

CALLOWAY COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015

CALLOWAY COUNTY SCHOOL DISTRICT TABLE OF CONTENTS

Introductory Section

Board of Education and Administrative Staff

Financial Section

Independent Auditor’s Report 1

Management’s Discussion and Analysis 4

Basic Financial Statements

Government-wide Financial Statements:

Statement of Net Position 13

Statement of Activities 14

Fund Financial Statements:

Balance Sheet – Governmental Funds 15

Reconciliation of the Governmental Funds Balance Sheet to the Statement of
Net Position 16

Statement of Revenues, Expenditures and Changes in Fund Balances –
Governmental Funds 17

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities 18

Statement of Net Position – Proprietary Funds 19

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds 20

Statement of Cash Flows - Proprietary Funds 21

Statement of Fiduciary Net Position – Fiduciary Funds 22

Statement of Changes in Fiduciary Net Position – Fiduciary Funds 23

Notes to Financial Statements 24

Required Supplementary Information

Statement of Budgetary Comparison – General Fund 49

Statement of Budgetary Comparison – Special Revenue Fund 50

Schedule of the District’s Proportionate Share of the Net Pension Liability – County
Employee’s Retirement System 51

Schedule of the District’s Contributions – County Employee’s Retirement System 52

Schedule of the Commonwealth of Kentucky’s Proportionate Share of the Net Pension
Liability Associated With Calloway County School District – Special Funding Situation -
Kentucky Teachers’ Retirement System 53

Schedule of the District’s Contributions – Kentucky Teachers’ Retirement System 54

Notes to Required Supplementary Information 55

Supplementary and Other Information Section

Combining Balance Sheet – Nonmajor Governmental Funds 56

Combining Statement of Revenues, Expenditures and Changes in Fund Balances –
Nonmajor Governmental Funds 57

Combining Statement of Revenues and Expenditures – Agency Funds 58

Schedule of Expenditures of Federal Awards 60

**CALLOWAY COUNTY SCHOOL DISTRICT
TABLE OF CONTENTS**

Notes to Schedule of Expenditures of Federal Awards	62
Internal Control and Compliance Section	
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 <i>Government Auditing Standards</i>	64
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>OMB Circular A-133</i>	66
Schedule of Findings and Questioned Costs.....	68
Management Letter Points	
Independent Auditor’s Transmittal Letter for Management Letter Points.....	69
Management Letter Points	70
Summary Schedule of Prior Audit Findings	71

INTRODUCTORY SECTION

CALLOWAY COUNTY SCHOOL DISTRICT

June 30, 2015

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ADMINISTRATIVE STAFF

Steve Hoskins, Superintendent
Fred Ashby, Director of Pupil Personnel
Amy Owens, District Finance Officer

CURRENT ADMINISTRATIVE STAFF

Tres Settle, Superintendent
Fred Ashby, Director of Pupil Personnel
Amy Owens, District Finance Officer

FINANCIAL SECTION

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Independent Auditor's Report

Kentucky State Committee for School District Audits
Calloway County Board of Education
Murray, Kentucky

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 Calloway County School District, as of and for the year ended June 30, 2015, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinions

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 Calloway County School District, as of June 30, 2015, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension information on pages 4-12 and 49-55 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 Calloway County School District's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining fund financial statements and the schedule of expenditures of federal awards 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 fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015, on our consideration of the Calloway County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 Calloway County School District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015



Calloway County Schools

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TRES SETTLE
Superintendent

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CALLOWAY COUNTY PUBLIC SCHOOL DISTRICT – MURRAY, KENTUCKY MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2015

The discussion and analysis of the Calloway County School District (District) provides a narrative overview and analysis of the District’s financial statements and the activities of the District for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audited financial statements. The implementation of Governmental Accounting Standards Board (GASB) Statements no. 68 and 71, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during 2015 causes some financial information reported in the MD&A for 2015 and 2014 not to be comparable.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2015 are as follows:

- General revenues accounted for \$27,868,288 or 82% of all revenue. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$6,114,299 or 18% of total revenue.
- Among governmental funds, the General Fund had \$23,592,387 in revenue (including other financing sources), which primarily consisted of the state program (SEEK) and property, local utility, and motor vehicle taxes. General Fund expenditures (including transfers) were \$23,725,452.
- The General Fund’s balance decreased by \$14,760 from 2014. The unassigned fund balance from 2015 was \$4,608,424 compared to \$4,476,665 for 2013-2014. Effective for the end of year 2015, in compliance with the GASB 54 regulations, \$2,064,763 was either assigned, restricted or committed by the board for special projects including SBDM Council carry forward and accumulated sick leave liability compared to \$2,160,444 at the end of FY2014.
- Day care services were offered by the District for the tenth year at all three elementary schools and the preschool. The summer day care service, which was started in 2008 – 2009, continued during the 2014 – 2015 school year. Day care revenues exceeded expenses in fiscal year 2015. Newly aligned budgets corrected a budget deficit occurring in the 2013 – 2014 school year. The day care program will continue to provide services in 2015 – 2016.

This annual report consists of a series of financial statements and notes to those statements. These financial statements are organized so the reader can understand the Calloway County School District as a whole or as one operating entity (government-wide financial statements). The statements then proceed to provide an increasingly detailed look at the District's operations by providing information about the District's most significant funds (fund financial statements).

OVERVIEW OF FINANCIAL STATEMENTS

The 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.

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. These statements include the Statement of Net Position and the Statement of Activities. In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct types of activities:

- **Governmental Activities** – All of the District's programs and services are reported here, including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.
- **Proprietary (Business-Type) Activity** – This service is provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. The Food Service Enterprise Fund and Day Care Fund are reported business activities.

The Statement of Net Position (on page 13) presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, 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 (on page 14) 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.

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

Fund financial statements start on page 15 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 24 of this report.

FINANCIAL ANALYSIS

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$18,151,050, a decrease of \$5,687,689 over the prior year. New requirements based on GASB Statement 68 have required school districts, along with other entities who participate in government pension plans, to report a proportionate share of unfunded pension liabilities on their own district-wide financial statements. The proportionate share for the District for FY2015 to include Governmental and Business-Type Activities was \$5,270,868 which explains the majority of the decrease in net position.

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

The following table provides a comparison of the District's net position for 2015 and 2014.

Net Position		
	<u>2015</u>	<u>2014</u>
Assets		
Current Assets	\$ 8,374,235	\$ 12,863,685
Noncurrent Assets	<u>36,467,154</u>	<u>34,871,032</u>
Total Assets	<u>44,841,389</u>	<u>47,734,717</u>
Deferred Outflows of Resources		
Pension – Contributions Subsequent to Measurement Date	659,085	-
Deferred on Refunding	<u>357,539</u>	<u>409,629</u>
Total Deferred Outflows	<u>1,016,624</u>	<u>409,629</u>
Total Assets and Deferred Outflows	<u>45,858,013</u>	<u>48,144,346</u>
Liabilities		
Current liabilities	389,989	1,426,089
Noncurrent liabilities	<u>26,846,289</u>	<u>22,879,518</u>
Total Liabilities	<u>27,236,278</u>	<u>24,305,607</u>
Net position		
Net investment in capital assets	15,038,605	12,470,550
Restricted	1,900,981	5,329,934
Unrestricted	<u>1,211,464</u>	<u>6,038,255</u>
Total Net Position	<u>\$ 18,151,050</u>	<u>\$ 23,838,739</u>

The following table shows changes in net position for fiscal year 2015 and 2014. Total revenues increased by \$2,815,531 compared to fiscal year 2014 revenues and expenses increased by \$1,633,501. The largest increase in expenses occurred in instruction.

Changes in Net Position

	2015	2014
Revenues		
Program Revenues:		
Charges for Services	\$ 697,508	\$ 785,554
Operating Grants and Contributions	5,416,791	5,408,567
General Revenues:		
Local Taxes	9,151,344	9,073,621
Investment Earnings	123,989	174,480
Other Local Revenue	177,008	119,024
Original Issue Discount	99,220	48,720
State Aid – Formula Grants	18,320,601	15,587,864
Transfer In/Out	-	(43,950)
Gain (Loss) on Sale of Fixed Assets	(3,874)	13,176
Total Revenues	33,982,587	31,167,056
Program Expenses		
Instruction	21,241,224	18,341,131
Support Services	5,534,464	6,267,114
Plant Operations and Management	2,445,061	2,848,801
Student Transportation	1,768,028	1,866,703
Non-instructional Services	257,510	233,920
Interest on long-term debt	765,584	823,651
Amortization – unallocated	57,269	4,772
Food Service	2,020,899	2,030,734
Day Care	260,556	300,268
Total Expenses	34,350,595	32,717,094
Increase/(Decrease) in Net Position	\$ (368,008)	\$ (1,550,038)

GOVERNMENTAL ACTIVITIES

Total revenues for governmental activities for FY2015 were \$29,216,733 which was an increase of less than 1.7%. Taxes made up approximately 31.3% of revenues for governmental activities for the District compared to 31.5% in fiscal year 2014. State aid and state and federal grants accounted for 67.1% of revenue in fiscal year 2015 compared to 66.5% in fiscal year 2014. The total cost of all programs and services for governmental activities was \$32,822,082 compared to \$34,872,945 in fiscal year 2014. Instruction comprised 54.8% of expenses in fiscal year 2015 compared to 50.7% in fiscal year 2014.

Revenues for the District in fiscal year 2015 failed to meet expenses by \$446,091 compared to a deficit of \$1,649,387 in fiscal year 2014. Total revenues for the District increased by just under 1.7% in fiscal year 2015 and expenses for the District increased by approximately 6.4%. The minor increase in total revenues and even larger increase in total expenses resulted in a decrease in total net position of

\$368,006. The district gave a 2% salary increase in fiscal year 2015 yet compensated for the increased salary expenses by reducing positions and eliminating outdated programs.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows the total cost of services and the net cost of services for governmental activities for 2015 and 2014. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Cost of Services

	<u>Total Cost</u> <u>(2015)</u>	<u>Total Cost</u> <u>(2014)</u>	<u>Net Cost</u> <u>(2015)</u>	<u>Net Cost</u> <u>(2014)</u>
Instruction	\$ 21,241,222	\$ 18,341,131	17,475,672	14,568,046
Students & Instructional Staff	2,669,791	2,367,207	2,669,791	2,367,207
General , School Admin. & Business	2,864,673	3,899,907	2,864,673	3,899,907
Plant Operations and Main.	2,445,061	2,848,801	2,445,061	2,848,801
Student Transportation	1,768,028	1,866,703	1,768,028	1,866,703
Non-Instructional Services	257,510	233,920	257,510	233,920
Interest on Long-Term Debt	765,584	823,651	765,584	823,651
Amortization-Unallocated	<u>57,269</u>	<u>4,772</u>	<u>57,269</u>	<u>4,772</u>
Total Expenses	<u>\$ 32,069,138</u>	<u>\$30,386,092</u>	<u>\$ 28,303,588</u>	<u>\$ 26,613,007</u>

PROPRIETARY (BUSINESS-TYPE) ACTIVITIES

The proprietary (business-type) activities of the District are the food service operation and the day care operation. The following table represents a summary of revenues and expenses for the fiscal years which ended June 30, 2015 and June 30, 2014.

	<u>2015</u>	<u>2014</u>
Operating revenues		
Local revenue sources	\$ 663,298	\$ 723,335
Total operating revenue	<u>663,298</u>	<u>723,335</u>
Non-operating revenues (expenses)		
Investments	10,791	9,959
State revenue sources	63,111	43,631
State on-behalf payments	184,736	187,263
Federal revenue	1,353,632	1,347,021
Donated commodities	83,972	119,786
Gain (loss) on disposal of assets	-	(644)
Total non-operating revenue	<u>1,696,242</u>	<u>1,707,016</u>
Total revenue	<u>2,359,540</u>	<u>2,430,351</u>
Expenses		
Food service	2,020,899	2,030,734
Day care	<u>260,556</u>	<u>300,268</u>
Total expenses	<u>2,281,455</u>	<u>2,331,002</u>
Change in net position	<u>\$ 78,085</u>	<u>\$ 99,349</u>

Food service revenues exceeded expenditures this year by \$48,576 compared to last year when revenues exceeded expenditures by \$117,577. The food service operation is self-operating without assistance from the General Fund. This business activity receives no support from tax revenues.

The day care program revenues exceeded expenditures this year by \$29,509 compared to last year when expenditures exceeded revenues by \$18,228. The current year was the tenth year of the childcare program and the sixth complete year for the summer childcare program. The day care program is generally self-supporting and maintains a sufficient carry forward each year to compensate for fluctuations in revenues and expenses. Administration has been working diligently to reduce the overall cost of the summer program which typically is not self-sufficient.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined unassigned fund balance of \$4,608,424. Effective for the end of fiscal year 2015, in compliance with GASB 54 regulations, \$3,874,040 was restricted or committed by the board for special projects to include SBDM Council carry forward and accumulated sick leave liability.

The District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, accounts receivable, disbursements, accounts payable and encumbrances.

The General Fund is the principal operating fund of the District. At year end, it was comprised of \$6,755,187 of which \$4,608,424 was unassigned and \$2,064,763 was either restricted or committed. The unassigned portion of \$4,608,424 was an increase from the fiscal year 2014 unassigned balance of \$4,476,665. This can be attributed to the diligence of the district to reduce overall expenditures in the district.

The District is required to analyze any significant variations between the final budget (approved in September) and actual expenditures and revenues for the fiscal year. Significant variations are considered to be any variations over 10% of the budgeted amount. Total variations in the budgeted revenue and actual revenue were only 2.9% and do not represent a significant variation. The significant expenditure variations are summarized as follows:

- The favorable variance of \$426,252 (34.1%) in district administration is due in large part to accrued sick leave paid. Of the \$275,000 budgeted, only \$121,338 was paid out in FY2015. In addition, the district made decisions to abolish three administrative positions resulting in a reduction of overall salary expenses. Finally, several expenses normally funded at this level to include property and fleet insurance were funded through Capital Outlay transfers for fiscal year 2015.
- The favorable variance of \$513,754 (17.5%) in plant operations and maintenance can be attributed to energy savings gained by the completion of a performance contract during the year and to careful planning and cost comparisons in supply purchases.
- The district focused attention this year on balancing a budget that resulted in a dwindling carryforward at the end of FY2014 and chose not to purchase school busses for the year to assist in that focus. A favorable variance of \$468,737 (24.8%) can be attributed in large part to this decision.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At year end, the District had \$66,417,367 invested in land, buildings, equipment and vehicles compared to \$63,273,285 at the end of fiscal year 2014. The following schedule presents a summary of capital asset balances (net of depreciation) for the fiscal years ended June 30, 2015 and June 30, 2014.

Capital Assets (Net of Depreciation) as of June 30, 2014 and June 30, 2013

	<u>2015</u>	<u>2014</u>
Land and Improvements	\$ 2,132,398	\$ 2,174,333
Buildings and Improvements	30,271,688	24,285,497
Technology Equipment	141,677	273,892
Vehicles	1,431,551	1,732,205
General Equipment	527,953	527,713
Construction Work in Progress	<u>-</u>	<u>3,956,040</u>
Total	<u>\$ 34,505,267</u>	<u>\$ 32,949,680</u>

Debt Administration: As of June 30, 2015 the District has \$20,048,504 of debt outstanding. This represents a decrease from FY2014 in the amount of \$1,121,828.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year runs from July 1st through June 30th; other programs, i.e., some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. Kentucky Statute requires each district to allocate a minimum of 2% of the total budget to contingency. The District adopted a budget for fiscal year 2016 that included \$2,392,942.51 in contingency or a total of 7.9% excluding on-behalf revenues and expenditures.

The remainder of the fiscal year 2016 budget was developed after careful consideration of several factors including:

- State mandated salary increases of 2% in FY2016
- KTRS employer portion increase from 2.25% in FY2015 to 3.00% in FY2016
- Kentucky School Board Insurance Trust Property and Liability Fund Assessment (payments due over a 6 year period)
- Trends of decreasing enrollment for the District

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives. Questions regarding this report should be directed to Superintendent Tres Settle or to Amy Owens, School Business Administrator at the following address: Calloway County Board of Education, 2110 College Farm Road, Murray, Kentucky 42071.

BASIC FINANCIAL STATEMENTS

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 6,685,149	\$ 1,117,464	\$ 7,802,613
Receivables			
Accounts	224,638	-	224,638
Intergovernmental - State	6,750	-	6,750
Intergovernmental - Federal	259,208	-	259,208
Inventories	-	81,036	81,036
Prepaid expenses	67,074	-	67,074
Restricted investments	1,670,500	-	1,670,500
Capital assets not being depreciated			
Land	1,697,102	-	1,697,102
Capital assets, net of accumulated depreciation			
Land improvements	435,296	-	435,296
Building and improvements	30,201,638	70,049	30,271,687
Technology equipment	136,589	5,088	141,677
Vehicles	1,431,551	-	1,431,551
General equipment	199,693	328,260	527,953
Property under capital lease	224,304	-	224,304
Total assets	<u>43,239,492</u>	<u>1,601,897</u>	<u>44,841,389</u>
Deferred Outflows of Resources			
Deferred amount on refunding	357,539	-	357,539
Pension - contributions subsequent to measurement date	527,268	131,817	659,085
Total deferred outflows of resources	<u>884,807</u>	<u>131,817</u>	<u>1,016,624</u>
Liabilities			
Unearned revenue	244,193	-	244,193
Accrued interest	145,796	-	145,796
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	82,088	-	82,088
Bonds and capital lease	1,247,861	-	1,247,861
Accrued sick leave	183,817	-	183,817
Portion due or payable after one year			
Insurance assessment	223,842	-	223,842
Bonds and capital lease	18,800,643	-	18,800,643
Accrued sick leave	1,015,239	21,931	1,037,170
Pension liability	4,216,695	1,054,173	5,270,868
Total liabilities	<u>26,160,174</u>	<u>1,076,104</u>	<u>27,236,278</u>
Deferred Inflows of Resources			
Pension - difference between projected and actual earnings on investment	376,548	94,137	470,685
Net Position			
Net investment in capital assets	14,635,208	403,397	15,038,605
Restricted for			
Sick leave	200,000	-	200,000
Construction	81,406	-	81,406
Debt service	1,508,635	-	1,508,635
Other	110,940	-	110,940
Unrestricted	1,051,388	160,076	1,211,464
Total net position	<u>\$ 17,587,577</u>	<u>\$ 563,473</u>	<u>\$ 18,151,050</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Instruction	\$ 21,241,224	\$ 34,210	\$ 3,731,340	\$ (17,475,674)	\$ -	\$ (17,475,674)
Support services						
Student	1,163,712	-	-	(1,163,712)	-	(1,163,712)
Instructional staff	1,506,079	-	-	(1,506,079)	-	(1,506,079)
District administration	756,015	-	-	(756,015)	-	(756,015)
School administration	1,509,646	-	-	(1,509,646)	-	(1,509,646)
Business	599,012	-	-	(599,012)	-	(599,012)
Plant operation and management	2,445,061	-	-	(2,445,061)	-	(2,445,061)
Student transportation	1,768,028	-	-	(1,768,028)	-	(1,768,028)
Non-instructional services	257,510	-	-	(257,510)	-	(257,510)
Interest on long-term debt	765,584	-	-	(765,584)	-	(765,584)
Amortization - unallocated	57,269	-	-	(57,269)	-	(57,269)
Total governmental activities	<u>32,069,140</u>	<u>34,210</u>	<u>3,731,340</u>	<u>(28,303,590)</u>	<u>-</u>	<u>(28,303,590)</u>
Business-type activities:						
Food service	2,020,899	465,362	1,593,322	-	37,785	37,785
Other enterprise	260,556	197,936	92,129	-	29,509	29,509
Total business-type activities	<u>2,281,455</u>	<u>663,298</u>	<u>1,685,451</u>	<u>-</u>	<u>67,294</u>	<u>67,294</u>
Total primary government	<u>\$ 34,350,595</u>	<u>\$ 697,508</u>	<u>\$ 5,416,791</u>	<u>(28,303,590)</u>	<u>67,294</u>	<u>(28,236,296)</u>
General revenues:						
Taxes						
Property				6,121,915	-	6,121,915
Motor vehicle				1,108,890	-	1,108,890
Utilities				1,575,907	-	1,575,907
Other				344,632	-	344,632
Investment earnings				113,198	10,791	123,989
Other local revenue				177,008	-	177,008
Original issue discount				99,220	-	99,220
State aid - formula grants				18,320,601	-	18,320,601
Gain (loss) on sale of assets				(3,874)	-	(3,874)
Total general revenues and transfers				<u>27,857,497</u>	<u>10,791</u>	<u>27,868,288</u>
Change in net position				(446,093)	78,085	(368,008)
Net position, beginning of year				22,289,415	1,549,324	23,838,739
Restatement - Implementation of GASB Statement No. 68 and 71				(4,255,745)	(1,063,936)	(5,319,681)
Total net position, beginning of year restated				<u>18,033,670</u>	<u>485,388</u>	<u>18,519,058</u>
Net position, end of year				<u>\$ 17,587,577</u>	<u>\$ 563,473</u>	<u>\$ 18,151,050</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 6,508,872	\$ -	\$ 43,906	\$ 21,431	\$ 110,940	\$ 6,685,149
Receivables						
Accounts	224,638	-	-	-	-	224,638
Intergovernmental - State and local	-	6,750	-	-	-	6,750
Intergovernmental - Federal	-	259,208	-	-	-	259,208
Due from other funds	21,765	-	-	-	-	21,765
Restricted investments	-	-	-	1,633,000	-	1,633,000
Total assets	\$ 6,755,275	\$ 265,958	\$ 43,906	\$ 1,654,431	\$ 110,940	\$ 8,830,510
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 82,088	\$ -	\$ -	\$ -	\$ -	\$ 82,088
Due to other funds	-	21,765	-	-	-	21,765
Unearned revenue	-	244,193	-	-	-	244,193
Total liabilities	82,088	265,958	-	-	-	348,046
Fund Balances						
Restricted	200,000	-	43,906	1,654,431	110,940	2,009,277
Committed	1,722,219	-	-	-	-	1,722,219
Assigned	142,544	-	-	-	-	142,544
Unassigned	4,608,424	-	-	-	-	4,608,424
Total fund balances	6,673,187	-	43,906	1,654,431	110,940	8,482,464
Total liabilities and fund balances	\$ 6,755,275	\$ 265,958	\$ 43,906	\$ 1,654,431	\$ 110,940	\$ 8,830,510

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

**ALLOWAY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2015**

Total fund balances - governmental funds **\$ 8,482,464**

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

Investment of funds held in a restricted escrow account for future construction are not financial resources and therefore are not reported as assets in governmental funds. 37,500

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$65,431,611 and the accumulated depreciation is \$31,105,438. 34,326,173

Certain long-term assets related to current and prior bond issues are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position. 357,539

Expenditures paid by governmental funds for maintenance contracts that extend over more than one reporting period are accounted for as an expenditure in the period paid. These are reported as prepaid expenses in the government-wide statements. 67,074

Deferred outflows of resources related to pensions are not reported in the governmental fund because the consumption of net position will occur in future periods. 527,268

Deferred inflows of resources related to pensions are not reported in the governmental fund because the acquisition of net position will occur in future periods. (376,548)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and capital leases payable	(20,048,504)	
Accrued interest on the bonds	(145,796)	
Accrued sick leave payable	(1,199,056)	
Insurance assessment	(223,842)	
Pension liability	<u>(4,216,695)</u>	
		<u>(25,833,893)</u>

Total net position - governmental activities **\$ 17,587,577**

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Taxes						
Property	\$ 5,255,747	\$ -	\$ -	\$ -	\$ 866,168	\$ 6,121,915
Motor vehicle	1,108,890	-	-	-	-	1,108,890
Utilities	1,575,907	-	-	-	-	1,575,907
Other	344,632	-	-	-	-	344,632
Earnings on investments	95,997	642	8,612	4,009	3,938	113,198
Indirect cost reimbursements	1,200	-	-	-	-	1,200
Other local revenues	107,478	117,234	-	-	109,240	333,952
Intergovernmental - State	15,102,536	1,342,955	-	432,122	473,775	17,351,388
Intergovernmental - Direct Federal	-	-	-	21,431	-	21,431
Intergovernmental - Indirect Federal	-	2,244,220	-	-	-	2,244,220
Total revenues	<u>23,592,387</u>	<u>3,705,051</u>	<u>8,612</u>	<u>457,562</u>	<u>1,453,121</u>	<u>29,216,733</u>
Expenditures						
Current						
Instruction	14,964,262	2,951,149	-	-	82,636	17,998,047
Support Services						
Student	1,029,071	58,533	-	-	13,013	1,100,617
Instructional staff	1,159,230	201,278	-	-	-	1,360,508
District administration	824,804	-	-	-	-	824,804
School administration	1,339,866	22,509	-	-	-	1,362,375
Business	564,146	-	-	-	-	564,146
Plant operation and management	2,425,016	11,778	-	-	-	2,436,794
Student transportation	1,419,059	157,994	-	-	861	1,577,914
Non-instructional services	-	248,383	-	-	-	248,383
Facilities acquisition and construction	-	-	3,369,960	-	-	3,369,960
Debt service						
Principal	-	-	-	1,206,828	-	1,206,828
Interest and debt service issuance costs	-	-	-	770,508	-	770,508
Other	-	1,200	-	-	-	1,200
Total expenditures	<u>23,725,454</u>	<u>3,652,824</u>	<u>3,369,960</u>	<u>1,977,336</u>	<u>96,510</u>	<u>32,822,084</u>
Excess (deficit) of revenues over expenditures	<u>(133,067)</u>	<u>52,227</u>	<u>(3,361,348)</u>	<u>(1,519,774)</u>	<u>1,356,611</u>	<u>(3,605,351)</u>
Other Financing Sources (Uses)						
Original issue discount	-	-	-	99,220	-	99,220
Bond proceeds	-	-	-	2,765,000	-	2,765,000
Debt service - principal	-	-	-	(2,680,000)	-	(2,680,000)
Gain (loss) on sale of assets	46,242	-	-	-	-	46,242
Transfers in	451,787	90,820	-	1,416,855	-	1,959,462
Transfers out	(328,884)	(143,047)	-	-	(1,487,531)	(1,959,462)
Total other financing sources (uses)	<u>169,145</u>	<u>(52,227)</u>	<u>-</u>	<u>1,601,075</u>	<u>(1,487,531)</u>	<u>230,462</u>
Net change in fund balances	36,078	-	(3,361,348)	81,301	(130,920)	(3,374,889)
Fund balances, beginning of year	<u>6,637,109</u>	<u>-</u>	<u>3,405,254</u>	<u>1,573,130</u>	<u>241,860</u>	<u>11,857,353</u>
Fund balances, end of year	<u>\$ 6,673,187</u>	<u>\$ -</u>	<u>\$ 43,906</u>	<u>\$ 1,654,431</u>	<u>\$ 110,940</u>	<u>\$ 8,482,464</u>

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

**ALLOWAY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015**

Total net change in fund balances - governmental funds **\$ (3,374,889)**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays (\$3,450,125) exceeds depreciation (\$1,967,283) in the period. 1,482,842

Issuance of bonds (\$2,765,000) are other financing sources in the governmental funds, but the issuance increases long-term liabilities in the statement of net assets. (2,765,000)

Repayment of long-term liabilities such as bond principal and capital leases are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. 3,886,828

In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources. 49,218

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 4,924

In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$81,639) is recorded as an expenditure. However, in the government-wide statements of net position, the total KSBIT insurance assessment (\$438,407) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year reduces long-term liabilities. 81,639

Expenditures for the maintenance contract on technology equipment covering more than one reporting period are recognized as an expense in the governmental funds in the year incurred. This amount is reported as a deferred charge in the government-wide statements and amortized in the statement of activities. (1,425)

The actuarially determined pension expense does not consume current financial resources and, therefore, is not reported in the governmental funds. It is reported as expenses in the statement of activities. (337,498)

The payment of pension contributions consumes current financial resources in the governmental funds. In the statement of activities, however, current year pension contributions are reported as deferred outflows of resources. 527,268

Change in net position of governmental activities **\$ (446,093)**

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Food Service Fund	Other Enterprise Fund	Total Enterprise Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 955,516	\$ 161,948	\$ 1,117,464
Inventories	81,036	-	81,036
Total current assets	1,036,552	161,948	1,198,500
Noncurrent assets			
Building and improvements	348,953	-	348,953
Technology equipment	25,429	15,067	40,496
General equipment	882,652	-	882,652
Accumulated depreciation	(858,725)	(9,979)	(868,704)
Total noncurrent assets	398,309	5,088	403,397
Total assets	1,434,861	167,036	1,601,897
Deferred Outflows of Resources			
Pension - contributions subsequent to measurement date	112,044	19,773	131,817
Liabilities			
Noncurrent liabilities			
Accrued sick leave	21,931	-	21,931
Pension liability	896,047	158,126	1,054,173
Total noncurrent liabilities	917,978	158,126	1,076,104
Total liabilities	917,978	158,126	1,076,104
Deferred Inflows of Resources			
Pension - difference between projected and actual earnings on investment	80,017	14,120	94,137
Net Position			
Investment in capital assets	398,309	5,088	403,397
Unrestricted	150,601	9,475	160,076
Total net position	\$ 548,910	\$ 14,563	\$ 563,473

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues			
Lunchroom sales	\$ 465,362	\$ -	\$ 465,362
Community service activities	-	197,936	197,936
Total operating revenues	<u>465,362</u>	<u>197,936</u>	<u>663,298</u>
Operating Expenses			
Salaries, wages and benefits	907,896	242,790	1,150,686
Contract services	80,642	1,598	82,240
Materials and supplies	967,313	9,816	977,129
Depreciation	52,555	3,014	55,569
Other	12,493	3,338	15,831
Total operating expenses	<u>2,020,899</u>	<u>260,556</u>	<u>2,281,455</u>
Operating loss	<u>(1,555,537)</u>	<u>(62,620)</u>	<u>(1,618,157)</u>
Non-Operating Revenues (Expenses)			
Interest income	10,791	-	10,791
Donated commodities	83,972	-	83,972
Grants - child nutrition program	1,353,632	-	1,353,632
State funding - on-behalf payments	137,234	47,502	184,736
State matching	18,484	44,627	63,111
Total non-operating revenues (expenses)	<u>1,604,113</u>	<u>92,129</u>	<u>1,696,242</u>
Change in net position	48,576	29,509	78,085
Total net position, beginning of year	1,404,680	144,644	1,549,324
Restatement - Implementation of GASB Statement No. 68 and 71	<u>(904,346)</u>	<u>(159,590)</u>	<u>(1,063,936)</u>
Total net position, beginning of year, restated	<u>500,334</u>	<u>(14,946)</u>	<u>485,388</u>
Total net position, end of year	<u>\$ 548,910</u>	<u>\$ 14,563</u>	<u>\$ 563,473</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Food Service Fund	Other Enterprise Fund	Enterprise Funds
Cash Flows from Operating Activities			
Cash received from			
Lunchroom sales	\$ 465,362	\$ -	\$ 465,362
Community service activities	-	198,864	198,864
Cash paid for			
Salaries, wages and benefits	(811,562)	(202,405)	(1,013,967)
Contract services	(80,642)	(1,598)	(82,240)
Materials and supplies	(858,894)	(9,816)	(868,710)
Other	(12,493)	(3,338)	(15,831)
Net cash used by operating activities	<u>(1,298,229)</u>	<u>(18,293)</u>	<u>(1,316,522)</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	<u>(71,044)</u>	-	<u>(71,044)</u>
Cash Flows from Noncapital Financing Activities			
Nonoperating federal grants received	1,353,632	-	1,353,632
Nonoperating state grants received	<u>18,484</u>	<u>44,627</u>	<u>63,111</u>
Net cash provided by noncapital financing activities	<u>1,372,116</u>	<u>44,627</u>	<u>1,416,743</u>
Cash Flows from Investing Activities			
Interest income	<u>10,791</u>	-	<u>10,791</u>
Net increase in cash and cash equivalents	13,634	26,334	39,968
Cash and cash equivalents, beginning of year	<u>941,882</u>	<u>135,614</u>	<u>1,077,496</u>
Cash and cash equivalents, end of year	<u>\$ 955,516</u>	<u>\$ 161,948</u>	<u>\$ 1,117,464</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities			
Operating loss	\$ (1,555,537)	\$ (62,620)	\$ (1,618,157)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	52,555	3,014	55,569
Salaries, wages and benefits (on-behalf payments)	137,234	47,502	184,736
Materials and supplies (commodities used)	83,972	-	83,972
Changes in assets and liabilities			
Receivables, account	-	928	928
Inventories	24,447	-	24,447
Accrued sick leave	(574)	-	(574)
Pension contributions subsequent to the measurement date in excess of actuarially determined pension expense	<u>(40,326)</u>	<u>(7,117)</u>	<u>(47,443)</u>
Net cash used by operating activities	<u>\$ (1,298,229)</u>	<u>\$ (18,293)</u>	<u>\$ (1,316,522)</u>
Noncash Noncapital Financing Activities			
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 83,972</u>	<u>\$ -</u>	<u>\$ 83,972</u>
State funding - on-behalf payments	<u>\$ 137,234</u>	<u>\$ 47,502</u>	<u>\$ 184,736</u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2015**

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 315,013	\$ 468,392
Total assets	315,013	468,392
Liabilities		
Due to student groups	-	352,344
Due to grantor agencies	-	116,048
Total liabilities	-	\$ 468,392
Net Position		
Net position held in trust	315,013	
Total net position	\$ 315,013	

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the Year Ended June 30, 2015

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$ 3,695
Donations	8,318
Deductions	
Instruction	<u>(13,395)</u>
Change in net position	(1,382)
Net position, beginning of year	<u>316,395</u>
Net position, end of year	<u>\$ 315,013</u>

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

NOTES TO FINANCIAL STATEMENTS

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Calloway County School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

A. Reporting Entity

The Calloway County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Calloway County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as 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 Board, for financial purposes, includes all of the funds relevant to the operation of the Calloway County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Boosters, Parent-Teacher Associations, etc.

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

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

Calloway County School District Finance Corporation – In 1993, the Calloway County, Kentucky, Board of Education resolved to authorize the establishment of the Calloway County School District Finance corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Calloway County Board of Education also comprise the Corporation's Board of Directors.

B. Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental and business-type activities. Direct

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

expenses are those that are specifically associated with a particular function. Program revenues include charges paid for goods or services offered by the program and grants and contributions that are restricted to meeting the financial 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 function is self-financing or is subsidized by the general revenues of the District. The District does not allocate indirect expenses.

Fund Financial Statements – Fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three primary categories: governmental, business-type (proprietary), and fiduciary. An emphasis is placed on major funds within the governmental and business-type categories, and a fund is considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of that individual fund are at least 5 percent of the corresponding total for all governmental and business-type funds combined.

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

The District has the following funds:

I. Governmental Fund Types

- a. The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- b. Special Revenue funds account for proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to disbursements for specified purposes.
 1. Special Revenue (Grant) Fund includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

2. The Special Revenue District Activity Fund includes funds restricted to expenditures for purposes specified by Redbook requirements. Project accounting is employed to maintain integrity for the various sources of funds.
- c. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by proprietary funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky Building 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.
 3. The Construction Funds account for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- c. The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Funds)

- a. The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program and School Breakfast Program, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). This is a major fund of the District.
- b. The School Age Child Care Fund is used to account for specific needs and purposes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

III. Fiduciary Fund Type (includes agency and private purpose trust funds)

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

The Private Purpose Trust Fund is used to report trust arrangements which benefit individuals, private organizations or other governments.

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

C. Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2015 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. 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 year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received, payments made by the State on behalf of the District and changes in the accrued sick leave liability during the year are reported in the statement of cash flows of the proprietary fund as a noncash, noncapital financing activity.

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

D. Property Taxes

Property taxes collected are recorded as revenues in the fund for which they were levied. Property taxes are levied on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes become delinquent after December 31.

The property tax rates for the year ended June 30, 2015 to finance the General Fund operations were \$.412 per \$100 valuation for real property, \$.412 per \$100 valuation for business tangible personal property, and \$.521 per \$100 valuation for motor vehicles.

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

E. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$5,000 for all assets, including technology, which has a useful life of more than one year. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed as a current operating expenditure.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
General equipment	5-10 years

F. Interfund Activity

Interfund transactions are reflected as loans or transfers. Loans are reported as receivables and payables as appropriate, and are referred to as either "due to/from other funds". These loans are subject to elimination upon consolidation. Any residual balances outstanding between governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All other interfund transactions are treated as transfers. Transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

G. Budgetary Process

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. An approved budget can be amended by the Board and all budget appropriations lapse at year-end.

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

H. Encumbrance Accounting

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

I. Cash, Cash Equivalents and Investments

The Board considers demand deposits, money market accounts, and time deposits that are nonnegotiable, to be cash and cash equivalents, for the governmental, proprietary and fiduciary funds. This definition is also used for the proprietary fund's statement of cash flows.

The District may invest funds in a bank depository selected by the Board, bonds of the United States, or instruments issued by political subdivisions of Kentucky, however, such investments must be approved by the Kentucky Department of Education.

J. Inventories

Inventories are stated at cost using the first-in, first-out method for both the governmental fund types and proprietary funds.

Inventories are expensed when used in the government-wide financial statements and recorded as expenditures in the governmental fund types when purchased.

Nonmonetary assistance is reported in the proprietary fund at the market value of the commodities received/used.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports pension-related items and deferred charges on refunding bonds in this category.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District records pension-related items as deferred inflows of resources.

L. Restricted Assets

Certain investments of the District's Debt Service Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and they are maintained in a separate account.

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

Certain investments of the District's General Fund are classified as restricted assets on the government-wide statement of net position because their use is limited by agreements with third parties and they are maintained in a separate escrow account for restricted purposes.

M. Accrued and Long-Term Liabilities

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

In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

N. Pensions

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

O. Fund Balances

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

Nonspendable fund balance

This classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance

This classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

Committed fund balance

This classification includes amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board of Education of the Calloway County School District. Commitments may be changed or lifted only by the District taking the same formal action that imposed the constraint originally (for example: resolution).

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Assigned fund balance

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designee, the Superintendent, have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance

This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

P. Net Position

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

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Q. Estimates

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

R. Impact of Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. The District has implemented this statement in the year ended June 30, 2015. The implementation resulted in the presentation of a net pension liability, deferred outflows of resource, and deferred inflows of resources on the statement of net position that previously had not reported. As a result, the related beginning balances of \$5,319,681 have been recorded in the prior period adjustment explained in Note 2J.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The requirements of this Statement should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. This statement has not had any impact on the District's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for situations where a state or local government, as a guarantor, agrees to indemnify a third-party obligation holder under specified conditions. The issuer of the guaranteed obligation can be a legally separate entity or individual, including a blended or discretely presented component unit. Guidance is provided for situations where a state or local government extends or receives a nonexchange financial guarantee. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2013. This Statement has not had any impact on the District's financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The implementation of this statement resulted in restatement of net position related to contributions subsequent to the previous year's measurement date.

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

NOTE 2 - DETAILED NOTES ON ACCOUNTS

A. Deposits

The District maintained deposits of public funds with depository institutions insured by FDIC as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institutions should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As stipulated by KRS 41.240(4), all deposits are collateralized with eligible securities or other obligations having an aggregate current face value or current quoted market value at least equal to the deposits. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4).

At fiscal year-end, the carrying amount of the District's deposits was \$8,586,018 and the bank balance was \$9,377,189. Of the District's bank balance, \$9,003,589 was collateralized as discussed above because it was uninsured, while \$373,600 was covered by Federal Deposit Insurance.

For purposes of the Statement of Cash Flows, the District considers all investments with a maturity of three months or less when purchased to be cash equivalents.

Reconciliation to Government-wide Statement of Net Position:

Unrestricted cash, including time deposits	\$ 7,802,613
Private purpose trust cash, including time deposits (not included in government-wide statement)	315,013
Agency fund cash (not included in government-wide statement)	<u>468,392</u>
	<u>\$ 8,586,018</u>

These amounts are reported in the financial statements, as follows:

Governmental activities	\$ 6,685,149
Business-type activities	1,117,464
Fiduciary funds	<u>783,405</u>
	<u>\$ 8,586,018</u>

B. Restricted Investments

The District entered into an agreement with the Murray Independent School District to purchase property from an individual to build a vocational school to be used jointly by the two districts. The joint agreement between the two school districts and the individual stipulates that \$75,000 be held in escrow by a third party agent and restricted for the construction of a road on the property. Calloway County School District's portion of the restricted funds is \$37,500.

The District sold a \$2,000,000 Qualified Zone Academy Bond (QZAB) on October 3, 2007 for the purpose of financing the cost of renovations to several school district instructional buildings. On the delivery date an initial cash payment in the amount of \$1,114,000 was required to be deposited in a Prefunded Escrow Account at Monticello Banking Company in Somerset, Kentucky, \$160,000 of which was for trustee fees. The trustee used the remaining prepayment to purchase a Federal Home Loan Mortgage Corporation (FHLMC) zero coupon bond in the amount of \$954,000, which will mature

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

on September 15, 2022 and should earn an amount sufficient to retire the \$2,000,000 bond principal due on that date. The original issue discount recognized in the current year was \$99,220.

The District's policy regarding investments is discussed in Note 1. At fiscal year-end, the District had the following investment in the QZAB escrow account:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Investment Maturities Within 1 Year</u>
Federal Home Loan Mortgage Corporation	\$ <u>1,633,000</u>	<u>100%</u>	\$ <u> -</u>

The District does not have an investment policy for interest rate risk, credit risk, custodial credit risk or concentration of credit risk beyond the requirements of KRS 66.480. For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The Federal Home Loan Mortgage Corporation is exposed to custodial credit risk in that it is uninsured and held by the counterparty's trust department in the District's name.

C. Capital Assets

Changes in the capital assets during the year are summarized below:

<u>Governmental Activities</u>	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2015</u>
Non-depreciable				
Land	\$ 1,697,102	\$ -	\$ -	\$ 1,697,102
Construction in progress	3,956,040	3,369,960	(7,326,000)	-
Totals	<u>5,653,142</u>	<u>3,369,960</u>	<u>(7,326,000)</u>	<u>1,697,102</u>
Depreciable				
Land improvements	1,916,752	-	-	1,916,752
Buildings and improvements	47,010,231	7,326,000	-	54,336,231
Technology equipment	1,752,875	7,434	(171,130)	1,589,179
Vehicles	4,699,291	51,116	(203,381)	4,547,026
General equipment	1,038,561	21,615	(1,200)	1,058,976
Property under capital lease	286,345	-	-	286,345
Totals	<u>56,704,055</u>	<u>7,406,165</u>	<u>(375,711)</u>	<u>63,734,509</u>

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

	Balance			Balance
	July 1, 2014	Additions	Deductions	June 30, 2015
Less: Accumulated depreciation				
Land improvements	\$ (1,439,521)	\$ (41,935)	\$ -	\$ (1,481,456)
Buildings and improvements	(22,800,727)	(1,333,866)	-	(24,134,593)
Technology equipment	(1,488,447)	(135,172)	171,029	(1,452,590)
Vehicles	(2,967,085)	(301,756)	153,366	(3,115,475)
General equipment	(813,314)	(47,169)	1,200	(859,283)
Property under capital lease	(4,772)	(57,269)	-	(62,041)
Totals	<u>(29,513,866)</u>	<u>(1,917,167)</u>	<u>325,595</u>	<u>(31,105,438)</u>
Net Book Value	<u>27,190,189</u>	<u>5,488,998</u>	<u>(50,116)</u>	<u>32,629,071</u>
Governmental activities capital assets - net	<u>\$ 32,843,331</u>	<u>\$ 8,858,958</u>	<u>\$ (7,376,116)</u>	<u>\$ 34,326,173</u>

Business-Type Activities

Depreciable

Buildings and improvements	\$ 348,953	\$ -	\$ -	\$ 348,953
Technology equipment	40,496	-	-	40,496
General equipment	812,984	71,044	(1,376)	882,652
Totals	<u>1,202,433</u>	<u>71,044</u>	<u>(1,376)</u>	<u>1,272,101</u>
Less: Accumulated depreciation				
Buildings and improvements	(272,960)	(5,944)	-	(278,904)
Technology equipment	(31,032)	(4,376)	-	(35,408)
General equipment	(510,519)	(45,249)	1,376	(554,392)
Totals	<u>(814,511)</u>	<u>(55,569)</u>	<u>1,376</u>	<u>(868,704)</u>
Business-type activities capital assets - net	<u>\$ 387,922</u>	<u>\$ 15,475</u>	<u>\$ -</u>	<u>\$ 403,397</u>

Amortization expense of \$57,269 related to a capital lease was not allocated to governmental activities. It appears on the statement of activities as "unallocated".

Depreciation expense has been recorded as a direct expense in the applicable governmental activity functions, as follows:

Instruction	\$ 1,480,830
Support services:	
Student	2,302
Instructional staff	4,496
District administration	36,366
School administration	18,724
Plant operations and management	73,118
Student transportation	<u>244,062</u>
	<u>\$ 1,859,898</u>

D. Long-Term Liabilities

The District's debt is the responsibility of the governmental activities.

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

The original amount of each bond issue, the bond issue dates, interest rates, and maturity dates are summarized below:

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
2002	\$ 9,570,000	2.10% - 4.80%	2022
2004	1,955,000	2.00% - 3.70%	2016
2007 (QZAB)	2,000,000	5.58%	2022
2008	3,510,000	2.60% - 4.875%	2028
2009	1,292,960	1.00% - 3.30%	2019
2010	3,195,000	1.40% - 5.60%	2030
2010	1,030,000	.70% - 2.50%	2021
2010	6,265,000	.60% - 2.90%	2022
2013	5,995,000	1.70% - 4.125%	2034
2014	2,765,000	0.90% - 3.00%	2030

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 Calloway County Fiscal Court and the Calloway County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1986, the District entered into "participation agreements" with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs.

Changes in the bond issues during the year are summarized below:

<u>Issue</u>	<u>Balance at July 1, 2014</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2015</u>
2004	\$ 315,000	\$ -	\$ 155,000	\$ 160,000
2007	2,000,000	-	-	2,000,000
2008	3,130,000	-	85,000	3,045,000
2009	512,256	-	81,729	430,527
2010	2,680,000	-	2,680,000	-
2010	825,000	-	75,000	750,000
2010	5,435,000	-	535,000	4,900,000
2013	5,995,000	-	65,000	5,930,000
2014	-	2,765,000	145,000	2,620,000
	<u>\$ 20,892,256</u>	<u>\$ 2,765,000</u>	<u>\$ 3,821,729</u>	<u>\$ 19,835,527</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2015 for debt service (principal and interest) are as follows:

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

Year	Calloway County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2016	\$ 871,787	\$ 451,576	\$ 308,131	\$ 123,990	\$ 1,755,484
2017	898,252	431,764	309,847	115,310	1,755,173
2018	959,614	412,727	361,561	106,230	1,840,132
2019	991,659	390,141	347,577	95,083	1,824,460
2020	1,023,746	366,824	353,354	84,125	1,828,049
2021-2025	5,808,598	1,431,776	971,402	289,983	8,501,759
2026-2030	3,423,000	847,320	692,000	114,294	5,076,614
2031-2034	2,305,641	246,378	209,358	21,826	2,783,203
	<u>\$ 16,282,297</u>	<u>\$ 4,578,506</u>	<u>\$ 3,553,230</u>	<u>\$ 950,841</u>	<u>\$ 25,364,874</u>

Leases meeting certain criteria are treated as financings and, according to generally accepted accounting principles, are recorded as capitalized leases. The District leases network equipment pursuant to these types of leases and, as such, the cost is included with property and equipment. The related capital lease obligation reflects the present value of future lease payments less an interest amount implicit in the lease.

Future minimum payments under the long-term capital lease obligation, together with the present value of the net minimum lease payments as of June 30, 2015 are, as follows:

	Year Ending June 30	Capital Lease Payable
	2016	\$ 77,250
	2017	77,250
	2018	<u>77,362</u>
Total minimum lease payments		231,862
Less: Amount representing interest		<u>(18,885)</u>
Present Value of Net Minimum Lease Payments		<u>\$ 212,977</u>

Changes in the long-term liability accounts during the year are summarized below:

	Balance at July 1, 2014	Increases	Decreases	Balance at June 30, 2015	Due in One Year
Bonds	\$20,892,256	\$2,765,000	\$3,821,729	\$19,835,527	\$1,179,918
Accrued sick leave:					
Governmental activities	1,248,274	72,120	121,338	1,199,056	183,817
Business-type activities	<u>22,505</u>	-	<u>574</u>	<u>21,931</u>	-
	1,270,779	72,120	121,912	1,220,987	183,817
Insurance assessment	438,407	-	132,477	305,930	82,088
Pension liability:					
Governmental activities	4,818,989	958,903	1,561,197	4,216,694	-
Business-type activities	<u>1,204,747</u>	<u>239,725</u>	<u>390,299</u>	<u>1,054,174</u>	-
	<u>6,023,736</u>	<u>1,198,628</u>	<u>1,951,496</u>	<u>5,270,868</u>	-
	<u>\$28,625,178</u>	<u>\$4,035,748</u>	<u>\$6,027,614</u>	<u>\$26,633,312</u>	<u>\$1,445,823</u>

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

As explained in Note 1, payments on the District's bonds are made by the Debt Service Fund. The compensated absences and insurance assessment will be liquidated by the General Fund. In the past, these liabilities have been paid each year by the General Fund.

The District issued the May 1, 2010 bonds through the Build America Bond Program that provides 35% in federal subsidies on the total interest requirements. The interest is paid directly to the District's bond escrow account on a semi-annual basis corresponding with the interest payment dates to the bond holders. Total subsidy payments received at June 30, 2015 were \$44,216.

The District completed a current refunding of the 2010 bond issue dated November 1, 2014. The par amount of the 2014 refunding issue is \$2,765,000 and has a total debt service requirement of \$3,347,902. The remaining total debt service requirement of the 2010 bond issue at the date of refunding was 3,477,821, which produces a cash flow savings of 129,919. The net present value of the economic gain on the refunded 2010 bond issue is 102,108.

E. Compensated Absences and Accumulated Sick Leave

Certified and classified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2014. The total amount of accumulated benefits for all employees eligible to retire at this date is \$443,823. A \$200,000 balance is restricted in the General Fund at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

Accrued sick leave benefits are estimated by the vesting method. This entire future obligation is reported in the government-wide financial statements.

F. Fund Balances

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2015 are as follows:

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Restricted for:							
Sickleave	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction	-	-	-	-	-	43,906	-
Debt service	-	-	-	-	-	-	1,654,431
Other	-	-	110,940	-	-	-	-
	<u>200,000</u>	<u>-</u>	<u>110,940</u>	<u>-</u>	<u>-</u>	<u>43,906</u>	<u>1,654,431</u>

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Committed for:							
Construction	934,851	-	-	-	-	-	-
Maintenance Equipment	150,000	-	-	-	-	-	-
Gear Up match	237,368	-	-	-	-	-	-
Salary increases	400,000	-	-	-	-	-	-
	<u>1,722,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Assigned for:							
Encumbrances	\$ 142,544	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unassigned	<u>4,608,424</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$6,673,187</u>	<u>\$ -</u>	<u>\$ 110,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 43,906</u>	<u>\$ 1,654,431</u>

G. Deficit Operating/Fund Balances

There are no funds of the District that currently have a deficit fund balance. However, the following fund had operations that resulted in a current year deficit of revenues/transfers-in over expenditures/transfers-out:

Construction Fund	\$ 3,361,348
Capital Outlay Fund	48,004
Building Fund	95,646
Private Purpose Trust Funds	1,382
Agency Fund	5,064

H. Interfund Transactions

Interfund Receivables/Payables (Short-Term)

The General Fund extends short-term cash flow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$21,765 due to the General fund from Special Revenue is a short-term cash flow loan.

Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS match	\$ 67,773
General	Debt Service	Debt service	261,111
Special Revenue	General	Transportation	120,000
Special Revenue	Special Revenue	Change projects	23,047
Capital Outlay	Debt Service	Debt service	583
Capital Outlay	General	Insurance assessment	331,787
Building	Debt Service	Debt service	1,155,161

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

Indirect cost transfers included in the District's annual financial reports are reported in these financial statements as operating revenues and expenditures. These indirect costs were paid to the General Fund by the following funds:

Special Revenue	\$ <u>1,200</u>
-----------------	-----------------

I. On-Behalf Payments

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2015:

Contributions to Kentucky Teachers' Retirement System	\$ 2,142,054
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	3,290,375
Technology	66,528
Debt service	<u>432,122</u>
	<u>\$ 5,931,079</u>

The District includes on-behalf payments in their budgets. The total of these payments, has been included in revenues and the applicable expenditure functions in these financial statements, as follows:

Governmental activities	
General Fund	\$ 5,314,221
Debt Service Fund	432,122
Business-type activities	
Food Service Fund	137,234
School Age Child Care Fund	<u>47,502</u>
	<u>\$ 5,931,079</u>

J. Restatement of Net Position

Due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, described above in Note 1R, beginning net position was restated to reflect the retrospective application. The restatement resulted in a \$6,023,736 reduction in the beginning net position to record the beginning net pension liability and an increase of \$704,055 to record beginning deferred outflows of resources – District's contributions subsequent to the measurement date. The net change to net position was a decrease of \$5,319,681.

NOTE 3 - OTHER INFORMATION

A. 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 (CERS) covers employees whose position does not require a college degree or teaching certification. The Kentucky Teachers Retirement System (KTRS) covers positions requiring teaching certification or otherwise requiring a college degree.

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

For the year ended June 30, 2015, the District's total payroll for all employees was \$17,510,455. Total covered payroll was \$3,728,876 for CERS and \$12,643,315 for KTRS. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

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 plan. CERS is 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/>.

Employee membership data related to the Plan as of June 30, 2014 was as follows:

Retirees and beneficiaries currently receiving benefits	46,112
Terminated employees entitled to but not yet receiving benefits	70,231
Active plan members	<u>82,494</u>
	<u>198,837</u>

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

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

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

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

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

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended June 30, 2015 were \$659,085.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District reported a liability \$5,270,868 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was 0.162462%.

For the year ended June 30, 2015, the District recognized pension expense of \$421,872. At June 30, 2014, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	470,685
Changes in proportion and differences between District contributions and proportionate share of contributions	-	-
District contributions subsequent to the measurement date	659,085	-
	<u>\$ 659,085</u>	<u>\$ 470,685</u>

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

<u>Year ended June 30:</u>	
2016	\$ 117,671
2017	117,671
2018	117,671
2019	117,672

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense and inflation	7.75%

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 Mortality Table set forward five years is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2008.

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 2005 through 2008, is outlined in a report dated August 25, 2009. 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.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.45%
International equity	22%	8.85%
Emerging market equity	5%	10.50%
Private equity	7%	11.25%
Real estate	5%	7.00%
Core US fixed income	10%	5.25%
High yield US fixed income	5%	7.25%
Non US fixed income	5%	5.50%

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
TIPS	5%	5.00%
Commodities	5%	7.75%
Cash	1%	3.25%
Total	100%	

Discount rate – The discount rate used to measure the total pension liability was 7.75%. 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 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS 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 rate selected, 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 rates.

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
District’s proportionate share of net pension liability	\$ 5,950,980	\$ 5,270,868	\$ 4,590,756

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

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.

Employee membership data related to the Plan as of June 30, 2014 was as follows:

Retirees and beneficiaries currently receiving benefits	48,576
Terminated vested employees entitled to but not yet receiving benefits	7,762
Inactive non-vested members	27,689
Active plan members	73,407
	157,434

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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

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

Final average salary is defined as the member's five highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of 60% 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 disable employees.

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

Contributions – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members 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% for salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. 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 years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

The District's contributions to KTRS for the year ended June 30, 2015 were \$444,967.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District did not report a liability for the District's proportionate share of the net pension liability because the Commonwealth of Kentucky

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

provides the pension support directly to KTRS on behalf of the District. The District recognized pension expense of \$4,454,222 related to KTRS. The District also recognized revenue of \$4,454,222 for KTRS support provided by the Commonwealth.

The net pension liability for each plan was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for KTRS 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, 2014, the District's proportion was 0.00%.

Actuarial assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Projected salary increases	4.0 – 8.2%
Investment rate of return, net of investment expense and inflation	7.50%
Municipal bond index rate	4.35%
Single equivalent interest rate	5.23%

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 AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

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 estimate of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternative	4.0%	6.8%
Cash	2.0%	1.5%
	<u>100.0%</u>	

Discount rate –The discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

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 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments through 2035 and a municipal bond index rate of 4.35% 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 payment streams was used to determine the total pension liability.

Sensitivity of 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 rate selected, 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 rates

	1% Decrease	Current Discount Rate	1% Increase
KTRS	4.23%	5.23%	6.23%
District's proportionate share of net pension liability	\$ 27,122,640	\$ 21,592,157	\$ 17,027,992

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

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 members 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 members 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, 6% of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent is paid by member contributions and 0.75% from Commonwealth appropriation and 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.

B. Contingencies and Commitments

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of cash advances, or refuse to reimburse the

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

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.

C. Insurance and Related Activities

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

D. Litigation

The Board's legal counsel has advised that the District is not subject to any litigation or unasserted claims as of June 30, 2015.

E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases general and auto liability, physical damage insurance, errors and omissions, and general liability coverage from Wright Risk Management. The District purchases worker's compensation insurance through Kentucky Employers' Mutual Insurance. The District pays an annual premium to each fund for coverage.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

F. COBRA

All terminated employees have been notified of available continuing insurance coverage as mandated under COBRA.

G. Joint Venture

On February 11, 2010 the District entered into a joint venture agreement with the Murray Independent School District. The agreement stipulates that Murray Independent School District will fund the joint venture from SEEK monies released by Calloway County School District for nonresident pupils. These funds will be used to build and operate a 21st Century, state of the art, Career Technical Center for the benefit of students from both districts.

H. Subsequent Event

On August 1, 2015 the Murray Independent-Calloway County School Districts Finance Corporation issued School Building Revenue Bonds with a par value of \$5,290,000. These bonds are to build the Career Technical Center.

REQUIRED SUPPLEMENTARY INFORMATION

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget (Positive Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Taxes				
Property	\$ 5,040,000	\$ 5,320,000	\$ 5,255,747	\$ (64,253)
Motor vehicle	950,000	1,050,000	1,108,890	58,890
Utilities	1,600,000	1,650,000	1,575,907	(74,093)
Other	375,000	385,000	344,632	(40,368)
Earnings on investments	75,000	100,000	95,997	(4,003)
Indirect cost reimbursements	15,629	1,400	1,200	(200)
Other local revenues	52,865	82,065	107,478	25,413
Intergovernmental - State	13,990,707	14,347,039	15,102,536	755,497
Total revenues	<u>22,099,201</u>	<u>22,935,504</u>	<u>23,592,387</u>	<u>656,883</u>
Expenditures				
Current				
Instruction	15,514,225	15,236,076	14,964,262	271,814
Support Services				
Student	1,039,215	1,102,227	1,029,071	73,156
Instructional staff	1,120,347	1,212,274	1,159,230	53,044
District administration	1,073,402	1,251,056	824,804	426,252
School administration	1,334,412	1,369,871	1,339,866	30,005
Business	608,384	576,771	564,146	12,625
Plant operation and management	2,726,014	2,938,770	2,425,016	513,754
Student transportation	1,892,406	1,887,796	1,419,059	468,737
Contingency	2,545,708	2,299,530	-	2,299,530
Total expenditures	<u>27,854,113</u>	<u>27,874,371</u>	<u>23,725,454</u>	<u>4,148,917</u>
Excess (deficit) of revenues over expenditures	<u>(5,754,912)</u>	<u>(4,938,867)</u>	<u>(133,067)</u>	<u>4,805,800</u>
Other Financing Sources (Uses)				
Gain (loss) on sale of assets	-	-	46,242	46,242
Transfers in	129,177	449,890	451,787	1,897
Transfers out	(283,839)	(283,839)	(328,884)	(45,045)
Total other financing sources (uses)	<u>(154,662)</u>	<u>166,051</u>	<u>169,145</u>	<u>3,094</u>
Net change in fund balances	(5,909,574)	(4,772,816)	36,078	4,808,894
Fund balances, beginning of year	<u>5,909,574</u>	<u>4,772,816</u>	<u>6,637,109</u>	<u>1,864,293</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,673,187</u>	<u>\$ 6,673,187</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget (Positive Negative)</u>
Revenues				
From local sources				
Earnings on investments	\$ 441	\$ 603	\$ 642	\$ 39
Other local revenues	35,624	59,112	117,234	58,122
Intergovernmental - State	1,227,952	1,467,054	1,342,955	(124,099)
Intergovernmental - Indirect Federal	<u>2,107,234</u>	<u>2,143,161</u>	<u>2,244,220</u>	<u>101,059</u>
Total revenues	<u>3,371,251</u>	<u>3,669,930</u>	<u>3,705,051</u>	<u>35,121</u>
Expenditures				
Current				
Instruction	2,704,987	2,942,826	2,951,149	(8,323)
Support Services				
Student	56,449	53,816	58,533	(4,717)
Instructional staff	175,776	206,645	201,278	5,367
District administration	-	2,181	-	2,181
School administration	23,040	23,260	22,509	751
Plant operation and management	-	13,674	11,778	1,896
Student transportation	134,950	137,175	157,994	(20,819)
Non-instructional services	232,293	238,622	248,383	(9,761)
Other	-	-	1,200	(1,200)
Total expenditures	<u>3,327,495</u>	<u>3,618,199</u>	<u>3,652,824</u>	<u>(34,625)</u>
Excess of revenues over expenditures	<u>43,756</u>	<u>51,731</u>	<u>52,227</u>	<u>496</u>
Other Financing Sources (Uses)				
Transfers in	100,000	90,820	90,820	-
Transfers out	<u>(143,756)</u>	<u>(142,551)</u>	<u>(143,047)</u>	<u>(496)</u>
Total other financing sources (uses)	<u>(43,756)</u>	<u>(51,731)</u>	<u>(52,227)</u>	<u>(496)</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

ALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
County Employee's Retirement System
Fiscal Years Ending June 30,

	2014
District's proportion of the net pension liability (asset)	0.162%
District's proportionate share of the net pension liability (asset)	<u>\$ 5,270,868</u>
District's covered-employee payroll	\$ 3,740,315
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	140.92%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

See independent auditor's report.

**CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
County Employee's Retirement System
Fiscal Years Ending June 30,**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 704,055	\$ 659,085
Contributions in relation to the contractually required contribution	<u>(704,055)</u>	<u>(659,085)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 3,740,315	\$ 3,728,876
Contributions as a percentage of covered-employee payroll	18.82%	17.68%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

**CALLOWAY COUNTY SCHOOL DISTRICT
 SCHEDULE OF THE COMMONWEALTH OF KENTUCKY'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY ASSOCIATED WITH CALLOWAY COUNTY SCHOOL
 DISTRICT - SPECIAL FUNDING SITUATION
 Kentucky Teachers' Retirement System
 Fiscal Years Ending June 30,**

	2015
District's proportion of the net pension liability (asset)	0.000%
District's proportionate share of the net pension liability (asset)	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	90,898,723
Total proportionate share of the net pension liability (asset)	\$ 90,898,723
District's covered-employee payroll	\$ 12,896,480
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

**CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
Kentucky Teachers' Retirement System
Fiscal Years Ending June 30,**

	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 334,552	\$ 444,967
Contributions in relation to the contractually required contribution	<u>(334,552)</u>	<u>(444,967)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 12,896,480	\$ 12,643,315
Contributions as a percentage of covered-employee payroll	2.59%	3.52%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in the future until 10 years information is available.

See independent auditor's report.

**CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2015

County Employees Retirement System

Changes of benefit terms - The following change was made by the Kentucky Legislature and reflected in the valuation performed as of June 30.

2014 - A cash balance plan was introduced for members whose participation date is on or after January 1, 2014.

Changes of assumptions - The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30.

2014 - The amortization period of the unfunded accrued liability was reset to a closed 30 year

Kentucky Teachers' Retirement System

Changes of benefit terms - None.

Changes of assumptions - None.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

INTERNAL CONTROL AND COMPLIANCE SECTION

**CALLOWAY COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2015**

	<u>District Activity Fund</u>	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 110,940	\$ -	\$ -	\$ 110,940
Total assets	<u>\$ 110,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,940</u>
Liabilities and Fund Balances				
Liabilities				
Total liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances				
Restricted	110,940	-	-	110,940
Total fund balances	<u>110,940</u>	<u>-</u>	<u>-</u>	<u>110,940</u>
Total liabilities and fund balances	<u>\$ 110,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,940</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	<u>District Activity Fund</u>	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ 866,168	\$ 866,168
Earnings on investments	-	1,975	1,963	3,938
Other local revenues	109,240	-	-	109,240
Intergovernmental - State	-	282,391	191,384	473,775
Total revenues	<u>109,240</u>	<u>284,366</u>	<u>1,059,515</u>	<u>1,453,121</u>
Expenditures				
Current				
Instruction	82,636	-	-	82,636
Support Services				
Student	13,013	-	-	13,013
Student transportation	861	-	-	861
Total expenditures	<u>96,510</u>	<u>-</u>	<u>-</u>	<u>96,510</u>
Excess of revenues over expenditures	<u>12,730</u>	<u>284,366</u>	<u>1,059,515</u>	<u>1,356,611</u>
Other Financing Sources (Uses)				
Transfers out	-	(332,370)	(1,155,161)	(1,487,531)
Total other financing sources (uses)	<u>-</u>	<u>(332,370)</u>	<u>(1,155,161)</u>	<u>(1,487,531)</u>
Net change in fund balances	12,730	(48,004)	(95,646)	(130,920)
Fund balances, beginning of year	<u>98,210</u>	<u>48,004</u>	<u>95,646</u>	<u>241,860</u>
Fund balances, end of year	<u>\$ 110,940</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,940</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS

For the Year Ended June 30, 2015

Fund	July 1, 2014	Revenues	Expenditures	June 30, 2015
Activity Funds				
Calloway County High School:				
Academic Club	\$ 2,870	\$ 4,798	\$ 5,520	\$ 2,148
Advance Wellness Class	117	-	-	117
Archery	-	1,500	467	1,033
Athletic Miscellaneous	2,810	55,282	56,037	2,055
Basketball Chair Seats	-	19,842	19,799	43
Baseball	6	7,806	7,812	-
Band	118	5,069	5,134	53
Band Supply	-	10,575	10,561	14
Beta Club	3,735	5,510	4,737	4,508
BOE Sweep	-	4,442	4,442	-
Boys' Basketball	24,140	24,323	43,565	4,898
Boys' Little League	200	2,523	2,705	18
Boys' Soccer	3,010	7,172	6,858	3,324
B/G Cross Country	2,820	6,350	5,464	3,706
B/G Tennis Boosters	3,797	5,893	8,149	1,541
Boys'-Girls' Tennis	3,486	3,050	1,129	5,407
Boys'-Girls' Track	1,624	5,883	5,736	1,771
Build. Part. Teachers	435	607	432	610
CCHS Bass Fishing Club	73	3,839	2,150	1,762
Calloway Live Club	1,230	2,335	667	2,898
CCHS Book Rental	5	-	-	5
CCHS Course Fees	-	3,517	-	3,517
CCHS Dance Team	-	7,214	7,212	2
Cheerleader	3,747	17,346	21,088	5
Chess Club	37	-	37	-
Choir Class	1,375	350	128	1,597
Choir Sales	2,718	1,104	-	3,822
Choir Supply	736	4,500	3,826	1,410
Class of 2016	-	1,919	1,312	607
Class of 2017	-	1,777	238	1,539
Class of 2015	3,815	7,769	8,969	2,615
Class of 2018	-	1,255	323	932
Col Cowan Scholarship	600	-	-	600
Dist Reg Basketball	-	4,130	4,130	-
Dist Reg Volleyball	-	1,327	1,327	-
Drama Club	896	-	-	896
Drivers Education	2,827	-	-	2,827
FBLA Club	151	27,285	27,436	-
FBLA Trip	209	3,612	3,821	-
FEA	621	290	-	911
FFA Club	2,748	24,575	19,369	7,954
FFA Regional	10,864	2,135	8,024	4,975
FCCLA Club	1,139	-	-	1,139
FCA	363	300	-	663
Football Alumni	5,164	-	5,164	-
Football Camp	20	-	20	-
Football	13,938	32,265	30,871	15,332
Football Touchdown Club	1,000	-	1,000	-
French Club	-	270	93	177
General	33,794	3,148	577	36,365

See independent auditor's report.

ALLOWAY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS

For the Year Ended June 30, 2015

Fund	July 1, 2014	Revenues	Expenditures	June 30, 2015
Girls' Basketball	\$ 158	\$ 20,240	\$ 20,249	\$ 149
Girls' Soccer	3,101	5,716	8,817	-
Girls' Softball	1,291	9,412	9,447	1,256
Girls' Softball Booster	-	479	479	-
Golf	-	5,241	4,673	568
Guidance Office	127	700	759	68
Home Ec Class	32	-	-	32
Homecoming Fund	-	699	699	-
Horticulture Class	2,180	13,434	7,127	8,487
Instructional Fee	1,205	123	1,316	12
Japanese Club	637	987	599	1,025
Journalism Class	9,851	5,930	2,893	12,888
Jr. Beta	587	-	-	587
KYA	-	5,000	4,995	5
KYAEA	78	-	75	3
Library	12	47	12	47
Little League Football	2,121	-	2,121	-
Memorial Fund/Josh	58	-	-	58
National Art Honor Soc	1,200	1,514	2,615	99
National Science	1,027	891	705	1,213
Pep Club	46	860	737	169
Physics Class	150	-	-	150
Prime Investment Fund	2,177	-	-	2,177
Principal's Discretionary	539	9,486	2,797	7,228
Project Graduation	259	1,000	359	900
Regional Wrestling	-	2,691	2,691	-
Robotics Team	669	1,350	497	1,522
Sign Language Club	2	-	2	-
Spanish Club	1,796	2,387	1,797	2,386
Speech Team	-	12,737	11,390	1,347
Sound System Upgrade	1,841	-	-	1,841
Special Ed. Vocational	2,776	1,059	1,979	1,856
Swim Team Fund	147	2,700	1,033	1,814
Swim Wave Club Booster	2,891	400	3,291	-
State Tournament	-	9,077	7,205	1,872
Student Activities	547	576	581	542
Student Council	1	498	378	121
Teachers' Flower Club	-	250	250	-
Tech Ed Vinyl	245	834	650	429
Theft/Restitution	4,210	-	-	4,210
TQI	83	-	-	83
TSA Club	785	-	-	785
T.V. Allotment	24	-	15	9
Usage Fee	437	-	-	437
USF Funds	10,398	-	-	10,398
Vending Fund	2,319	114	-	2,433
Vending/Teachers Fund	477	415	522	370
Vending/DTC Fund	172	-	-	172
Volleyball Team Fund	4,408	12,102	10,802	5,708
Volleyball Booster	13,577	9,054	6,012	16,619
Wrestling	9,555	15,506	7,128	17,933
Wrestling Boosters	2,010	-	2,010	-

See independent auditor's report.

**CALLOWAY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES
AGENCY FUNDS**

For the Year Ended June 30, 2015

<u>Fund</u>	<u>July 1, 2014</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2015</u>
Yearbook	\$ 19,251	\$ 21,825	\$ 26,947	\$ 14,129
Youth Service Center	2,579	2,335	2,724	2,190
Youth Service / CCCL	802	979	911	870
	<u>246,076</u>	<u>501,535</u>	<u>496,618</u>	<u>250,993</u>
Less: Inter-fund transfers	<u>-</u>	<u>85,157</u>	<u>85,157</u>	<u>-</u>
Total Calloway County High School	246,076	416,378	411,461	250,993
Calloway County Middle School	43,863	82,361	83,562	42,662
North Calloway County Elementary School	14,297	45,564	40,879	18,982
East Calloway County Elementary School	3,355	29,181	26,892	5,644
Southwest Calloway County Elementary School	30,037	34,874	38,557	26,354
Calloway County Preschool	<u>4,616</u>	<u>6,680</u>	<u>3,587</u>	<u>7,709</u>
Total activity funds	<u>342,244</u>	<u>615,038</u>	<u>604,938</u>	<u>352,344</u>
Fiscal Agent Funds	<u>131,212</u>	<u>138,057</u>	<u>153,221</u>	<u>116,048</u>
Total agency funds	<u>\$ 473,456</u>	<u>\$ 753,095</u>	<u>\$ 758,159</u>	<u>\$ 468,392</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/ CFDA Program Title</u>	<u>Federal CFDA Number</u>	<u>MUNIS Account Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
U.S. Department of Education				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	\$ 664,275	\$ 118,681
Title I Grants to Local Educational Agencies	84.010	220-4500-3104M	21,000	7,520
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	704,983	23,542
Title I Grants to Local Educational Agencies	84.010	220-4500-3103M	24,000	658
Title I Grants to Local Educational Agencies	84.010	220-4500-310A	694,997	541,918
Title I Grants to Local Educational Agencies	84.010	220-4500-310AM	18,000	14,539
Title I Grants to Local Educational Agencies	84.010	220-4500-313A	14,500	14,500
Title I Grants to Local Educational Agencies	84.010	220-4500-313AT	4,446	4,446
Total Title I Cluster			<u>2,146,201</u>	<u>725,804</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-336A	312,478	241,290
Special Education_Grants to States	84.027	220-4500-3364	312,478	110,935
Special Education_Grants to States	84.027	220-4500-3374	646,728	345,746
Special Education_Grants to States	84.027	220-4500-3373P	7,171	6,699
Special Education_Grants to States	84.027	220-4500-3374P	11,079	2,828
Special Education_Grants to States	84.027	220-4500-337A	652,231	423,635
		Sub-total	<u>1,942,165</u>	<u>1,131,133</u>
Special Education_Preschool Grants	84.173	220-4500-343A	63,607	61,322
Special Education_Preschool Grants	84.173	220-4500-3434	62,685	188
		Sub-total	<u>126,292</u>	<u>61,510</u>
Total Special Education Cluster			<u>2,068,457</u>	<u>1,192,643</u>
Career and Technical Education - Basic Grants to States	84.048	220-4500-3484	25,386	25,386
Career and Technical Education - Basic Grants to States	84.048	220-4500-348AT	500	500
Career and Technical Education - Basic Grants to States	84.048	220-4500-3483A	1,071	1,071
			<u>26,957</u>	<u>26,957</u>
Rural Low Income Grants	84.358B	220-4500-3504	57,744	737
Rural Low Income Grants	84.358B	220-4500-350A	65,426	56,433
			<u>123,170</u>	<u>57,170</u>
Improving Teacher Quality State Grants	84.367	220-4500-401A	140,050	95,585
Improving Teacher Quality State Grants	84.367	140229	140,229	4,962
			<u>280,279</u>	<u>100,547</u>
Race to the Top Incentive Grants	84.395	220-4500-4521	29,688	138
Investing in Innovation	84.411	220-4500-491A	1,850	922
Total U.S. Department of Education			<u>4,676,602</u>	<u>2,104,181</u>

See independent auditor's report.
The accompanying notes are an integral part of this schedule.

CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/ CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Agriculture				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	\$ 390,241	\$ 390,241
National School Lunch Program - Donated Commodities	10.555	510-4950	83,972	83,972
National School Lunch Program	10.555	510-4500	946,810	946,810
Summer Food Service Program for Children	10.559	510-4500	15,581	15,581
Total Child Nutrition Cluster			<u>1,436,604</u>	<u>1,436,604</u>
State Administrative	10.56	510-4500	1,000	1,000
Total U.S. Department of Agriculture			<u>1,437,604</u>	<u>1,437,604</u>
U.S. Department of Health and Human Services				
Passed Through Murray Independent School District:				
Head Start	93.600	220-4700-655A	141,404	100
Head Start	93.600	220-4700-6554	150,602	150,112
			<u>292,006</u>	<u>150,212</u>
Total U.S. Department of Health & Human Services			<u>292,006</u>	<u>150,212</u>
Total Federal Awards			<u>\$ 6,406,212</u>	<u>\$ 3,691,997</u>

Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures

Total expenditures of Federal awards	\$ 3,691,997
Total expenditures of State and Local awards	1,398,431
Expenditure of Federal awards in the Food Service Fund	<u>(1,437,604)</u>
Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,652,824</u>

*See independent auditor's report.
The accompanying notes are an integral part of this schedule.*

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Calloway County School District under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Calloway County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Calloway County School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE 3 - Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed.

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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards**

Kentucky State Committee for School District Audits
Members of the Calloway County Board of Education
Murray, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Calloway County School District's basic financial statements and have issued our report thereon dated November 11, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Calloway County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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, 2015, as required by the auditor's contract with the Kentucky Department of Education.

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.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
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**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

Kentucky State Committee for School District Audits
Members of the Calloway County Board of Education
Murray, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Calloway County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Calloway County School District's major federal programs for the year ended June 30, 2015. Calloway County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Calloway County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Calloway County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Calloway County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Calloway County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Calloway County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Calloway County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Calloway County School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2015

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported	

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported	

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? yes x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Clusters
84.010	Title I Cluster
84.027; 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? x yes

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
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Trey Settle, Superintendent
Calloway County Board of Education
Murray, Kentucky

In planning and performing our audit of the financial statements of Calloway County School District for the year ended June 30, 2015, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 11, 2015, on the financial statements of Calloway County School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

Sincerely,

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 11, 2015

CALLOWAY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
June 30, 20155

MANAGEMENT LETTER POINTS

- I. **Condition:** A lack of segregation of duties related to user access within the District's MUNIS system. Certain users who authorize transactions and have custody of assets within the organization are also superusers of the MUNIS accounting software.

Criteria: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement AU-C Section 315 addresses the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements through understanding the entity and its environment including the entity's internal control. Segregation of duties is a basic component of internal control and is referenced in the above professional standard.

Cause: Due to the limited number of available staff, user rights within the system for certain employees include unlimited access to all modules in MUNIS.

Effect: Unlimited access within the MUNIS system paired with users who authorize transactions and have custody of assets in the organization provide opportunity for manipulation of accounting records and misappropriation of assets.

Recommendation: Superusers should not be granted the authority to authorize transactions.

Response: Due to the frequent need to perform functions only available to superusers of the District accepts the risks described above.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CALLOWAY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2015

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

I. **Condition:** *Four special called board meetings did not have minutes recorded.*

Recommendation: Minutes of every meeting of the board of education should be recorded and approved by the board of education in a timely manner.

Current Status: This condition has been resolved.

II. **Condition:** The District entered into a new lease in excess of \$100,000 before obtaining approval of the Commissioner of Education.

Recommendation: The District should obtain approval through proper channels before executing a lease in excess of \$100,000.

Current Status: This condition has been resolved.