds are received as a result of this competitive sale, the successful purchaser, by submitting a bid pursuant to a published Notice of Sale, has agreed in writing that they will certify on or before the issue date (and provide reasonable supporting documentation for such Certification, such as a copy of the Pricing wire or equivalent communication) for each Maturity of the Bonds (i) the first price at which at least 10% of each Maturity of the Bonds was sold to the Public, or (ii) that they will neither offer nor sell any of the Bonds of each Maturity to any person at a price that is higher than the Initial Offering Price for such maturity during the Holding Period for such Maturity.

Bids will not be subject to cancellation or withdrawal by the bidder in the event that three bids are not received and the Issuer determines to apply the hold-the-offering-price rule.

For purposes of the above the following terms are defined as follows:

(a)*Holding Period* means, with respect to a Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the successful purchaser has sold at least 10% of such Maturity to the Public at prices that are no higher than the Initial Offering Price for such Maturity.

(b)*Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(c)*Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

(d)*Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is January 5, 2021.

(e)*Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

(6) The successful bidder may elect to notify the Municipal Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on May 1 in accordance with the maturity schedule setting the actual size of the issue.

(7) The successful purchaser shall be required (without further advice from the Corporation) to wire transfer an amount equal to 2% of the principal amount of Refunding Bonds actually awarded to the Paying Agent U.S. Bank National Association, Louisville, Kentucky, Attn: Mr. Charles Lush (502-562-6436) by the close of business on the day following the award as a good faith deposit said amount will be applied (without interest) to the purchase price upon delivery and will be forfeited if the purchaser fails to take delivery.

(8) All Refunding Bonds of the same maturity shall bear the same and a single interest rate from the date thereof to maturity.

(9) The right to reject bids for any reason deemed acceptable by the Corporation, and the right to waive any possible informalities or irregularities in any bid, which in the sole judgment of the Corporation shall be minor or immaterial, is expressly reserved.

(10) CUSIP identification numbers will be printed on the Refunding Bonds at the expense of the Corporation. The purchaser shall pay the CUSIP Service Bureau assignment charge. Improper imprintation or the failure to imprint CUSIP numbers shall not constitute cause for a failure or refusal by the purchaser to accept delivery of and pay for said Refunding Bonds in accordance with the terms of any accepted proposal for the purchase of said Bonds.

(B) The Bonds will be delivered utilizing the DTC Book-Entry-Only-System.

(C) Said Bonds are offered for sale on the basis of the principal of said Bonds not being subject to Kentucky ad valorem taxation and on the basis of the interest on said Bonds not being subject to Federal or Kentucky income taxation on the date of their delivery to the successful bidder. See TAX EXEMPTION below.

(D) The Corporation will provide to the successful purchaser a Final Official Statement in accordance with SEC Rule 15c2-12. A Final Official Statement will be provided in Electronic Form to the successful bidder, in sufficient time to meet the delivery requirements of the successful bidder under SEC and Municipal Securities Rulemaking Board Delivery Requirements. The successful bidder will be required to pay for the printing of Final Official Statements.

(E) If, prior to the delivery of the Bonds, any event should occur which alters the tax exempt status of the Bonds, or of the interest thereon, the purchaser shall have the privilege of avoiding the purchase contract by giving

immediate written notice to the Corporation, whereupon the good faith check of the purchaser will be returned to the purchaser, and all respective obligations of the parties will be terminated.

(F) The Corporation and the Board agree to cooperate with the successful bidder in the event said purchaser desires to purchase municipal bond insurance regarding the Refunding Bonds; provided, however, that any and all expenses incurred in obtaining said insurance shall be solely the obligation of the successful bidder should the successful bidder so elect to purchase such insurance.

STATE SUPPORT OF EDUCATION

The 1990 Regular Session of the General Assembly of the Commonwealth enacted a comprehensive legislative package known as the Kentucky Education Reform Act ("KERA") designed to comply with the mandate of the Kentucky Supreme Court that the General Assembly provide for as efficient and equitable system of schools throughout the State.

KERA became fully effective on July 13, 1990. Elementary and Secondary Education in the Commonwealth is supervised by the Commissioner of Education as the Chief Executive Officer of the State Department of Education ("DOE"), an appointee of the reconstituted State Board for Elementary and Secondary Education (the "State Board"). Some salient features of KERA are as follows:

KRS 157.330 establishes the fund to Support Education Excellence in Kentucky ("SEEK") funded from biennial appropriations from the General Assembly for distribution to school districts. The base funding guaranteed to each school district by SEEK for operating and capital expenditures is determined in each fiscal year by dividing the total annual SEEK appropriation by the state-wide total of pupils in average daily attendance ("ADA") in the preceding fiscal year; the ADA for each district is subject to adjustment to reflect the number of at risk students (approved for free lunch programs under state and federal guidelines), number and types of exceptional children, and transportation costs.

KRS 157.420 establishes a formula which results in the allocation of funds for capital expenditures in school districts at \$100 per ADA pupil which is included in the SEEK allotment (\$4,000) for the current biennium which is required to be segregated into a Capital Outlay Allotment Fund which may be used only for (1) direct payment of construction costs; (2) debt service on voted and funding bonds; (3) lease rental payments in support of bond issues; (4) reduction of deficits resulting from over expenditures for emergency capital construction; and (5) a reserve for each of the categories enumerated in 1 through 4 above.

KRS 157.440(1) requires that effective for fiscal years beginning July 1, 1990 each school district shall levy a minimum equivalent tax rate of \$.30 for general school purposes. The equivalent tax rate is defined as the rate which results when the income collected during the prior year from all taxes levied by the district (including utilities gross receipts license and special voted) for school purposes is divided by the total assessed value of property, plus the assessment for motor vehicles certified by the Revenue Cabinet of the Commonwealth. Any school district board of education which fails to comply with the minimum equivalent tax rate levy shall be subject to removal from office.

KRS 157.440(2) provides that for fiscal years beginning July 1, 1990 each school district may levy an equivalent tax rate which will produce up to 15% of those revenues guaranteed by the SEEK program. Any increase beyond the 4% annual limitation imposed by KRS 132.017 is not subject to the recall provisions of that Section. Revenue generated by the 15% levy is to be equalized at 150% of the state-wide average per pupil equalized assessment.

KRS 157.440(2) permits school districts to levy up to 30% of the revenue guaranteed by the SEEK program, plus the revenue produced by the 15% levy, but said additional tax will not be equalized with state funds and will be subject to recall by a simple majority of those voting on the question.

KRS 157.620(1) also provides that in order to be eligible for participation from the Kentucky School Facilities Construction Commission for debt service on bond issues the district must levy a tax which will produce revenues equivalent to \$.05 per \$100 of the total assessed value of all property in the district (including tangible and intangible property and motor vehicles) in addition to the minimum \$.30 levy required by KRS 160.470(12). A

district having a special voted tax which is equal to or higher than the required \$.05 tax, must commit and segregate for capital purposes at least an amount equal to the required \$.05 tax. Those districts which levy the additional \$.05 tax are also eligible for participation in the Kentucky Facilities Support ("KFS") program for which funds are appropriated separately from SEEK funds and are distributed to districts in accordance with a formula taking into account outstanding debt and funds available for payment from both local and state sources under KRS 157.440(1)(b).

KRS 160.460 provides that as of July 1, 1994 all real property located in the Commonwealth subject to local taxation shall be assessed at 100% of fair cash value.

BIENNIAL BUDGET FOR PERIOD ENDING JUNE 30, 2022

The Kentucky General Assembly is required by the Kentucky Constitution to adopt measures providing for the state's revenues and appropriations for each fiscal year. The Governor is required by law to submit a biennial State Budget (the "State Budget") to the General Assembly during the legislative session held in each even numbered year. State Budgets have generally been adopted by the General Assembly during those legislative sessions, which end in mid-April, to be effective upon the Governor's signature for appropriations commencing for a two-year period beginning the following July 1.

In the absence of a legislatively enacted budget, the Supreme Court has ruled the Governor has no authority to spend money from the state treasury except where there is a statutory, constitutional or federal mandate and the Commonwealth may be prevented from expending funds for certain state governmental functions, including the ability to pay principal of, premium, if any, and interest, when due, on obligations that are subject to appropriation.

Due to the unforeseen nature on the economy of the Commonwealth caused by the COVID-19 pandemic, in its 2020 regular session, the General Assembly adopted only a one-year budget for the biennial period ending June 30, 2022 which was approved and signed by the Governor. The biennial budget will be reviewed and supplemented during the General Assembly's 2021 regular session. Such budget became effective beginning July 1, 2020. The Office of the State Budget Director makes available on its website monthly updates to the General Fund receipts and other Funds of the commonwealth. When published, the updates can be found at www.osbd.ky.gov.

POTENTIAL LEGISLATION

No assurance can be given that any future legislation, including amendments to the Code, if enacted into law, or changes in interpretation of the Code, will not cause interest on the Refunding Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent owners of the Refunding Bonds from realizing the full current benefit of the tax exemption of such interest. In addition, current and future legislative proposals, if enacted into law, may cause interest on state or local government bonds (whether issued before, on the date of, or after enactment of such legislation) to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the amount of interest on such bonds that may currently be treated as tax exempt by certain individuals. Prospective purchasers of the Refunding Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Further, no assurance can be given that the introduction or enactment of any such future legislation, or any action of the IRS, including but not limited to regulation, ruling, or selection of the Refunding Bonds for audit examination, or the course or result of any IRS examination of the Refunding Bonds or obligations which present similar tax issues, will not affect the market price for the Refunding Bonds.

CONTINUING DISCLOSURE

As a result of the principal amount of Bonds being offered not exceeding \$1,000,000 Bond Counsel has advised the Corporation and the Board that they are exempt from application of the Rule 15c2-12c2-12(b)(5) of the Securities and Exchange Commission with respect to the Bonds.

Financial information regarding the Board may be obtained from Superintendent, Southgate Independent Board of Education, 6 William F. Blatt Avenue, Southgate, Kentucky 41071 (859) 441-0743.

TAX EXEMPTION; BANK QUALIFIED

Bond Counsel advises as follows:

(A) The Refunding Bonds and the interest thereon are exempt from income and ad valorem taxation by the Commonwealth of Kentucky and all of its political subdivisions.

(B) The interest income from the Refunding Bonds is excludable from the gross income of the recipient thereof for Federal income tax purposes under existing law and interest on the Bonds will not be a specific item of tax preference for purposes of calculating the Federal alternative minimum tax.

(C) As a result of certifications by the Board and the Corporation, indicating the issuance of less than \$10,000,000 of tax-exempt obligations during the calendar year ending December 31, 2021, the Refunding Bonds may be treated by financial institutions as "qualified tax-exempt obligations" under Section 265(b)(3) of the Code.

BOOK-ENTRY-ONLY-SYSTEM

The Refunding Bonds shall utilize the Book-Entry-Only-System administered by The Depository Trust Company ("DTC").

DTC will act as securities depository for the Bonds. The Bonds initially will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond Certificate will be issued, in the aggregate principal amount of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. "Direct Participants" include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds ("Beneficial Ownership Interest") are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their Beneficial Ownership interests in Bonds, except in the event that use of the book-entry system for the Securities is discontinued. Transfers of ownership interest in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co., effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are

credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments of the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' account on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Issuer, or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payment to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Trustee, as appropriate. The requirements for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Bond Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered by the Bond Registrar.

NEITHER THE ISSUER, THE BOARD NOR THE BOND REGISTRAR/PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR/PAYING AGENT AS BEING AN OWNER WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

**SOUTHGATE INDEPENDENT SCHOOL DISTRICT
FINANCE CORPORATION**

By /s/ Greg Duty
Secretary

APPENDIX D

**Southgate Independent School District Finance Corporation
School Building Refunding Revenue Bonds
Series of 2021**

Official Bid Form

**OFFICIAL BID FORM
(Bond Purchase Agreement)**

The Southgate Independent School District Finance Corporation ("Corporation"), will until 11:00 A.M., E.S.T., on January 5, 2021, receive in the office of the Executive Director of the Kentucky School Facilities Construction Commission, 700 Louisville Road, Carriage House, Frankfort, Kentucky, 40601, (telephone 502-564-5582; Fax 888-979-6152) competitive bids for its \$975,000 School Building Refunding Revenue Bonds, Series of 2021, dated as of February 5, 2021; maturing May 1, 2021 through 2031 ("Bonds").

We hereby bid for said \$975,000* principal amount of Bonds, the total sum of \$_____ (not less than \$965,250) plus accrued interest from February 5, 2021 payable May 1, 2021 and semiannually thereafter (rates on ascending scale in multiples of 1/8 or 1/20 of 1%; number of interest rates unlimited) and maturing as to principal on May 1 in each of the years as follows:

| <u>Year</u> | <u>Amount*</u> | <u>Rate</u> |
|-------------|----------------|-------------|
| 2021 | \$ 75,000 | _____ % |
| 2022 | 85,000 | _____ % |
| 2023 | 85,000 | _____ % |
| 2024 | 90,000 | _____ % |
| 2025 | 95,000 | _____ % |
| 2026 | 90,000 | _____ % |
| 2027 | 90,000 | _____ % |
| 2028 | 90,000 | _____ % |
| 2029 | 90,000 | _____ % |
| 2030 | 90,000 | _____ % |
| 2031 | 95,000 | _____ % |

* Subject to Permitted Adjustment up to \$100,000

We understand this bid may be accepted for as much as \$1,075,000 of Bonds or as little as \$875,000 of Bonds, at the same price per \$5,000 Bond, with the variation in such amount occurring in any maturity or all maturities, which will be determined by the Secretary of the Corporation at the time of acceptance of the best bid.

We further understand that by submitting a bid we agree as follows:

If three (3) or more bids for the Bonds are received as a result of this competitive sale, the successful purchaser will be required to certify on or before the issue date the reasonably expected initial offering price to the public as of the Sale Date for each Maturity of the Bonds which prices are the prices for each Maturity of the Bonds used by the successful purchaser in formulating its bid to purchase the Bonds.

If less than three (3) bids for the Bonds are received as a result of this competitive sale, the successful purchaser, by submitting a bid pursuant to a published Notice of Sale, has agreed in writing that they will certify on or before the issue date (and provide reasonable supporting documentation for such Certification, such as a copy of the Pricing wire or equivalent communication) for each Maturity of the Bonds (i) the first price at which at least 10% of each Maturity of the Bonds was sold to the Public, or (ii) that they will neither offer nor sell any of the Bonds of each Maturity to any person at a price that is higher than the Initial Offering Price for such maturity during the Holding Period for such Maturity.

Bids will not be subject to cancellation or withdrawal by the bidder in the event that three bids are not received and the Issuer determines to apply the hold-the-offering-price rule.

For purposes of the above the following terms are defined as follows:

(a) *Holding Period* means, with respect to a Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the successful purchaser has sold at least 10% of such Maturity to the Public at prices that are no higher than the Initial Offering Price for such Maturity.

(b) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(c) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50% common ownership, directly or indirectly.

(d) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is January 5, 2021.

(e) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

Electronic bids for the Bonds must be submitted through PARITY® and no other provider of electronic bidding services will be accepted. Subscription to the PARITY® Competitive Bidding System is required in order to submit an electronic bid. The Corporation will neither confirm any subscription nor be responsible for the failure of any prospective bidders to subscribe. For the purposes of the bidding process, the time as maintained by PARITY® shall constitute the official time with respect to all bids whether in electronic or written form. To the extent any instructions or directions set forth in PARITY® conflict with the terms of the Official Terms and Conditions of Sale of Bonds, this Official Terms and Conditions of Sale of Bonds shall prevail. Electronic bids made through the facilities of PARITY® shall be deemed an offer to purchase in response to the Notice of Bond Sale and shall be binding upon the bidders as if made by signed, sealed written bids delivered to the Corporation. The Corporation shall not be responsible

for any malfunction or mistake made by or as a result of the use of the electronic bidding facilities provided and maintained by PARITY®. The use of PARITY® facilities are at the sole risk of the prospective bidders. For further information regarding PARITY®, potential bidders may contact PARITY®, telephone (212) 404-8102.

The successful bidder may elect to notify the Municipal Advisor within twenty-four (24) hours of the award of the Bonds that certain serial maturities as awarded may be combined with immediately succeeding serial maturities as one or more Term Bonds; provided, however, (a) bids must be submitted to permit only a single interest rate for each Term Bond specified, and (b) Term Bonds will be subject to mandatory redemption by lot on May 1 in accordance with the maturity schedule setting the actual size of the issue.

The DTC Book-Entry-Only-System will be utilized on delivery of this issue.

It is understood that the Corporation will furnish the final, approving Legal Opinions of Steptoe & Johnson PLLC, Bond Counsel, Louisville, Kentucky.

No certified or bank cashier's check will be required to accompany a bid, but the successful bidder shall be required to wire transfer an amount equal to 2% of the principal amount of Refunding Bonds awarded by the close of business on the date following the award. Said good faith amount will be applied (without interest) to the purchase price on delivery. Wire transfer procedures should be arranged through U.S. Bank National Association, Louisville, Kentucky, Attn: Mr. Charles Lush (502-562-6436).

Bids must be submitted only on this form and must be fully executed.

If we are the successful bidder, we agree to accept and make payment for the Bonds in Federal Funds on or about February 5, 2021 and upon acceptance by the Issuer's Municipal Advisor this Official Bid Form shall become the Bond Purchase Agreement.

Respectfully submitted,

Bidder

Address

Signature

| | |
|--|----------|
| Total interest cost from February 5, 2021 to final maturity | \$ _____ |
| Plus discount | \$ _____ |
| Net interest cost (Total interest cost plus discount) | \$ _____ |
| Average interest rate or cost | _____ % |

The above computation of net interest cost and of average interest rate or cost is submitted for information only and is not a part of this Bid.

Accepted by the Secretary of the Southgate Independent School District Finance Corporation for \$ _____ principal amount of Bonds at the price of \$ _____ as follows:

| <u>MATURING MAY 1</u> | <u>AMOUNT</u> | <u>INTEREST RATE</u> | <u>MATURING MAY 1</u> | <u>AMOUNT</u> | <u>INTEREST RATE</u> |
|---------------------------|---------------|--------------------------|---------------------------|---------------|--------------------------|
| 2021 | \$ _____ | _____ % | 2027 | \$ _____ | _____ % |
| 2022 | _____ | _____ | 2028 | _____ | _____ |
| 2023 | _____ | _____ | 2029 | _____ | _____ |
| 2024 | _____ | _____ | 2030 | _____ | _____ |
| 2025 | _____ | _____ | 2031 | _____ | _____ |
| 2026 | _____ | _____ | | | |

Dated: January 5, 2021

Secretary
Southgate Independent School District
Finance Corporation