

PADUCAH INDEPENDENT SCHOOL DISTRICT



FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015

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J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
MARK A. THOMAS
ASHLEY C. GROOMS
KELLY D. SCRUGGS
BENJAMIN D. TEER

WILLIAMS, WILLIAMS & LENTZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS
~Established 1953~

P.O. Box 2500
PADUCAH, KY 42002-2500
www.wwlcpa.com

601 JEFFERSON
PADUCAH, KY 42001
TELEPHONE: 270-443-3643
FAX: 270-444-0652

1104 PARIS RD, SUITE 100
MAYFIELD, KY 42066
TELEPHONE: 270-247-2124
FAX: 270-247-2028

Independent Auditor's Report

Kentucky State Committee for School
District Audits
Members of the Board
Paducah Independent School District
Paducah, 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 Paducah Independent 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 and the audit requirements prescribed by the Kentucky State Committee for School District including *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Paducah Independent 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 conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 15 to the financial statements, in fiscal year 2015, the Paducah Independent School District adopted new accounting guidance, GASB Statement No. 68, *Accounting & Financial Reporting for Pensions*. 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 schedules on pages 4 through 8 and 42 through 47 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 Paducah Independent School District's basic financial statements. The additional information shown on pages 48 through 62 is presented for purposes of additional analysis and is 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 individual nonmajor 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 and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2015, on our consideration of Paducah Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Paducah Independent School District's internal control over financial reporting and compliance.

Williams, Williams & Luty, LLP

Paducah, Kentucky
November 3, 2015

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2015

As management of the Paducah Independent School District, we offer readers of the District's financial statements this narrative overview and analysis for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The District had fund balances on July 1, 2013, of \$7.12 million. The balance decreased to \$5.86 million on June 30, 2014. By the end of the school year, June 30, 2015, the balance had increased to \$7.55 million. These totals incorporate all funds including Governmental, Proprietary, and Fiduciary.
- The General Fund had \$30,960,196 in revenue (receipts plus beginning balance) primarily from the state program (SEEK), property taxes, local occupational license taxes, utility taxes, motor vehicle taxes, and state insurance and retirement on-behalf payments. On-behalf payments are payments made directly by the state for our staff (i.e. retirement and insurance). Subtracting the \$5,084,424 in on-behalf payments, General Fund revenue amounted to \$25,875,772. This is an increase from last year of \$2,458,287. Increased receipts were a result of a renewed focus on collection of delinquent taxes at the local level.
- General Fund had total expenditures equaling \$21,615,695, excluding the on-behalf expenses.
- The District's carry forward balance in General Fund increased from \$2,682,738 (amount prior to restricted sick leave adjustment) at the start of the year to \$4,260,077 by the end of the year.
- The District continues to renovate facilities consistent with a long-range facilities plan established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.
- There were no significant changes in any of the individual funds affecting the use of resources.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those 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.

Government-wide financial statements: The government-wide financial statements are intended to provide the reader with a broad overview of the District's finances. They are organized much like those of a private-sector business.

The statement of net position presents information on all of the District's assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, the changes in net position, both increases and decreases, may serve as an indicator of the District's financial position. Increases in net position indicate an improving financial position and decreases indicate a deteriorating position. However, the reader must understand that the District's goal is to provide quality services to our students, not to generate profits as commercial entities strive to do. Many non-financial factors must be considered when looking at the position of the District, such as the property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs, and other factors.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. The District uses an accrual basis of accounting commonly used by private-sector businesses. This accounting practice takes into account all of the current year's revenues and expenses, regardless of when cash is received and paid.

(Continued)

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

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

Fund financial statements: A fund is a grouping of related accounts used to maintain control over resources set aside for specific activities or objectives. This is a state-mandated uniform system and establishes a chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to guarantee and exhibit compliance with finance-related legal requirements. All of the District's funds can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Our only proprietary fund is food service operations. Fiduciary funds are held as trust funds established by benefactors to aid in student education. All other activities and resources are included in the governmental funds.

The basic governmental fund financial statement can be found on pages 11-19 of this report.

Notes to the financial statements: The notes provide additional information and are useful in fully understanding the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 20-41 of this report.

COMMENTS ON AFR BUDGET COMPARISONS

- During the fiscal year ended June 30, 2015, the District amended its General Fund budget numerous times. Most amendments were due to changes in expenditure priorities.
- The District's General Fund total revenues (receipts plus beginning balance) for the fiscal year ended June 30, 2015, net of state on-behalf payments, were \$25.8 million. This includes a beginning balance of \$2.6 million and receipts of \$23.2 million.
- General Fund budget, compared to actual revenue, excluding on-behalf payments, varied slightly from line item to line item, with the ending actual balance \$2.3 million more than budget or approximately more than 11 percent.
- The total cost of all General Fund programs and services was \$21.3 million excluding transfers and state on-behalf payments.
- General Fund actual expenditures, compared to budgeted appropriations, were \$1.9 million less.
- Actual expenditures of \$21.6 million including transfers were \$4.2 million less than the actual receipts and beginning balance of \$25.8 million.
- By comparing actual receipts of \$23.19 million and expenditures of \$21.62 million, the District increased its beginning balance by \$1.58 million from \$2.68 million (this figure reflects a restricted sick leave adjustment) to \$4.26 million.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The district's net position on June 30, 2014, was originally stated as \$10.1 million. It was restated due to GASB 68. (See note 15) In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.6 million as of June 30, 2015.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment) less any related debt used to acquire those assets that is still outstanding and restrictions for capital projects. The District uses these capital assets to provide services to its students; as a result, 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 cannot be used to liquidate these liabilities.

The District's financial position is the result 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.

(Continued)

Net Position for the Years Ended June 30

GASB 34 allows the District to compare this year's assets with last year's assets.

	2015	2014
Current assets	\$11,622,492	\$ 9,153,475
Non-current assets	<u>49,813,478</u>	<u>51,403,405</u>
Total assets	<u>61,435,970</u>	<u>60,556,880</u>
Deferred outflows of resources	<u>1,336,816</u>	<u>1,388,193</u>
Current liabilities	2,347,575	2,630,056
Non-current liabilities	<u>54,011,345</u>	<u>56,399,944</u>
Total liabilities	<u>56,358,920</u>	<u>59,030,000</u>
Deferred Inflows of resources	<u>777,000</u>	<u>-</u>
Net Position:		
Investment in capital assets	5,551,570	5,739,668
Restricted	6,139,729	5,224,147
Unreserved fund balance	<u>(6,054,433)</u>	<u>(8,048,742)</u>
TOTAL NET POSITION	<u>\$ 5,636,866</u>	<u>\$ 2,915,073</u>

As a comparison for the year ended June 30, 2015, total net position has increased by \$2,721,793. Deferred outflows of resources, non-current liabilities, and unrestricted net position as presented above for the year ended June 30, 2014 has been adjusted to reflect a restatement to record the District's proportionate share of the net pension liability and related deferred outflows in accordance with GASB 68. This liability depicts an estimate of District's share of the County Employees Retirement System's net pension liability and will be adjusted annually. The net position at June 30, 2013 and related deferred outflows and inflows could not be determined in a practical manner. Therefore, net position at June 30, 2013 was not restated. See note 15 to the financial statements on page 41 for additional details.

The following are significant current year transactions that have had an impact on the statement of net position:

- Technology purchases continued by replacing outdated systems.

The following table presents a summary of government-wide revenues and expenses for the fiscal years ended June 30:

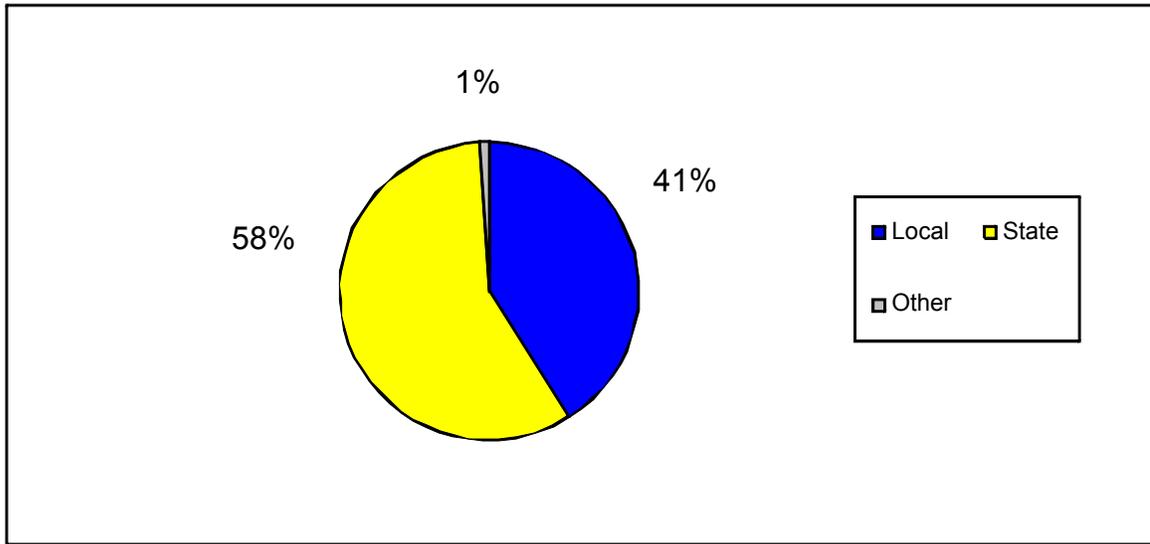
Revenues:	2015	2014
Charges for services	\$ 426,718	\$ 381,633
Operating grants and contributions	7,300,525	7,038,656
Capital grants and contributions	2,197,436	2,206,826
Taxes	12,204,257	10,939,810
State aid	11,373,553	11,331,354
Federal aid	112,244	116,973
Investment earnings	74,009	122,869
On-behalf payments	8,212,127	5,154,524
Gain on sale of equipment	38,009	(292,904)
Other	<u>266,323</u>	<u>243,241</u>
Total revenues	<u>42,205,201</u>	<u>37,242,982</u>

(Continued)

Expenses:

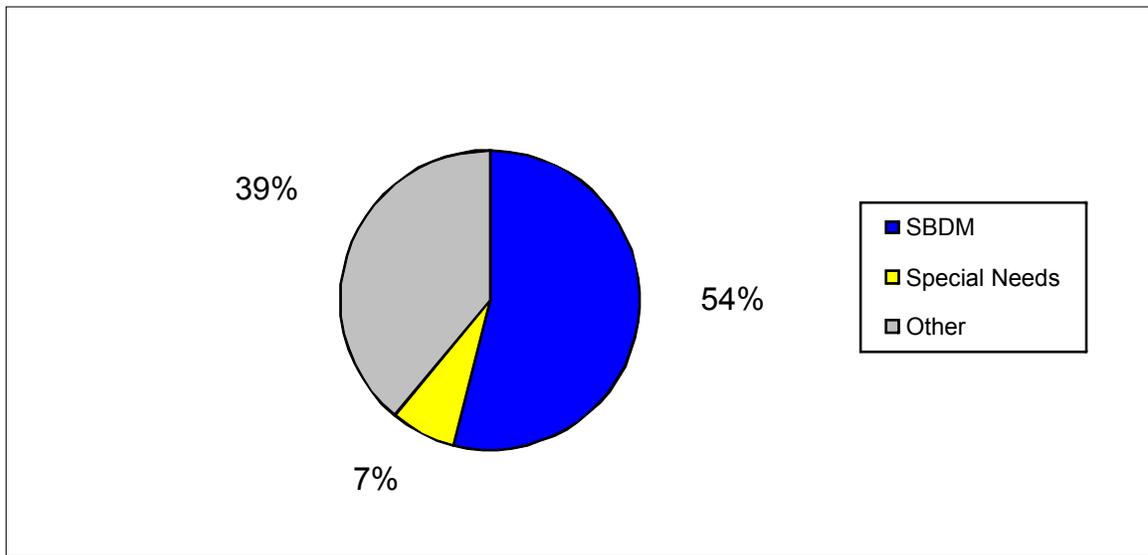
Instruction	\$21,280,664	\$17,830,398
Student support services	1,327,975	1,312,011
Instructional support	890,357	1,330,412
District administration	1,474,219	1,372,875
School administration	2,462,856	2,316,467
Business support	1,145,470	1,141,234
Plant operations	4,843,726	4,931,493
Student transportation	1,414,148	1,571,465
Community support	427,379	424,376
Food service operations	2,096,319	2,037,467
Facility acquisition and construction	-	323,980
Other	<u>2,120,295</u>	<u>2,180,770</u>
Total expenses	<u>39,483,408</u>	<u>36,772,948</u>
CHANGE IN NET POSITION	<u>\$ 2,721,793</u>	<u>\$ 470,034</u>

General Fund Revenue Chart 1



The majority of revenue was derived from state funding at 58% and local funding at 41%. All other funding sources accounted for less than 1 percent of total General Fund revenue.

General Fund Budget Allocation Chart



Site Based Decision Making Councils expended 54% or \$14.26 million of the General Fund budget. An additional \$1.93 million or 7% of Non-SBDM money was spent serving children with special needs. The remaining 39% was expended in district-wide support services and central office support.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the District had \$49,813,478 invested in land, buildings, and equipment. Of that amount, \$49,739,407 is in governmental activities.

See footnote 5 for a breakdown of additions by class on page 29.

Debt Administration

The District had \$47,964,923 in bonds outstanding on June 30, 2015. A total of \$1,219,478 is due within one year.

See note 6 on pages 30-33 for a detailed listing.

BUDGETARY IMPLICATIONS

In Kentucky, the fiscal year for public schools runs from July 1 through June 30; other programs, e.g., federal programs such as Head Start, operate on a different fiscal calendar, but are reflected in the District overall budget.

By law, the District must maintain a 2% contingency. The District ended the year with a 17% contingency. The District has developed a working budget for the next fiscal year that contains a 13% contingency. Significant Board actions may impact this budget during the year. A 2% pay raise has been required by the Commonwealth of Kentucky for the upcoming school year.

Questions regarding this report should be directed to the Superintendent, Donald Shively (270-444-5600), or Julie D. Huff, Director of Finance (270-444-5600 Ext. 1040), or by mail at P. O. Box 2550, Paducah, KY 42002-2550.

BASIC FINANCIAL STATEMENTS

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals (Memorandum Only)</u>
Cash and cash equivalents	\$ 7,401,416	\$ 211,521	\$ 7,612,937
Accounts receivable:			
Taxes	269,746	-	269,746
Delinquent taxes, net of allowance of \$110,000	205,709	-	205,709
Accounts	3,386	-	3,386
Interest on prefunded escrow	7,241	-	7,241
Intergovernmental - state	580	-	580
Intergovernmental - federal	309,983	44,263	354,246
Investment - prefunded escrow	3,137,577	-	3,137,577
Inventories	-	31,070	31,070
Nondepreciated capital assets:			
Land	3,063,386	-	3,063,386
Depreciated capital assets:			
Land improvements	988,479	-	988,479
Buildings	64,279,873	-	64,279,873
Furniture and equipment	7,693,549	502,635	8,196,184
Less: accumulated depreciation	<u>(26,285,880)</u>	<u>(428,564)</u>	<u>(26,714,444)</u>
Total assets	<u>61,075,045</u>	<u>360,925</u>	<u>61,435,970</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
District pension contributions subsequent to measurement date	778,385	112,060	890,445
Deferred bond discounts	<u>446,371</u>	<u>-</u>	<u>446,371</u>
Total deferred outflows of resources	<u>1,224,756</u>	<u>112,060</u>	<u>1,336,816</u>
<u>LIABILITIES</u>			
Accounts payable	343,836	465	344,301
Advanced revenues	443,087	-	443,087
Long-term obligations:			
Due within one year:			
Bond and lease obligations	1,219,478	-	1,219,478
Interest payable	309,084	-	309,084
KISBIT assessment	31,625	-	31,625
Due beyond one year:			
Net pension liability	6,122,219	839,781	6,962,000
Bond and lease obligations	46,745,445	-	46,745,445
Accrued sick leave payable	177,400	-	177,400
KISBIT assessment	<u>126,500</u>	<u>-</u>	<u>126,500</u>
Total liabilities	<u>55,518,674</u>	<u>840,246</u>	<u>56,358,920</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Difference between projected and actual pension earnings	<u>683,276</u>	<u>93,724</u>	<u>777,000</u>
<u>NET POSITION</u>			
Net investment in capital assets	5,477,499	74,071	5,551,570
Restricted for:			
Capital projects	2,177,529	-	2,177,529
Debt service	3,828,099	-	3,828,099
Accrued sick leave	56,800	-	56,800
School activities	77,301	-	77,301
Unrestricted	<u>(5,519,377)</u>	<u>(535,056)</u>	<u>(6,054,433)</u>
TOTAL NET POSITION	<u>\$ 6,097,851</u>	<u>\$ (460,985)</u>	<u>\$ 5,636,866</u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
Instruction	\$21,280,664	\$277,327	\$4,126,361	\$ -
Support services:				
Student	1,327,975	-	97,011	-
Instructional staff	890,357	-	238,586	-
District administration	1,474,219	-	-	-
School administration	2,462,856	-	205,303	-
Business	1,145,470	-	449	-
Plant operations and maintenance	4,843,726	-	49,343	-
Student transportation	1,414,148	-	106,910	-
Community service	427,379	-	427,824	-
Facility acquisition and construction	-	-	-	1,135,064
Interest on long-term debt	2,120,295	-	-	1,062,372
Total governmental activities	<u>37,387,089</u>	<u>277,327</u>	<u>5,251,787</u>	<u>2,197,436</u>
Business-type Activities:				
Food services	2,096,319	149,391	2,048,738	-
TOTAL SCHOOL DISTRICT	<u>\$39,483,408</u>	<u>\$426,718</u>	<u>\$7,300,525</u>	<u>\$2,197,436</u>

General revenue and receipts:

Taxes:

Property
Motor vehicle
Utility
In lieu
State aid
State aid - on-behalf
Federal - formula grant
Investment earnings
Other

Special items:

Loss on sale of equipment
Transfers

Total general revenue and special items

Change in net position

Net position July 1, 2014, as previously stated
Adjustments to net position, see note 15

Net position, July 1, 2014, as restated

NET POSITION, JUNE 30, 2015

See notes to financial statements.

**Net (Expense) Revenue and
Changes in Net Position**

Governmental Activities	Business-type Activities	Total
\$(16,876,976)	\$ -	\$(16,876,976)
(1,230,964)	-	(1,230,964)
(651,771)	-	(651,771)
(1,474,219)	-	(1,474,219)
(2,257,553)	-	(2,257,553)
(1,145,021)	-	(1,145,021)
(4,794,383)	-	(4,794,383)
(1,307,238)	-	(1,307,238)
445	-	445
1,135,064	-	1,135,064
(1,057,923)	-	(1,057,923)
<u>(29,660,539)</u>	<u>-</u>	<u>(29,660,539)</u>
-	101,810	101,810
<u>(29,660,539)</u>	<u>101,810</u>	<u>(29,558,729)</u>
7,970,970	-	7,970,970
1,159,049	-	1,159,049
2,249,592	-	2,249,592
824,646	-	824,646
11,373,553	-	11,373,553
8,091,331	120,796	8,212,127
112,244	-	112,244
73,495	514	74,009
266,323	-	266,323
38,009	-	38,009
103,861	(103,861)	-
<u>32,263,073</u>	<u>17,449</u>	<u>32,280,522</u>
2,602,534	119,259	2,721,793
9,810,999	286,074	10,097,073
<u>(6,315,682)</u>	<u>(866,318)</u>	<u>(7,182,000)</u>
<u>3,495,317</u>	<u>(580,244)</u>	<u>2,915,073</u>
<u>\$ 6,097,851</u>	<u>\$(460,985)</u>	<u>\$ 5,636,866</u>

PADUCAH INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue (Grant) Fund</u>
Cash and cash equivalents	\$ 4,330,497	\$ 132,482
Accounts receivable:		
Taxes	269,746	-
Accounts	2,844	42
Intergovernmental - state	-	580
Intergovernmental - federal	-	309,983
TOTAL ASSETS	<u><u>\$ 4,603,087</u></u>	<u><u>\$ 443,087</u></u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Accounts payable	\$ 343,010	\$ -
Advanced revenues	-	443,087
Total liabilities	<u>343,010</u>	<u>443,087</u>
Fund Balances:		
Restricted for:		
SFCC escrow	-	-
Debt service	-	-
School activities	-	-
Committed for:		
Contingency	1,670,081	-
Sick leave	56,800	-
Unassigned	2,533,196	-
Total fund balances	<u>4,260,077</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 4,603,087</u></u>	<u><u>\$ 443,087</u></u>

See notes to financial statements.

FSPK Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
<u>\$ 2,014,568</u>	<u>\$ 683,281</u>	<u>\$ 240,588</u>	<u>\$ 7,401,416</u>
-	-	-	269,746
-	-	500	3,386
-	-	-	580
-	-	-	309,983
<u>\$ 2,014,568</u>	<u>\$ 683,281</u>	<u>\$ 241,088</u>	<u>\$ 7,985,111</u>

\$ -	\$ -	\$ 826	\$ 343,836
-	-	-	443,087
-	-	826	786,923

2,014,568	-	162,961	2,177,529
-	683,281	-	683,281
-	-	77,301	77,301
-	-	-	1,670,081
-	-	-	56,800
-	-	-	2,533,196
<u>2,014,568</u>	<u>683,281</u>	<u>240,262</u>	<u>7,198,188</u>
<u>\$ 2,014,568</u>	<u>\$ 683,281</u>	<u>\$ 241,088</u>	<u>\$ 7,985,111</u>

PADUCAH INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balances per fund financial statement \$ 7,198,188

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Cost	\$ 76,025,287	
Accumulated depreciation	<u>(26,285,880)</u>	49,739,407

Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net position.

Delinquent taxes	205,709	
Investments - prefunded escrow	3,137,577	
Interest receivable on prefunded escrow	<u>7,241</u>	3,350,527

Deferred outflows and deferred inflows of resources are amortized in the governmental activities, but were recognized in full in the governmental funds.

Deferred bond discounts	446,371	
Contributions made after the measurement date	778,385	
Difference between projected and actual earnings	<u>(683,276)</u>	541,480

Certain liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.

Interest payable		(309,084)
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Long-term liabilities 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:

Net pension liability	(6,122,219)	
Bond and lease obligations	(47,964,923)	
Accrued sick leave payable	<u>(177,400)</u>	(54,264,542)

The Kentucky School Boards Insurance Trust liability related to the deficit in the worker's compensation and liability pools is not due and payable in the current period and, therefore, not reported as a liability in the fund statements.

(158,125)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ 6,097,851</u>
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Note: Nonmajor funds consist of the SEEK Capital Outlay, District Activity, and Construction Funds.

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Special Revenue (Grant) Fund
Revenues:		
Taxes	\$ 11,134,349	\$ -
Earnings on investments	11,119	485
Intergovernmental - state	11,373,553	852,201
Intergovernmental - on-behalf	5,084,424	-
Intergovernmental - federal	112,244	4,399,585
Other	347,634	30,805
	<hr/>	<hr/>
Total revenues	28,063,323	5,283,076
	<hr/>	<hr/>
Expenditures:		
Current:		
Instruction	14,715,118	4,262,945
Support services:		
Student	1,186,892	97,011
Instructional staff	647,273	242,112
District administration	1,373,377	-
School administration	2,053,004	205,303
Business	1,034,584	449
Plant operations and maintenance	3,913,669	49,343
Student transportation	1,347,437	106,910
Community service	-	427,824
Facility acquisition and construction	-	-
Debt service:		
Principal	67,478	-
Interest and other charges	11,161	-
	<hr/>	<hr/>
Total expenditures	26,349,993	5,391,897
	<hr/>	<hr/>
Excess (deficit) of revenues over expenditures	1,713,330	(108,821)
	<hr/>	<hr/>
Other Financing Sources		
(Uses):		
Bond proceeds	-	-
Proceeds from sale of assets	39,473	-
Operating transfers in	174,662	179,622
Operating transfers out	(350,126)	(70,801)
	<hr/>	<hr/>
Total other financing sources (uses)	(135,991)	108,821
	<hr/>	<hr/>
Net change in fund balances	1,577,339	-
Fund balances, July 1, 2014	2,682,738	-
	<hr/>	<hr/>
FUND BALANCES, JUNE 30, 2015	<u>\$ 4,260,077</u>	<u>\$ -</u>

See notes to financial statements.

FSPK Fund	Debt Service Fund	Nonmajor Funds	Totals Governmental Funds
\$ 1,124,156	\$ -	\$ -	\$ 12,258,505
6,286	-	415	18,305
868,960	-	266,104	13,360,818
-	727,400	-	5,811,824
-	1,062,372	-	5,574,201
-	-	103,842	482,281
<u>1,999,402</u>	<u>1,789,772</u>	<u>370,361</u>	<u>37,505,934</u>
-	-	66,511	19,044,574
-	-	-	1,283,903
-	-	-	889,385
-	-	-	1,373,377
-	-	-	2,258,307
-	-	-	1,035,033
-	-	-	3,963,012
-	-	-	1,454,347
-	-	-	427,824
-	-	133,127	133,127
-	6,585,019	-	6,652,497
-	2,120,356	-	2,131,517
<u>-</u>	<u>8,705,375</u>	<u>199,638</u>	<u>40,646,903</u>
<u>1,999,402</u>	<u>(6,915,603)</u>	<u>170,723</u>	<u>(3,140,969)</u>
-	4,655,000	-	4,655,000
-	-	-	39,473
-	2,271,147	133,127	2,758,558
<u>(2,071,538)</u>	<u>-</u>	<u>(162,232)</u>	<u>(2,654,697)</u>
<u>(2,071,538)</u>	<u>6,926,147</u>	<u>(29,105)</u>	<u>4,798,334</u>
(72,136)	10,544	141,618	1,657,365
<u>2,086,704</u>	<u>672,737</u>	<u>98,644</u>	<u>5,540,823</u>
<u>\$ 2,014,568</u>	<u>\$ 683,281</u>	<u>\$ 240,262</u>	<u>\$ 7,198,188</u>

PADUCAH INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net change in fund balance		\$ 1,657,365
<p>Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense for the year.</p>		
Depreciation expense	\$ (2,293,223)	
Capital outlays	<u>661,889</u>	(1,631,334)
<p>Repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net position. Similarly, sinking fund payments are an expenditure in the governmental funds, but are recorded as an escrow asset account in the statement of net position.</p>		
Bond proceeds	(4,655,000)	
Prefund escrow payment	908,019	
Capital lease paid	67,478	
Bond principal paid	<u>5,677,000</u>	1,997,497
<p>Governmental funds report the effect of discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities.</p>		
Bond discounts on new bond issue	34,162	
Amortization of deferred bond issuance costs and discounts	<u>(42,688)</u>	(8,526)
<p>Generally, revenue is recognized in this fund financial statement when it becomes both measurable and available to finance expenditures of the current period.</p>		
Delinquent taxes	(54,248)	
Interest receivable on prefunded escrow	2,245	
Interest earned on prefunded escrow	<u>52,946</u>	943
<p>Construction retainage payable is not recognized on the fund statements since it does not require the use of current financial resources. The expense is recognized when incurred in the statement of activities.</p>		
Construction retainage		172,824
<p>Governmental funds report CERS pension contributions as expense when they are paid. The changes in assumptions surrounding pension liabilities are deferred and amortized in the statement of activities. This also includes adjustments for contributions made after the measurement date of the plan. For KTRS contributions paid on-behalf of the District, the actual contributions are expensed when they are paid. The amount reported in the Statement of Activities is based on actuarial projections. The \$2,279,507 difference due to actuarial projections on KTRS does not result in a reconciling item.</p>		
Contributions after the measurement date	778,385	
Amortization of deferred inflows	170,819	
Pension expense	<u>(660,632)</u>	288,572
<p>The net loss on disposal of assets is reported in the statement of activities, whereas, in the governmental funds, any proceeds from the sale increases financial resources.</p>		
Loss on disposal of assets		(1,464)
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred. These net differences are as follows:</p>		
Accrued interest expense	19,748	
Accrued sick leave	54,200	
KSBIT assessment	<u>52,709</u>	<u>126,657</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,602,534</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

<u>ASSETS</u>	<u>Enterprise Fund Food Services</u>
Current Assets:	
Cash and cash equivalents	\$ 211,521
Accounts receivable	44,263
Inventories	31,070
Total current assets	<u>286,854</u>
Noncurrent Assets:	
Furniture and equipment	502,635
Less accumulated depreciation	<u>(428,564)</u>
Total noncurrent assets	<u>74,071</u>
Total assets	<u>360,925</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
District pension contributions subsequent to measurement date	<u>112,060</u>
 <u>LIABILITIES</u>	
Liabilities:	
Accounts payable	465
Net pension liability	839,781
Total liabilities	<u>840,246</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Difference between projected and actual pension earnings	<u>93,724</u>
 <u>NET POSITION</u>	
Net Position:	
Invested in capital assets	74,071
Unrestricted	<u>(535,056)</u>
TOTAL NET POSITION	<u><u>\$ (460,985)</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise Fund Food Services</u>
Operating Revenues:	
Lunchroom sales	\$ 148,887
Other operating revenues	504
Total operating revenues	<u>149,391</u>
Operating Expenses:	
Salaries and wages	881,978
In-kind commodities	88,566
Materials and supplies	1,038,719
Depreciation expense	8,091
Other operating expenses	78,965
Total operating expenses	<u>2,096,319</u>
Operating loss	<u>(1,946,928)</u>
Non-Operating Revenues:	
Federal grants	1,921,182
Federal grants - in-kind commodities	88,566
State grants	38,990
State - on-behalf	120,796
Interest income	514
Total non-operating revenues	<u>2,170,048</u>
Operating Transfers:	
Transfers out	<u>(103,861)</u>
Change in net position	119,259
Net position, July 1, 2014	286,074
Adjustments to net position, see note 15	<u>(866,318)</u>
Net position, July 1, 2014, as restated	<u>(580,244)</u>
NET POSITION, JUNE 30, 2015	<u><u>\$ (460,985)</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Enterprise Fund Food Services</u>
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 149,379
Cash paid to/for:	
Employees	(926,851)
Supplies	(1,028,213)
Other activities	<u>(78,965)</u>
Net cash used by operating activities	<u>(1,884,650)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	(103,861)
Government grants	<u>2,064,193</u>
Net cash provided by non-capital financing	<u>1,960,332</u>
Cash Flows from Investing Activities:	
Purchase of equipment	(50,962)
Receipt of interest income	<u>514</u>
Net cash used by investing activities	<u>(50,448)</u>
Net increase in cash and cash equivalents	25,234
Cash and cash equivalents, July 1, 2014	<u>186,287</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2015	<u><u>\$ 211,521</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,946,928)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	8,091
Commodities used	88,566
Change in assets and liabilities:	
Accounts receivable	(12)
Inventory	10,662
Deferred outflows of resources	(112,060)
Accounts payable	(156)
Net pension liability	(26,537)
Deferred inflows of resources	<u>93,724</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (1,884,650)</u></u>
Schedule of Non-Cash Transactions:	
Donated commodities received from federal government	<u><u>\$ 88,566</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	Private- Purpose Trust Funds	Agency Funds
Assets:		
Cash and cash equivalents	\$25,021	\$348,430
Accounts receivable	-	11,064
	25,021	359,494
Liabilities:		
Accounts payable	-	14,409
Due to student groups	-	26,886
Due to students in general	-	318,199
	-	359,494
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	\$25,021	\$ -

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Private- Purpose Trust Funds
Additions	<u>\$ 560</u>
Deductions:	
Benefits paid	<u>4,400</u>
Total deductions	<u>4,400</u>
Change in net position	(3,840)
Net position, beginning of year	<u>28,861</u>
NET POSITION, END OF YEAR	<u><u>\$25,021</u></u>

See notes to financial statements.

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 - Reporting Entity:

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

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Paducah Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. 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 organizations are included in the accompanying financial statements.

Paducah Independent School District Finance Corporation – In 1989, the Paducah Independent School District resolved to authorize the establishment of the Paducah Independent School District Finance Corporation (a nonprofit, 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 District for financing the costs of school building facilities. The Board Members of the Paducah Independent School District also comprise the Corporation’s Board of Directors.

Paducah Public Schools Foundation, Inc. – The Paducah Public Schools Foundation, Inc. (Foundation) was organized as a nonprofit corporation under Chapter 273 of the Kentucky Revised Statutes. The Foundation was formed for the purpose of establishing an education endowment fund to support education programs of the Paducah Public Schools. Resources for activities of the Foundation are primarily provided by contributions from the public. The Foundation is financially accountable to the District. Copies of the Foundation’s audit can be obtained by contacting the board office of the Paducah Independent School District.

Note 2 - Summary of Significant Accounting Policies:

The District’s financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District’s accounting policies are described below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

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 all 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. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

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

Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, and fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenue and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

The fiduciary funds are reported using the economic resource measurement focus.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Fund Accounting

The District has the following funds:

a. Governmental Fund Type

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 always classified as a major fund of the District per GASB 34.

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

The District Activity Fund accounts for proceeds of specific revenue sources, such as donations, grants, non-student fundraisers, etc., that are restricted by the individual schools. Project accounting is employed to maintain integrity for the various sources of funds.

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

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

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

b. Proprietary Fund Type (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$88,566 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Fund Accounting

c. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

Agency Funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e. assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the *Uniform Program of Accounting for School Activity Funds*.

The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

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.

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the 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 resources are expected to be received within sixty days of the fiscal year end.

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

Advanced Revenues - Advanced 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 advanced revenue.

Deferred Outflows and Deferred Inflows - Deferred outflow of resources represents a consumption of net position by the District that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense) until that time. Deferred inflow of resources represents an acquisition of net position by the District that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until that time. The District reports deferred outflows and inflows of resources with respect to their participation in the County Employees' Retirement System as discussed further in note 8.

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

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Basis of Accounting

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

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January 1 for all real and personal property within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual due date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they are levied.

The property tax rates assessed for the year ended June 30, 2015, to finance operations were \$.771 per \$100 valuation for real property, \$.771 per \$100 valuation for business personal property, and \$.566 per \$100 valuation for motor vehicles.

The District also levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of communication services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year end.

Cash and Cash Equivalents

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

Inventories

The only inventory maintained by the District consists of expendable supplies held for consumption and is accounted for in the proprietary fund. Inventory consists of purchased food held for consumption and is expensed when used. The purchased food is valued at cost.

Debt Discounts

Unamortized debt discounts in the amount of \$446,371 are included in the government-wide statements as deferred outflows of resources. Debt discounts are amortized over the lives of the related debt issues using the effective interest method.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars with the exception of computers, printers, and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Technology assets acquired through E-rate are capitalized at full cost with the portion paid by E-rate being treated as donated assets.

All capital assets except land 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 governmental and business-type capital assets:

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

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted a policy of providing at retirement a percentage of their accumulated unused sick leave.

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

The entire compensated absence liability is reported on the government-wide financial statements.

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

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Accrued Liabilities and Long-Term Obligations

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

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

Fund Balance Classifications

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District, is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the District's Superintendent or his designee to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Fund Balance Classifications

Statutorily, the Kentucky Department of Education may assume financial control over any school district whose fund balance drops below 2% of the total expenditures of certain funds. The Board committed funds to ensure fund balance remains above this level. While these funds have been properly committed and not budgeted for future years' expenditures, there is no mandate on how these funds would be used if the Board fell below this floor.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net position reports \$6,139,729 of restricted net position, of which \$56,800 is restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues and expenses are those revenues and expenses that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

Pensions

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

Use of Restricted Sources

When an expense is incurred for which there are both restricted and unrestricted net position available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Interfund Activity

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

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 - Summary of Significant Accounting Policies (Continued):

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 3, 2015, the date the financial statements were available to be issued.

Note 3 - 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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.

Note 4 - Cash and Cash Equivalents:

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or savings and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year end, the carrying amount of the District's cash and cash equivalents was \$7,986,388 which includes \$94,373 in the Federated U.S. Government Bond Fund and \$683,281 in Bank of New York Bond Funds, which are valued at fair market value. Both the Federated and Bank of New York accounts invest in Government Obligations. The bank balance excluding the federated and bond funds was \$7,911,062. Of the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Of the remaining balance, \$7,661,062 was uninsured and collateralized with securities held by the pledging bank's agent, not in the District's name.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 5 - Capital Assets:

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

Governmental Activities:	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Land	\$ 3,063,386	\$ -	\$ -	\$ 3,063,386
Construction-in-progress	891,198	(891,198)	-	-
Land improvements	948,178	40,301	-	988,479
Buildings and improvements	63,066,265	1,213,608	-	64,279,873
Technology equipment	5,153,817	51,859	1,449,038	3,756,638
General equipment	765,316	82,041	845	846,512
Vehicles	<u>2,925,121</u>	<u>165,278</u>	<u>-</u>	<u>3,090,399</u>
Totals at historical cost	<u>76,813,281</u>	<u>661,889</u>	<u>1,449,883</u>	<u>76,025,287</u>
Less accumulated depreciation:				
Land improvements	881,776	8,627	-	890,403
Building and improvements	17,952,360	1,615,149	-	19,567,509
Technology equipment	4,003,804	438,199	1,447,574	2,994,429
General equipment	513,895	43,247	845	556,297
Vehicles	<u>2,089,241</u>	<u>188,001</u>	<u>-</u>	<u>2,277,242</u>
Total accumulated depreciation	<u>25,441,076</u>	<u>2,293,223</u>	<u>1,448,419</u>	<u>26,285,880</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS – NET	<u>\$51,372,205</u>	<u>\$(1,631,334)</u>	<u>\$ 1,464</u>	<u>\$49,739,407</u>
	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Business-type Activities:				
Food service and equipment	\$ 441,129	\$ 50,654	\$ -	\$ 491,784
Technology equipment	<u>17,555</u>	<u>308</u>	<u>7,011</u>	<u>10,851</u>
Totals at historical cost	<u>458,684</u>	<u>50,962</u>	<u>7,011</u>	<u>502,635</u>
Less accumulated depreciation:				
Food service equipment	411,163	7,731	-	418,894
Technology equipment	<u>16,321</u>	<u>360</u>	<u>7,011</u>	<u>9,670</u>
Total accumulated depreciation	<u>427,484</u>	<u>8,091</u>	<u>7,011</u>	<u>428,564</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS – NET	<u>\$ 31,200</u>	<u>\$ 42,871</u>	<u>\$ -</u>	<u>\$ 74,071</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 505,864
Support services:	
Student	21,717
Instructional staff	14,609
District administration	74,221
School administration	29,832
Business	120,837
Plant operations and maintenance	1,354,282
Student transportation	167,609
Community services	<u>4,252</u>
TOTAL DEPRECIATION EXPENSE	<u>\$2,293,223</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 - Bond and Lease Obligations:

The amount shown in the accompanying government-wide financial statements as bond and lease obligations represents the District's future obligations to make payments related to bond and lease issued by the Paducah Independent School District Finance Corporation (the Finance Corporation) on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund, and the Facility Support Program Levy Fund is obligated to make lease payments. The agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security for the holders of the bonds.

Bonds

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Remaining Balances</u>	<u>Rates</u>
March 1, 2007	\$4,520,000	\$3,975,000	3.85%
July 1, 2008	2,650,000	2,560,000	3.00%-4.20%
January 1, 2009 refunding	3,915,000	1,495,000	2.00%-3.40%
April 9, 2009	6,720,000	6,145,000	2.00%-4.25%
May 24, 2010	5,045,000	-	2.00%-5.50%
July 15, 2010 refunding	440,000	25,000	1.20%-3.00%
June 29, 2011	3,170,000	2,655,000	3.597%
June 29, 2011 QZAB	3,950,000	3,950,000	4.859%
July 12, 2011 refunding	211,000	134,000	2.98%
December 22, 2011 QSCB	18,312,000	18,312,000	5.00%
November 27, 2012	3,965,000	3,900,000	1.50%-2.60%
December 2, 2014	4,655,000	4,475,000	0.35%-3.05%

In March 2009, the District issued bonds to redeem its outstanding January 15, 1998, May 1, 1998, and January 1, 1999 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2015, \$3,775,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$37,963. Amortization for the year was \$2,987 and is included as a component of interest expense.

In May 2010, the District issued \$5,045,000 in School Building Revenue Bonds (Build America Bonds). The District is eligible to receive a subsidy payment from the federal government equal to thirty-five percent of each interest payment on the Build America Bonds. The federal government only paid 92.7% of the eligible interest subsidy due to budget cuts in fiscal year 2015. The subsidy payment is included in interest expense on the financial statements. These payments are disclosed below.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 - Bond and Lease Obligations (Continued):

In July 2010, the District issued bonds to redeem its outstanding March 1, 2000 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2015, \$415,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$1,710. Amortization for the year was \$42 and is included as a component of interest expense.

On June 29, 2011, the District issued \$3,950,000 in Qualified Zone Academy Bonds, which is a tax credit bond. The District is required to make annual sinking fund payments to be held in escrow by the purchaser of the bonds. Payments of \$246,552 were made in fiscal year 2015. The fair market value of this account at June 30, 2015 was \$1,078,440. The purchaser of the bonds receives a tax credit for purchasing them and guarantees the payments in escrow plus the compounded interest earned on it over the life of the bonds will equal exactly \$3,950,000 at June 1, 2027, which is the maturity date. At maturity, the escrow will be transferred back to the District's bond accounts to pay the bonds in full. One hundred percent of the interest is eligible to be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. The federal government only paid 92.7% of the eligible interest subsidy due to budget cuts in fiscal year 2015. The interest subsidy payments are included in interest expense on the financial statements. These payments are disclosed below.

In July 2011, the District issued bonds to redeem its outstanding April 1, 2001 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2015, \$195,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. The total deferred discounts were \$1,725. Amortization for the year was \$222 and is included as a component of interest expense.

The December 2011 bond issue is an \$18,312,000 Qualified School Construction Bond which is a tax credit bond. The District received \$18,312,000, less the issuance cost of \$242,998 to deposit into its construction fund. The District and the Kentucky School Facility Construction Commission are required to make annual sinking fund payments to The Bank of New York Mellon Trust Company, an escrow agent commencing June 1, 2012 and such amounts shall be held and invested by the escrow agent for payment of principal of \$18,312,000 at the bonds maturity on December 1, 2030. District's sinking fund requirements are \$56,945 for the first seven years, \$51,945 for years eight and nine, \$111,945 in year ten, and \$301,945 for years eleven through nineteen. The Kentucky School Facility Construction Commission will pay annual sinking fund payments of \$604,522. Payments of \$604,522 and \$56,945 were made in fiscal year 2015 by the School Facility Construction Commission and the District, respectively. The fair market value of this account at June 30, 2015 was \$2,059,137. One hundred percent of the interest is eligible to be paid by the United States Treasury directly to the issuer or its designee paying agent and applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. The federal government only paid 92.7% of the eligible interest subsidy due to budget cuts in fiscal year 2015. The interest subsidy payments are included in interest expense on the financial statements. These payments are disclosed below.

In December 2014, the District issued bonds to redeem its outstanding May 24, 2010 revenue bonds. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2015, \$4,575,000 of bonds outstanding is considered defeased. In the Statement of Net Position, the net discounts associated with the early retirement of the issues are treated as deferred outflows of resources and amortized over the remaining life of the defeased debt. The total deferred discounts were \$36,321. Amortization for the year was \$3,360 and is included as a component of interest expense.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 - Bond and Lease Obligations (Continued):

In 2009, the District entered into a “participation agreement” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school boards in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amounts remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

All 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:

Fiscal Year	Paducah Independent School District		US Treasury Subsidy	Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Interest	Principal	Interest	
2015-2016	\$ 1,106,531	\$ 1,614,682	\$ (1,025,625)	\$ 45,469	\$ 32,095	\$ 1,773,152
2016-2017	1,139,167	1,588,220	(1,025,626)	46,833	30,732	1,779,326
2017-2018	1,182,668	1,559,993	(1,025,626)	48,332	29,233	1,794,600
2018-2019	1,219,977	1,531,358	(1,025,625)	50,023	27,541	1,803,273
2019-2020	1,273,126	1,499,047	(1,025,626)	51,874	25,690	1,824,112
2020-2025	7,143,406	6,871,934	(5,128,128)	291,594	96,227	9,275,033
2025-2030	11,895,069	5,598,181	(4,600,282)	279,931	30,326	13,203,225
2030-2033	<u>7,394,533</u>	<u>609,538</u>	<u>(424,838)</u>	<u>14,457,467</u>	<u>-</u>	<u>22,036,700</u>
TOTALS	<u>\$32,354,477</u>	<u>\$20,872,953</u>	<u>\$(15,281,376)</u>	<u>\$15,271,523</u>	<u>\$271,844</u>	<u>\$53,489,421</u>

Interest expense paid for fiscal year ending June 30, 2015, was \$2,120,295 including \$1,062,372 in federal subsidy payments on the 2010 Build America Bonds, the 2011 Qualified Zone Academy Bonds, and the 2011 Qualified School Construction Bonds.

Capital Leases

The KISTA school bus acquisition bonds provide for the title of the equipment (buses) to vest in the District subject to a first lien, and if nonrenewal or default occurs, the title will revert to KISTA. The District leases and rents the equipment from KISTA on an annual basis and has an exclusive option to renew this lease from year to year for the period of time of the pooled bond issue (approximately 10 years). The semi-annual bond interest and principal payments constitute the lease payments. The District is also obligated to keep the equipment in good repair and provide insurance coverage.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 - Bond and Lease Obligations (Continued):

Capital Leases

The buses have a historical cost and accumulated amortization of \$722,204 and \$343,046, respectively, under the capital lease agreements. Amortization is included in depreciation expense. Future minimum lease payments at June 30, 2015, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015-2016	\$ 67,478	\$ 9,812	\$ 77,290
2016-2017	70,545	8,192	78,737
2017-2018	72,079	6,288	78,367
2018-2019	62,877	4,125	67,002
2019-2020	<u>65,944</u>	<u>2,176</u>	<u>68,120</u>
TOTALS	<u>\$338,923</u>	<u>\$30,593</u>	<u>\$369,516</u>

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2015, was as follows:

	<u>Balance July 1, 2014</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance June 30, 2015</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$48,648,000	\$4,655,000	\$(5,677,000)	\$47,626,000	\$1,152,000
Capital leases	<u>406,401</u>	<u>-</u>	<u>(67,478)</u>	<u>338,923</u>	<u>67,478</u>
Bond and lease obligations	49,054,401	4,655,000	(5,744,478)	47,964,923	1,219,478
Accumulated sick leave	231,600	-	(54,200)	177,400	-
KSBIT assessment	<u>210,834</u>	<u>-</u>	<u>(52,709)</u>	<u>158,125</u>	<u>31,625</u>
GOVERNMENTAL ACTIVITY					
LONG-TERM LIABILITIES	<u>\$49,496,835</u>	<u>\$4,655,000</u>	<u>\$(5,851,387)</u>	<u>\$48,300,448</u>	<u>\$1,251,103</u>

Note 7 - Commitments Under Non-Capitalized Leases:

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2015, as follows:

<u>Fiscal Year</u>	
2015-2016	\$10,634
2016-2017	9,396
2017-2018	7,385
2018-2019	<u>4,243</u>
TOTAL	<u>\$31,658</u>

Rent expense for the year ended June 30, 2015, was \$25,415.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 8 - Retirement Plans:

Plan Descriptions

The State reports 1) an asset, deferred outflows of resources; 2) liabilities, net pension liability and deferred inflows of resources; and 3) certain expenses; as a result of its statutory requirement to contribute to the Kentucky Teachers' Retirement System (KTRS). The District reports 1) an asset, deferred outflows of resources; 2) liabilities, net pension liability and deferred inflows of resources; and 3) certain expenses; as a result of its statutory requirement to contribute to the County Employees' Retirement System (CERS).

Plan description. The Paducah Independent School District participates in the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS), both cost-sharing multiple-employer defined benefit pension plans which are administered by the Kentucky Retirement System. Teaching-certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS.

The plan covers all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, agency, county, city, school board, and any additional eligible local agencies electing to participate. Both plans provide retirement, disability benefits, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living (COLA) adjustments are provided at the discretion of the State legislature. Under the provisions of Kentucky Revised Section 61.645, the Board of Trustees of Kentucky Retirement Systems provides for the establishment of both systems and benefit amendments are authorized by the State legislature. The Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing or calling the plans:

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800
(502) 573-3266

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601-6124
(502) 564-4646

Kentucky Teachers' Retirement System (KTRS)

Funding Policies. Plan members of KTRS are required to contribute 12.105% of their annual covered salary for fiscal year 2015. Plan members were required to contribute 11.355% for fiscal year 2014, and 10.855% for fiscal year 2013. The State provides a contribution of 15.355% for employees hired after July 1, 2008 and 13.105% for employees hired before July 1, 2008, except for federal programs for fiscal year 2015. The 15.355% and matching contributions for covered salaries of federal programs are paid by those programs. The State contribution for fiscal year 2014 was 14.605%. The State contribution for fiscal year 2013 was 14.105%. For fiscal years ended June 30, 2015, 2014, and 2013, the District contributed an additional 2.25%, 1.50%, and 1.00%, respectively for employee medical insurance. KTRS requires that members of KTRS occupy a position requiring either a four-year college degree or certification by Kentucky Department of Education.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 8 - Retirement Plans (Continued):

Kentucky Teachers' Retirement System (KTRS) (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. The state is the only entity that has a legal obligation to make contributions directly to a cost-sharing pension plan that is used to provide benefits to employees of local governments. Therefore, the state reports 100 percent of the net pension liability associated with benefits provided through the cost-sharing plan, and the District does not recognize any of the liability. Each employer's proportionate share is zero percent. For the year ended June 30, 2015, the District recognized on-behalf pension expense and revenue on the statement of activities in the amount of \$4,391,308 for 2015 for support provided by the State.

The net pension liability as of June 30, 2015, is based on the June 30, 2013, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

Actuarial assumptions. The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.5%
Salary increases, including inflation	4.0 – 8.20%
Long-term investment rate of return, net of pension plan investment expense, including inflation	7.50%
Municipal bond index rate	
Prior measurement date	4.27%
Measurement date	4.35%
Year FNP is projected to be depleted	2036
Single equivalent interest rate, net of pension plan investment expense, including inflation	
Prior measurement date	5.16%
Measurement date	5.23%
Post-retirement benefit increase	1.50% annually

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 to AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010, adopted by the Board on December 19, 2011.

The long-term expected rate of return on pension plan investments was determined using a 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.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

Note 8 - Retirement Plans (Continued):

Kentucky Teachers' Retirement System (KTRS) (Continued)

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

<u>Asset</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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%
Alternatives	4.0%	6.8%
Cash	<u>2.0%</u>	1.5%
Total	<u>100.0%</u>	

The discount rate used to measure the total pension liability as of the measurement date was 5.23%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67. It was assumed the plan member contributions will be made at the current contribution rates and 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 members until the 2036 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the single equivalent interest rate. On the prior measurement date, the long-term expected rate of return of 7.5% on plan investments was applied to periods before 2036 and the Municipal Bond Index Rate of 4.27% was applied to periods on or after 2036, resulting in a single equivalent interest rate of 5.16%. There was a change in the Municipal Bond Index Rate from the prior measurement date to the measurement date, so as required under GASB 68, the single equivalent interest rate at the measurement date of 5.23% was calculated using the Municipal Bond Index Rate as of the measurement date of 4.35%. This change in the discount rate is considered a change in actuarial assumptions under GASB 68.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District calculated using the discount rate of 5.23%, 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 (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

	1% Decrease <u>(4.23%)</u>	Current Discount <u>(5.23%)</u>	1% Increase <u>(6.23%)</u>
System's net pension liability	\$118,282,042	\$94,163,606	\$74,259,282

County Employees' Retirement System (CERS)

Funding Policies. Contribution rates are established by the Kentucky Revised Statutes. Non-hazardous plan members who began participating prior to September 1, 2008 are required to contribute 5% of their annual creditable compensation. Plan members who began participating on, or after, September 1, 2008 are required to contribute 6% of their annual creditable compensation, which includes 1% for retirement health insurance coverage. The Paducah Independent School District provides a contribution of 17.67% of that salary. The required District contribution rates for fiscal years ending June 30, 2014 and 2013 were 18.89% and 19.55, respectively.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 8 - Retirement Plans (Continued):

County Employees' Retirement System (CERS) (Continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2015, District reported a liability of \$6,962,000 for its proportionate share of the net pension liability. The net pension liability 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 was based on a projection of the district's share of contributions to the pension plan relative to the total contributions of the all participating employees, actuarially determined. At June 30, 2014, the district's proportion was .214576%.

As a result of its requirement to contribute to CERS, the District recognized pension expenses of \$557,000 for the year ended June 30, 2015. At June 30, 2015, District reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirements to contribute to CERS:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Net differences between projected and actual earnings on pension plan investments	\$ -	\$777,000
District contributions subsequent to the measurement date	<u>890,445</u>	<u>-</u>
TOTALS	<u>\$890,445</u>	<u>\$777,000</u>

Deferred outflows of resources in the amount of \$890,445 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:

<u>Year Ended June 30</u>	
2016	\$194,250
2017	194,250
2018	194,250
2019	<u>194,250</u>
TOTAL	<u>\$777,000</u>

The net pension liability as of June 30, 2014, is based on the June 30, 2014, actuarial valuation for the first year of implementation. As a result, there are no differences between expected and actual experience or changes in assumptions subject to amortization. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a closed five year period.

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

- Inflation – 3.5%
- Salary increases – 4.5%, average including inflation
- Investment rate of return – 7.75%, net of pension plan investment expense including inflation

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

Note 8 - Retirement Plans (Continued):

County Employees' Retirement System (CERS) (Continued)

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. 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 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 cover a longer time frame. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Discount rate. The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2116. The target allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

<u>Asset</u>	<u>Target Allocation</u>	<u>Long-Term Nominal Class Rate of Return</u>
Domestic Equity	30.0%	8.45%
International Equity	22.0%	8.85%
Emerging Market Equity	5.0%	10.5%
Private Equity	7.0%	11.25%
Real Estate	5.0%	7%
Core US Fixed Income	10.0%	5.25%
High Yield US Fixed Income	5.0%	7.25%
Non US Fixed Income	5.0%	5.5%
Commodities	5.0%	7.75%
TIPS	5.0%	5%
Cash	<u>1.0%</u>	3.25%
Total	<u>100.0%</u>	

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 employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates (actuarially determined). 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 active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 8 - Retirement Plans (Continued):

County Employees' Retirement System (CERS) (Continued)

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$9,161,071	\$6,962,000	\$5,018,418

Note 9 - Benefits Funded by Kentucky State Department of Education:

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	\$2,111,801
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	3,028,506
Debt Service	727,400
Technology	64,913
TOTAL	\$5,932,620

These payments are recorded in the General, Debt Service, and Food Service Funds as revenues and expenditures in the statements of revenues, expenditures, and changes in fund balances and the statement of revenues, expenses, and changes in net position. The District is not legally responsible for these contributions. These payments are not budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$3,828,733
Support services:	
Student	92,797
District administration	202,312
School administration	450,476
Business	189,252
Plant operations and management	198,981
Student transportation	121,873
Debt service	727,400
Total Governmental On-Behalf Contributions	5,811,824
 Food services	 120,796
TOTAL ON-BEHALF CONTRIBUTIONS	\$5,932,620

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 10 - Commitments and Contingencies:

Contingencies

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

Note 11 - Insurance and Related Activities:

The Paducah Independent School 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, injuries to employees, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include workers' compensation insurance.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. The District 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 carries commercial insurance for all other risks of loss, including the workers compensation and liability coverage listed on pages 57 through 59 of the supplemental data. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 12 - COBRA:

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

Note 13 - Excess of Expenditures over Appropriations:

The food service fund has a deficit balance of \$460,985. Excluding the adjustment to net position for GASB 68 related to the net pension liability of \$866,318, food service has a net position of \$405,333. The general fund had excess current year expenditures over current year appropriations totaling \$3,180,200. The general fund had \$1,904,224 less in expenditures than appropriations when excluding on-behalf payments of \$5,084,424 which are not budgeted.

PADUCAH INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

Note 14 - Transfer of Funds:

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	Grant Overspent	\$ 179,622
Operating	1	400	Debt Service	170,504
Operating	310	400	Debt Service	162,232
Operating	320	400	Debt Service	1,938,411
Operating	320	360	Debt Service	133,127
Operating	2	1	Indirect Costs	70,801
Operating	51	1	Indirect Costs	103,861

Note 15 - Change in Accounting Principles and Restatement of Beginning Net Position:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which amends GASB Statement No. 27. The new standard addresses several issues regarding public pension plans, including the liabilities reported pertaining to unfunded portions and the disclosure requirements of those plans. The standard is effective for the District for the fiscal year beginning July 1, 2014. The new standard requires the District to report its proportionate share of the total net pension liability of the County Employees' Retirement System Plan as a liability on the statement of net position and on the statement of revenues, expenses, and changes in net position for the proprietary food service fund. The standard also requires the deferral of changes in the net pension liability and amortization of those changes over set periods.

The District's proportionate share of the net pension liability and deferred outflows at July 1, 2014 was \$8,115,296 and \$933,296, respectively. These amounts are allocated to the governmental and business type funds based actual contributions for fiscal year 2014. Beginning net position at July 1, 2014, has been adjusted to reflect this.

Governmental Funds

Net position July 1, 2014, as previously stated	\$ 9,810,999
Proportionate share of net pension liability	\$(7,139,009)
Deferred outflows	
Contributions made after the measurement date	<u>823,327</u>
Adjustments to net position	<u>(6,315,682)</u>
NET POSITION JULY 1, 2014, AS RESTATED	<u>\$ 3,495,317</u>

Business-type Funds

Net position July 1, 2014, as previously stated	\$ 286,074
Proportionate share of net pension liability	\$ (976,287)
Deferred outflows	
Contributions made after the measurement date	<u>109,969</u>
Adjustments to net position	<u>(866,318)</u>
NET POSITION JULY 1, 2014, AS RESTATED	<u>\$ (580,244)</u>

The net position at June 30, 2013 and related deferred outflows and inflows could not be determined in a practical manner. Therefore, net position at June 30, 2013 has not been restated and is presented based on previous guidance under GASB Statement No. 27.

REQUIRED SUPPLEMENTARY INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes	\$ 9,662,435	\$ 9,517,725	\$ 11,134,349	\$ 1,616,624
Other	588,776	301,000	358,753	57,753
Intergovernmental - state	10,647,939	10,837,939	11,373,553	535,614
Intergovernmental - on-behalf	-	-	5,084,424	5,084,424
Intergovernmental - federal	72,500	115,000	112,244	(2,756)
Other sources	69,990	101,917	214,135	112,218
Total revenues	21,041,640	20,873,581	28,277,458	7,403,877
Expenditures:				
Instruction	10,589,915	11,064,908	14,715,118	(3,650,210)
Support services:				
Student	1,003,817	1,108,752	1,186,892	(78,140)
Instructional staff	682,011	742,682	647,273	95,409
District administration	1,655,163	1,210,374	1,373,377	(163,003)
School administration	1,591,437	1,555,890	2,053,004	(497,114)
Business	878,158	1,018,685	1,034,584	(15,899)
Plant operations and maintenance	3,034,684	3,515,873	3,913,669	(397,796)
Student transportation	1,164,855	1,307,627	1,426,076	(118,449)
Facility acquisition and construction	40,850	20,000	-	20,000
Debt service	148,000	150,000	-	150,000
Contingency	1,445,483	1,670,081	-	1,670,081
Other	45,000	155,047	350,126	(195,079)
Total expenditures	22,279,373	23,519,919	26,700,119	(3,180,200)
Net change in fund balances	(1,237,733)	(2,646,338)	1,577,339	4,223,677
Fund balances, July 1, 2014	1,294,287	2,646,338	2,682,738	36,400
FUND BALANCES, JUNE 30, 2015	\$ 56,554	\$ -	\$ 4,260,077	\$ 4,260,077

Note 1 - Benefits Funded by Kentucky State Department of Education:

The budget presented above does not include on-behalf payments provided by the Kentucky State Department of Education. If on-behalf payments had been included, budgetary revenues would total \$25,958,005 and budgetary expenditures would total \$28,604,343.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
Earnings on investments	\$ 141	\$ 141	\$ 485	\$ 344
Other local	2,039	2,039	30,805	28,766
Intergovernmental - state	930,299	930,299	852,201	(78,098)
Intergovernmental - federal	4,426,246	4,424,036	4,399,585	(24,451)
Other sources	177,729	177,729	179,622	1,893
Total revenues	5,536,454	5,534,244	5,462,698	(71,546)
Expenditures:				
Instruction	4,432,464	4,424,107	4,262,945	161,162
Support services:				
Student	92,313	92,313	97,011	(4,698)
Instructional staff	217,544	217,534	242,112	(24,578)
School administration	210,397	210,397	205,303	5,094
Business	5,425	5,425	449	4,976
Plant operations and maintenance	26,664	26,664	49,343	(22,679)
Student transportation	118,360	118,360	106,910	11,450
Community service activities	399,237	399,237	427,824	(28,587)
Other	40,207	40,207	70,801	(30,594)
Total expenditures	5,542,611	5,534,244	5,462,698	71,546
Net change in fund balances	(6,157)	-	-	-
Fund balances, July 1, 2014	-	-	-	-
FUND BALANCES, JUNE 30, 2015	\$ (6,157)	\$ -	\$ -	\$ -

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)
LAST FISCAL YEAR*

	2015
District's proportion of the net pension liability (asset)	0.214576%
District's proportionate share of the net pension liability (asset)	\$6,962,000
District's covered-employee payroll	\$4,940,692
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	140.91%
Plan fiduciary net position as a percentage of the total pension liability	66.80%

* The amounts presented for each fiscal year were determined as of June 30 of the prior year. Until a full 10-year trend is compiled, the District will present information only for those years for which information is available.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
COUNTY EMPLOYEES' RETIREMENT SYSTEM (CERS)
LAST 10 FISCAL YEARS*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 890,445	\$ 933,296	\$ 966,459	\$ 969,079	\$ 864,585	\$ 829,956	\$ 657,381	\$ 782,253	\$ 604,211	\$ 502,084
Contributions in relation to the contractually required contribution	890,445	933,296	966,459	969,079	864,585	829,956	657,381	782,253	604,211	501,333
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 751</u>								
District's covered-employee payroll	\$ 5,039,304	\$ 4,940,692	\$ 4,943,523	\$ 5,111,170	\$ 5,107,922	\$ 5,135,856	\$ 4,869,494	\$ 4,837,683	\$ 4,580,239	\$ 4,572,718
Contributions as a percentage of covered-employee payroll	17.67%	18.89%	19.55%	18.96%	16.93%	16.16%	13.50%	16.17%	13.19%	10.98%

*The amounts presented for each fiscal year were determined as of June 30 of the current fiscal year.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
KENTUCKY TEACHERS' RETIREMENT SYSTEM (KTRS)
LAST FISCAL YEAR*

	2015
District's proportion of the net pension liability (asset)	0.0000%
State's proportion of the net pension liability (asset)	0.4361%
District's proportionate share of the net pension liability (asset)	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	89,614,803
Total	\$ 89,614,803
District's covered-employee payroll	\$ 13,666,734
District's total payroll	18,741,540
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%
State's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	655.71%
Plan fiduciary net position as a percentage of the total pension liability	45.59%

* The amounts presented for each fiscal year were determined as of June 30 of the prior year. Until a full 10-year trend is compiled, the District will present information only for those years for which information is available.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
KENTUCKY TEACHERS' RETIREMENT SYSTEM (KTRS)
LAST 10 FISCAL YEARS*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 2,635,722	\$ 2,014,373	\$ 1,997,940	\$ 1,948,996	\$ 1,919,405	\$ 1,900,651	\$ 1,838,180	\$ 1,806,229	\$ 1,730,902	\$ 1,700,098
District Contributions in relation to the contractually required contribution - federal programs	245,512	253,237	225,324	203,080	228,839	249,517	205,054	200,731	200,751	204,807
District Contributions in relation to the contractually required contribution - retiree medical insurance hired after 09/01/08	278,409	178,992	124,402	63,802	31,503	-	-	-	-	-
State Contributions in relation to the contractually required contribution -	<u>2,111,801</u>	<u>1,582,144</u>	<u>1,648,214</u>	<u>1,682,114</u>	<u>1,659,063</u>	<u>1,651,134</u>	<u>1,633,126</u>	<u>1,605,498</u>	<u>1,530,151</u>	<u>1,495,291</u>
Contribution deficiency (excess)	<u>\$ -</u>									
District's covered-employee payroll	\$ 13,973,365	\$ 13,666,734	\$ 14,037,617	\$ 14,246,806	\$ 14,305,555	\$ 14,438,152	\$ 13,996,965	\$ 13,782,742	\$ 13,207,946	\$ 12,972,898
District's total payroll	19,082,728	18,741,540	19,113,303	19,525,089	19,574,208	19,746,911	19,081,139	18,765,458	17,928,422	17,685,728
Contributions as a percentage of covered-employee payroll for employees hired after 07/01/08**	15.355%	14.605%	14.105%	14.105%	14.105%	14.105%	14.105%	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll for employees hired before 07/01/08**	13.105%	13.105%	13.105%	13.605%	13.355%	13.105%	13.105%	13.105%	13.105%	13.105%
Retiree medical insurance percentage	2.25%	1.50%	1.00%	0.50%	1.00%	N/A	N/A	N/A	N/A	N/A

* The amounts presented for each fiscal year were determined as of June 30 of the current year.

**Beginning with fiscal year ended June 30, 2009, KTRS rates are different based on the employee hire date. For all years prior to 2009, the rate is the same regardless of hire date.

OTHER SUPPLEMENTARY SCHEDULES AND SUPPORTING INFORMATION

PADUCAH INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015

<u>ASSETS</u>	<u>SEEK Capital Outlay Fund</u>	<u>District Activity Fund</u>	<u>Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cash and cash equivalents	\$162,961	\$77,627	\$ -	\$240,588
Accounts receivable	-	500	-	500
TOTAL ASSETS	<u><u>\$162,961</u></u>	<u><u>\$78,127</u></u>	<u><u>\$ -</u></u>	<u><u>\$241,088</u></u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ 826	\$ -	\$ 826
Fund Balances:				
Restricted for:				
School activities	-	77,301	-	77,301
SFCC - escrow	162,961	-	-	162,961
Total fund balances	162,961	77,301	-	240,262
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$162,961</u></u>	<u><u>\$78,127</u></u>	<u><u>\$ -</u></u>	<u><u>\$241,088</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	SEEK Capital Outlay Fund	District Activity Fund	Construction Fund	Total Nonmajor Governmental Funds
Revenues:				
Earnings on investments	\$ 415	\$ -	\$ -	\$ 415
Miscellaneous	-	103,842	-	103,842
Intergovernmental - state	266,104	-	-	266,104
Total revenues	<u>266,519</u>	<u>103,842</u>	<u>-</u>	<u>370,361</u>
Expenditures:				
Instruction	-	66,511	-	66,511
Facility acquisition and construction	-	-	133,127	133,127
Total expenditures	<u>-</u>	<u>66,511</u>	<u>133,127</u>	<u>199,638</u>
Excess (deficit) of revenues over expenditures	<u>266,519</u>	<u>37,331</u>	<u>(133,127)</u>	<u>170,723</u>
Other Financing Sources (Uses):				
Operating transfers in	-	-	133,127	133,127
Operating transfers out	(162,232)	-	-	(162,232)
Total other financing sources (uses)	(162,232)	-	133,127	(29,105)
Net change in fund balances	104,287	37,331	-	141,618
Fund balances, July 1, 2014	<u>58,674</u>	<u>39,970</u>	<u>-</u>	<u>98,644</u>
FUND BALANCES, JUNE 30, 2015	<u><u>\$ 162,961</u></u>	<u><u>\$ 77,301</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 240,262</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH TILGHMAN HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Due to Student Groups and Others July 1, 2014	Revenues Actual	Expenditures Actual (1)	Net Transfers (1)	Due to Student Groups and Others June 30, 2015
A.P. Test Fees Fund	\$ -	\$ 22,685	\$ 21,798	\$ (887)	\$ -
American Studies Fund	-	22,304	22,083	(221)	-
Athletic Association Fund	-	181,545	200,710	19,293	128
B.A.B.E.S.	416	4,625	5,204	206	43
Band Fund	383	12,990	17,506	4,133	-
Band Trip	-	-	(100)	(100)	-
Bell Fund	-	4,840	4,526	(314)	-
Beta Club Fund	-	1,003	113	(890)	-
Building Rentals Fund	-	2,450	1,260	(1,190)	-
Clearing Fund	-	5,300	5,300	-	-
DDA Interest	-	38	391	353	-
FACS	-	775	966	191	-
FBLA Fund	-	4,908	6,246	1,338	-
F.C.A.	-	5	-	(5)	-
FCCLA Fund	-	2,124	1,792	(332)	-
Film Fund	-	269	-	(269)	-
General Fund	326	35,706	43,420	14,415	7,027
GTC/Debate	-	-	216	216	-
Interact	-	257	71	(186)	-
Law Club	-	-	33	33	-
Mock Trial	-	1,564	1,347	(217)	-
National Honor Society Fund	-	1,444	1,522	78	-
NJROTC Activity Fund	828	19,726	11,496	(9,058)	-
NJROTC Training Expense	1,815	55,822	28,362	(29,275)	-
Oklahoma	-	124	-	(124)	-
Orientation Fund	761	7,825	9,128	542	-
Pathways Fund	-	16,653	16,555	(98)	-
Prom Fund	-	4,470	3,250	(1,220)	-
PSAT	-	465	434	(31)	-
PTSO	-	-	2,606	2,606	-
PTHS Recycle	-	308	-	(308)	-
School Store Fund	-	14,380	8,461	(5,919)	-
Social Account Fund	-	936	1,711	775	-
Special Boys' Track Fund	-	10,497	14,157	3,660	-
Special Business	-	1,150	103	(1,047)	-
Special Cross Country	-	150	1,895	1,745	-
Special Events	-	3,360	11,043	7,683	-
Special Football	-	350	-	(350)	-
Special Girls' Basketball	-	-	(300)	(300)	-
Special Girls' Soccer	-	-	293	293	-
Special Golf	-	755	-	(755)	-
Special Softball	855	7,655	7,490	(1,060)	(40)
Special Volleyball	-	786	1,773	987	-
Special Wrestling	-	582	400	(182)	-
Speech Team	-	5,329	9,112	3,783	-
Student Council Fund	-	2,612	1,276	(1,336)	-
Student Fees Fund	40	13,454	9,791	(3,703)	-
Teen Link	1,333	3,321	3,135	(970)	549
Tiny Tornado Meet	-	2,367	3,748	1,381	-
Tornado League	-	14,933	11,850	(3,083)	-
Uniform Maintenance	-	824	1,499	675	-
Unit Maintenance	1,232	1,497	1,416	-	1,313
Vendor	-	956	-	(956)	-
TOTALS	\$7,989	\$496,119	\$495,088	\$ -	\$9,020

(1) Interfund transfers total \$237,626.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
PADUCAH MIDDLE AND ELEMENTARY SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Paducah Middle</u>	<u>Emma Morgan</u>	<u>McNabb</u>	<u>Clark</u>	<u>Totals</u>
Due to student groups and others, July 1, 2014	<u>\$ 40,488</u>	<u>\$ 3,960</u>	<u>\$6,393</u>	<u>\$37,577</u>	<u>\$ 88,418</u>
Revenues:					
Student activities	<u>89,895</u>	<u>17,019</u>	<u>4,498</u>	<u>46,439</u>	<u>157,851</u>
Expenditures:					
Student activities	<u>85,183</u>	<u>17,877</u>	<u>9,035</u>	<u>64,905</u>	<u>177,000</u>
DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2015	<u><u>\$ 45,200</u></u>	<u><u>\$ 3,102</u></u>	<u><u>\$1,856</u></u>	<u><u>\$19,111</u></u>	<u><u>\$ 69,269</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
DUE TO STUDENT GROUPS AND OTHERS
AGENCY FUNDS
SPECIAL ACTIVITIES FUND
FOR THE YEAR ENDED JUNE 30, 2015

Revenues:

From local sources:

Earnings on investments

\$ 701

Other local revenues

59,583

Total revenues

60,284

Expenditures:

Student activities

64,979

Excess (deficit) of revenues over expenditures

(4,695)

Due to student groups and others, July 1, 2014

271,491

DUE TO STUDENT GROUPS AND OTHERS, JUNE 30, 2015

\$266,796

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2015

In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has state on-behalf amounts included in total revenue from state sources in the District's AFR as specified by the Kentucky Department of Education. These funds are reported as intergovernmental revenues - on-behalf or state grants - on-behalf in the financial statements. The District also has child nutrition donated commodities included in the total revenue from federal sources in the District's AFR. These funds are recorded as federal grants - in-kind commodities in the financial statements. The following is a reconciliation of the receipts reported in the District's AFR with that shown in the financial statements. In its Annual Financial Report (AFR) required by the Kentucky Department of Education, the District has not recorded certain revenues and expenditures of the expendable trust funds. The following is a reconciliation of the revenues and expenditures reported in the District's AFR with that shown in the financial statements and the supplemental schedules.

General Fund:

Revenue from state sources reported to the Department of Education	\$ 16,457,977
On-behalf/state sources	<u>(5,084,424)</u>
Amount per financial statements	<u>\$ 11,373,553</u>

Debt Service:

Revenue from state sources reported to the Department of Education	\$ 727,400
On-behalf/state sources	<u>(727,400)</u>
Amount per financial statements	<u>\$ -</u>

Food Service:

Revenue from state sources reported to the Department of Education	\$ 159,786
On-behalf/state sources	<u>(120,796)</u>
Amount per financial statements	<u>\$ 38,990</u>
Revenue from federal sources reported to the Department of Education	\$ 2,009,748
In-kind donated commodities	<u>(88,566)</u>
Amount per financial statements	<u>\$ 1,921,182</u>

Expendable Trust Funds (Special Activities Fund):

Other local revenue as reported to the Department of Education	\$ 59,414
Private purpose trust decrease in value	(81)
Other donations not recorded	<u>250</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others- agency funds-special activities fund	<u>59,583</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT DIFFERENCES
FOR THE YEAR ENDED JUNE 30, 2015

Net interest and investment gains/(losses) as reported to the Department of Education	\$ 1,169
Private purpose trust interest	(560)
Additional interest not recorded	<u>92</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others-agency funds-special activities fund	<u>701</u>
TOTAL	<u><u>\$ 60,284</u></u>
Expenditures as reported to the Department of Education	\$ 68,614
Private purpose trust benefits paid	(4,400)
Other disbursements not recorded	<u>765</u>
Amount per statement of revenues, expenditures, and changes in due to student groups and others-agency funds-special activities fund	<u><u>\$ 64,979</u></u>

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS RECEIVABLE
JUNE 30, 2015

General Fund:

Accounts receivable reported in Board's annual financial report to the State Department of Education, Division of Finance

\$ -

Additional accounts receivable recorded subsequent to the annual financial report:

KY State Treasurer - utility tax	165,941
McCracken County Clerk - motor vehicle taxes	48,066
KY State Treasurer - omitted taxes	27,892
City of Paducah - property taxes	27,847
Carlisle County School District	1,155
Ballard County School District	1,113
Miscellaneous	576
	576

TOTAL ACCOUNTS RECEIVABLE

\$272,590

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF ACCOUNTS PAYABLE
JUNE 30, 2015

General Fund:

Accounts payable reported in Board's annual financial report to the State Department of Education, Division of Finance	\$ 240,503
Reclassification of postings to salaries payable	(104,280)
Additional accounts payable recorded subsequent to the annual financial report:	
Paducah Power	98,644
Kentucky State Treasurer	46,671
ICI Mechanical	11,531
Varsity	8,649
Best One Tire Service	5,468
ITS	4,773
Miscellaneous	4,513
KSBIT	4,276
Frymire, Evans, Peyton	3,665
AT&T	3,496
WRHS	3,079
Atlas Roofing	2,856
School Datebooks	2,587
Business Card	2,309
NCS Pearson	1,341
Paducah Sun	1,200
Schiller Architectural Hardware	611
Allbrass	566
Atmos Energy	552
TOTAL ACCOUNTS PAYABLE	\$ 343,010

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2015

Property Covered:	<u>Type of Coverage</u>	<u>Amount</u>
School buildings and contents - all school buildings and dwelling and Paducah Tilghman Stadium	Earthquake	\$ 1,000,000
	Flood	50,000
	Fire, lightning and extended coverage, vandalism and malicious mischief	139,530,528
	Equipment breakdown	250,000
	Mower and trailers	45,998
	Computer equipment	351,000
Workmen's compensation	Kentucky statutory coverage	500,000
School board members, superintendents, administrators, teachers, and classified employees	Comprehensive general liability	1,000,000 2,000,000
	Sexual misconduct and molestation liability	1,000,000
	Miscellaneous school property floater	440,120
School board members and employee liability insurance	Errors and omissions wrongful acts	1,000,000
School law enforcement	School law enforcement professional liability	1,000,000
Student Insurance:		
Accident medical expense		
Per Insured Per Injury		25,000
Accidental death, dismemberment and loss of sight		500,000

See auditor's report on pages 1-3.

<u>Deductible Per Occurrence</u>	<u>Type of Limit</u>
10%	Deductible
10%	Deductible
\$10,000	Per occurrence
10,000	Per occurrence
500	Per occurrence
1,000	Deductible
-	Per occurrence
-	Per occurrence
-	Annual aggregate
-	Per occurrence
250	Deductible
10,000	Per occurrence
2,500	Per occurrence
	Annual aggregate
-	Deductible

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2015

	<u>Amount of Coverage</u>	<u>Comprehensive</u>	<u>Collision Deductible</u>
Automobile Liability:			
1995 Ford 3/4 ton truck		ACV	\$500
2002 Ford Windstar		ACV	500
2002 Ford Windstar		ACV	500
1997 Ford pickup 4 by 4		ACV	500
1997 Ford Contour		ACV	500
1998 Ford Econoline van		ACV	500
1999 Ford van (diesel)		ACV	500
1999 Ford van (diesel)		ACV	500
2002 Ford Excursion		ACV	500
2002 Ford Excursion		ACV	500
2010 Toyota RAV 4		ACV	500
2011 Ford Escape		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F250		ACV	500
2011 Ford F350		ACV	500
2011 Ford F350		ACV	500
Coverage on all the above vehicles includes:			
Liability limit per occurrence, including property damage and bodily injury	\$2,000,000		
Property damage	ACV		
Uninsured motorists	500,000		
Underinsured motorists	500,000		
Head Start Vehicles:			
1999 Bus		ACV	500
1991 Chevrolet bus - 30 passenger		ACV	500 *
Coverage on Head Start vehicles includes:			
Liability limit per occurrence	2,000,000		
Personal injury protection	10,000		
Uninsured motorist	500,000		
Bus Liability:			
Thirty-one school buses - coverage includes:			
Public liability	2,000,000		
Uninsured motorists	500,000		
Underinsured motorists	500,000		
Comprehensive		ACV	250
Collision		ACV	500

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF INSURANCE COVERAGE
AT JUNE 30, 2015

Fidelity Bonds:

Treasurer of the Board

Amount
\$300,000

Depository Bonds:

The Paducah Bank and Trust Company, Paducah, Kentucky
on deposit with Compass Bank of
Birmingham, Alabama:

Federal Government Agency Obligations

103% of current daily balances

See auditor's report on pages 1-3.

**MEMBERS OF THE PADUCAH INDEPENDENT SCHOOL BOARD OF EDUCATION
AS OF JUNE 30, 2015**

<u>Name</u>	<u>Date Elected</u>	<u>Term Expires</u>
Carl LeBuhn Chair	November 2005	January 2018
Felix Akojie Vice Chair	November 2003	January 2019
Janice Howard	November 2004	January 2018
Danette Humphrey	November 2002	January 2019
Rose Lowery	November 2012	January 2018

Other Officials:

- Mr. Donald Shively, Superintendent
- Mr. William Black, Assistant Superintendent
- Ms. Julie Huff, Finance Officer and Treasurer of the Board
- Ms. Lisa Chappell, Secretary of the Board
- Mr. Troy Brock, Director of Pupil Personnel Services
- Ms. Aime Tooley, Director of Special Programs
- Mr. Dale Weaver, Director of Technology
- Wayne Walden, Community Relations

See auditor's report on pages 1-3.

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures	Totals
U.S. Department of Education:				
Direct Programs:				
Impact Aid (Maintenance and Operations)	84.041	521A		\$ 24,879
Passed-through Kentucky Department of Education:				
Special Education - Grants to States (IDEA, Part B)	84.027	3810002 14		533,973
Special Education - Preschool Grants (IDEA, Preschool)	84.173	3800002 13 3800002 14	8,123 <u>10,805</u>	<u>18,928</u>
Special Education Cluster Sub-Total				552,901
Title I Grants to Local Educational Agencies (LEAs)	84.010	3100002 12 3100002 13 3100002 14	7,908 298,299 <u>1,205,228</u>	1,511,435
Education for Homeless Children and Youth	84.196	3990002 13 3990002 14	4,516 <u>42,506</u>	47,022
21st Century Community Learning Centers Program	84.287	3400002 12 3400002 13	48,421 <u>120,691</u>	169,112
Improving Teacher Quality State Grants	84.367	3230002 12 3230002 13 3230002 14	5,330 80,179 <u>220,092</u>	305,601
English Language Acquisition State Grants	84.365	3300002 12 3300002 13 3300002 14	6,182 3,466 <u>239</u>	9,887
ARRA - School Improvement Grants, Recovery Act	84.388	4100302 09		271
Race to the Top	84.413A	3960002 11		6,947
Passed-through West Kentucky Educational Cooperative:				
Career and Technical Education - Basic Grants to States	84.048	3710002 13 3710002 14	1,071 <u>24,829</u>	<u>25,900</u>
Total U.S. Department of Education				<u>2,653,955</u>
U.S. Department of Agriculture:				
Passed-through Kentucky Department of Agriculture:				
National School Lunch Program	10.555	7750002 14 7750002 15	296,146 1,101,840	
National School Lunch Program - Non-monetary Food Distribution (1)	10.555	2015	<u>88,566</u>	1,486,552
School Breakfast Program	10.553	7760005 14 7760005 15	112,575 <u>410,621</u>	<u>523,196</u>
Child Nutrition Cluster Sub-Total				2,009,748
Child and Adult Care Food Program	10.558	7790021 15 7800016 15	18,429 <u>1,423</u>	19,852
Total U.S. Department of Agriculture				<u>2,029,600</u>
U.S. Department of Health and Human Services:				
Direct Programs:				
Head Start	93.600	6554 655A	362,430 <u>1,398,079</u>	<u>1,760,509</u>
U.S. Department of Labor:				
Direct Program:				
Jobs for KY Grads	17.250	382A		10,000
U.S. Department of Defense:				
Direct Program:				
ROTC Language and Culture Training Grants	12.357	504A		<u>27,737</u>
TOTAL FEDERAL AWARDS				<u>\$ 6,481,801</u>

(Continued)

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

- (1) Expense recognized is the total dollar value of commodities used during the year. Amounts are based on dollar values reported by the State Department of Agriculture. This amount is included in the combined statement of revenues, expenditures, and changes in net position.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Paducah Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Federal Interest Subsidy

The United States Treasury pays a portion of the semi-annual interest payments on three separate bond issues made by Paducah Independent School District. The interest is paid directly to the issuer or its designee paying agent and is to be applied only to the payment of interest due on the bonds or reimbursement to the issuer for such payment. Interest subsidy payments are reported as intergovernmental federal revenues and interest expense on the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, they are not required to be reported on the Schedule of Expenditures of Federal Awards. Federal revenues reflected in the general fund include reimbursements for Medicaid claims and are not included in the Schedule of Expenditures of Federal Awards. Federal revenues for the Child and Adult Care program are included in state grants on the Statement of Revenues, Expenditures, and Changes in Fund Balance per instructions.

Federal revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds	\$5,574,201
Federal grants as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	1,921,182
Federal grants - in-kind commodities as reported on the Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Fund	<u>88,566</u>
Total federal expenditures	7,583,949
Plus child and adult care food program	19,852
Less federal interest subsidy	(1,062,372)
Less medicaid claims	<u>(59,628)</u>
TOTAL FEDERAL AWARDS	<u><u>\$6,481,801</u></u>

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
MARK A. THOMAS
ASHLEY C. GROOMS
KELLY D. SCRUGGS
BENJAMIN D. TEER

WILLIAMS, WILLIAMS & LENTZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS

~Established 1953~

P.O. Box 2500
PADUCAH, KY 42002-2500

www.wwlcpa.com

601 JEFFERSON
PADUCAH, KY 42001
TELEPHONE: 270-443-3643
FAX: 270-444-0652

1104 PARIS RD, SUITE 100
MAYFIELD, KY 42066
TELEPHONE: 270-247-2124
FAX: 270-247-2028

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Paducah Independent School District
Paducah, Kentucky

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits including *Appendix I to the Independent Auditor's Contract – Audit Extension Request and Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Paducah Independent School District's basic financial statements, and have issued our report thereon dated November 3, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Paducah Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations prescribed by the Kentucky State Committee for School District Audits in *the Independent Auditor's Contract*.

We noted certain matters that we reported to management of Paducah Independent School District in a separate report letter dated November 3, 2015.

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.

Williams, Williams & Luty, LLP

Paducah, Kentucky
November 3, 2015

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
MARK A. THOMAS
ASHLEY C. GROOMS
KELLY D. SCRUGGS
BENJAMIN D. TEER

WILLIAMS, WILLIAMS & LENTZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS

~Established 1953~

P.O. Box 2500
PADUCAH, KY 42002-2500

www.wwlcpa.com

601 JEFFERSON
PADUCAH, KY 42001
TELEPHONE: 270-443-3643
FAX: 270-444-0652

1104 PARIS RD, SUITE 100
MAYFIELD, KY 42066
TELEPHONE: 270-247-2124
FAX: 270-247-2028

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Kentucky State Committee for
Audits of School Districts
Members of the Board of Education
Paducah Independent School District
Paducah, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Paducah Independent 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 Paducah Independent School District's major federal programs for the year ended June 30, 2015. Paducah Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 Paducah Independent 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits including *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Report, Audit Acceptance Statement and Statement of Certification*. 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 Paducah Independent 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 Paducah Independent School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Paducah Independent 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 Paducah Independent 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 Paducah Independent 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.

Williams, Williams & Luty, LLP

Paducah, Kentucky
November 3, 2015

PADUCAH INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2015

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Paducah Independent School District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of the Paducah Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report On Compliance for Each Major Program And On Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal awards programs for the Paducah Independent School District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA #</u>
Improving Teacher Quality State Grants	84.367
Head Start	93.600

8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The Paducah Independent School District was determined to be a low-risk auditee.

Findings - Financial Statements Audit

None

Findings and Questioned Costs - Major Federal Awards Programs Audit

None

PADUCAH INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2015

There are no prior year audit findings relative to federal awards to report.

PADUCAH INDEPENDENT SCHOOL DISTRICT



MANAGEMENT LETTER
YEAR ENDED JUNE 30, 2015

J. DAVID BAILEY, III
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Paducah Independent School District
Members of the Board
Paducah, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paducah Independent School District as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered Paducah Independent School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We also noted immaterial instances of noncompliance with applicable laws and regulations which we are required to report to you. These comments and recommendations, most of which have been discussed with the appropriate members of management, are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. This letter does not affect our report dated November 3, 2015 on the financial statements of Paducah Independent School District.

DISTRICT

Finding: District activity fund receipts should have proper supporting documentation attached to the deposit.

Criteria: District activity funds should have a multiple receipt form, remittance form, donation form, etc. attached to the deposit. It should include the individual/business funds were received from, purpose of the funds, the date received, signatures (if appropriate), and amounts received.

Cause: Adequate time was not taken to obtain the proper documentation or it may have been misplaced.

Effect: There is no paper trail showing what the proceeds are to be used for or even if they are accurately being deposited into district activity funds or should have gone into school activity funds.

Recommendation: The individual accepting district activity funds from the schools should verify adequate documentation is available and request additional documentation if necessary.

Management's Response: Since this was a deposit being made by the school we assumed it was not necessary for both parties to have the detail for the deposit. The activity account deposits are done by each school and only given to the district AR person to include in the deposit. We do not double check their deposit just as we do not double check deposits they make directly. If necessary, we will begin collecting copies of the detail the school treasurer keeps.

ACTIVITY FUNDS

Paducah Tilghman High School

Finding: We noted three disbursements for expense reports without supporting receipts for expenses. There were expense reports for two disbursements for which a check was written to a vendor rather than an individual and no invoice was attached. This is a repeat comment from the prior two years.

Criteria: Expense reports should be accompanied by receipts signed by the employee requesting reimbursement. The expense reports should be completely filled out including the school name, activity account, date, and a description of the activity as well as the dates, descriptions and amounts of expenses incurred. The total expenses should be adjusted for any advances or returned items. The individual requesting reimbursement, the sponsor, Principal, and treasurer must all sign the form. All receipts for expenses incurred should be attached. Checks written to vendors should have vendor invoices or a standard invoice attached not an expense report.

Cause: There was a break down in internal controls over reimbursed expenses.

Effect: Receipts provide evidence to support the legitimacy of the purchases made and to determine if they are reasonable and for allowable costs. Most receipts also contain information about the location of the purchase which can be an important control when reimbursing travel expenses.

Recommendation: Employees should not be reimbursed without the proper expense form completed in its entirety and all receipts attached. The KDE form for reimbursements does not include a space to name the individual being reimbursed; therefore we recommend that the individual submitting the expense report sign it. Expense reimbursement forms should only be used when reimbursing a District employee for District expenses incurred and paid for by the employee. A vendor invoice or standard invoice should be used if the District is paying the vendor directly.

Management's Response: Bookkeeper will not accept or write any checks without proper paperwork or receipts attached.

Finding: During our disbursements testing, we identified four disbursements for which the individual receiving goods did not initial the packing slip/invoice. This is a repeat comment from the prior two years.

Criteria: When goods are purchased and shipped to the District, the individual receiving the purchase must initial the packing slip or invoice to indicate all items purchased were received prior to paying the invoice.

Cause: Lack of initials on the packing slip/invoice is a weakness in internal controls.

Effect: The initials provide accountability and reassurance that the goods have been received and the invoice is ready for payment. This mitigates the risk of paying an invoice for items that were not received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location.

Recommendation: Extra care should be used to make sure the proper internal control procedures are in place and always being followed.

Management's Response: Bookkeeper will not pay invoice until all proper paperwork is signed and attached. Bookkeeper will also remind all persons receiving goods to go over proper protocol and return all receipts and packing slips to the business office.

Finding: The invoice for one disbursement selected for testing was not properly approved for payment.

Criteria: Authorization for payment should be noted by a signature or initials on the actual invoice.

Cause: This was due to a break down in internal controls over payment of invoices.

Effect: When invoices are not properly approved, the risk of unauthorized purchases increases.

Recommendation: Invoices should be approved by the department head prior to being given to the accounts payable clerk for payment.

Management's Response: Bookkeeper will make sure to follow protocol and have the principal to sign all required documents for payment approval.

ACTIVITY FUNDS

Paducah Tilghman High School (Continued)

Finding: During disbursements testing, we noted one standard invoice for officials that was not properly filled out. One official's signature was missing and the dates and check numbers were not noted.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, a standard invoice should be used when money is paid to officials for ball games. The official should sign the form when he/she receives the refund. The form should be completely filled out including school, activity fund, game, date, vendor's name and contact information, amounts, totals, check number, signature of person remitting the money, and signature of the Treasurer.

Cause: There may be a lack of adequate training with regard to the forms to be used for activity funds and how to complete them.

Effect: There is lack of proper support for the disbursements made which creates a weakness in internal controls over disbursements and an opportunity for possible misappropriation of funds.

Recommendation: We recommend standard invoices be complete entirely with all appropriate signatures.

Management's Response: Bookkeeper will go over requirements for officials receiving checks with the new Athletic Director who is in charge of having officials sign for checks. Officials are not to obtain their check until signature is received.

Finding: The appropriate signatures are not being obtained in the correct locations on the ticket reports. This is a repeat comment from the prior two years. For one game selected for testing, there appears to be only one individual working the gate. This individual signed as both the ticket seller and ticket collector. The treasurer did not sign the report.

Criteria: The report should be signed by the person in charge of sales both when receiving change and tickets prior to the event and once the cash has been counted and reconciled. The ticket taker also signs the report. These have to be two different individuals. The treasurer signs the report once all information on the form is complete and accurate to indicate receipt of the money.

Cause: The proper procedures over ticket reports were not clearly understood by the individuals in charge of them.

Effect: The risk of misappropriation of funds increases or individuals entering games without tickets increases when proper procedures are not followed.

Recommendation: The completeness and accuracy of ticket reports should be verified by the central fund treasurer when the reports are turned in.

Management's Response: Bookkeeper will conduct training on how to properly and completely fill out ticket reports. Bookkeeper will also remind Athletic Director that there are to be 2 ticket sellers at all events to tighten internal control of ticket sales.

Finding: The number of tickets sold was not calculated correctly causing the amount of calculated collections to be incorrect. This is a repeat comment from the prior year.

Criteria: The first ticket available on the roll is attached to the ticket report. The first ticket number sold (not the one attached to the form) is the beginning ticket number recorded on the report. The ending ticket number recorded on the form is the next ticket number on the ticket roll that was not sold. The difference between these numbers is the number of tickets sold.

Cause: The proper procedures over ticket reports were not clearly understood by the individuals in charge of them.

Effect: The risk of altering the ticket reports in an attempt to misappropriate funds increases when proper procedures are not followed.

Recommendation: The proper procedures for completing ticket reports should be communicated to those working gates at all athletic events. The completeness and accuracy of ticket reports should be verified by the Central Fund Treasurer when the reports are turned in.

Management's Response: Bookkeeper will conduct training on how to properly and completely fill out ticket reports with all persons that work gates. Bookkeeper will review every ticket report when turned into the business office and have ticket sellers' correct mistakes.

ACTIVITY FUNDS

Paducah Tilghman High School (Continued)

Finding: We noted several old outstanding checks. This is a repeat comment from the prior two years.

Criteria: Thirty checks over 90 days old are still outstanding including twenty-five checks that are over six months old.

Cause: The checks have not been cashed, possibly due to being misplaced, and have not been followed up on to determine if they should be voided or reissued.

Effect: These checks could represent errors in bank reconciliations or methods of covering up fraudulent activities.

Recommendation: Checks greater than 90 days old should be followed up on to see if they need to be voided and reissued. If the checks are to be voided, they should be voided by entering them as negative disbursements.

Management's Response: Bookkeeper did void the outstanding checks that were addressed in the previous years. The outstanding checks that were left outstanding were checks AP refund checks written to students. In past years students have had a pattern of not cashing checks until late and bookkeeper did not want to void checks in accounting program and then have checks continued to be cashed at the bank. Bookkeeper will review all outstanding checks when she receives the monthly bank statement and properly cancel all checks over 60 days.

Finding: Multiple Receipt Forms are not completely filled out including school, activity fund, receipt number, teacher, student signatures, amounts, totals, dates, signature of person remitting the funds, and signature of the Treasurer. This is a repeat comment from the prior year.

Criteria: According to the guidance governing school activity funds published by the Kentucky Department of Education, secondary receipts should be used by teachers/sponsors collecting money from students. All sections of the Multiple Receipt Form should be filled out completely.

Cause: Lack of understanding and purpose of procedures, as well as a breakdown in controls over secondary receipts.

Effect: Lack of complete information filled out on the secondary receipt, such as the date the money was collected from students, does not provide the information to assess if proper procedures were followed as to the timeliness of collections, remittance, and deposit of funds. Signatures provide an audit trail of every individual handling the funds.

Recommendation: To provide proper documentation, all forms should be filled out properly with all information included on the form itself. It is also recommended that the Central Fund Treasurer check these requirements before accepting and receipting remittance and signing the form.

Management's Response: Bookkeeper will conduct training for all teachers, faculty, and staff on how to properly fill out all Redbook forms. Bookkeeper will not accept money from persons until forms are completely and correctly filled out.

Finding: Multiple Receipt Forms are being filled out by teachers for students 3rd grade and above. This is a repeat comment from the prior year.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), students 3rd grade and above must sign the Multiple Receipt Form.

Cause: A breakdown in internal controls over secondary and primary receipts.

Effect: Students 3rd grade and above should sign their own name on the Multiple Receipt Forms to show that they actually turned in funds to the teacher/sponsor. The student signature is proof that that student actually turned in funds. If there were a discrepancy in who had or had not turned in funds, the teacher filled out Multiple Receipt Form would not provide sufficient proof without the signatures of the students.

Recommendation: The teacher/sponsor must have the student to fill out the Multiple Receipt Form with a student signature and the amount remitted. The teacher should double check the amount and the signature to verify accuracy.

Management's Response: Bookkeeper will conduct training for all teachers, faculty, and staff on how to properly fill out all Redbook forms. Bookkeeper will not accept money from persons until forms are completely and correctly filled out.

ACTIVITY FUNDS

Paducah Tilghman High School (Continued)

Finding: Receipts for two deposits were not turned into the Treasurer and deposited in a timely manner. This is a repeat comment from the past two years.

Criteria: Deposits should be made daily unless the collections are less than one hundred dollars. Then, deposits must be made weekly or when collections exceed a hundred dollars whichever comes first. For events outside the normal school day, receipts should be locked in a safe overnight and deposited the next school day.

Cause: This is a break down in internal controls over receipts. Teachers/sponsors are not turning in collections on a daily basis. Deposits are not being made daily.

Effect: This could be a red flag to indicate funds are being misappropriated.

Recommendation: Collections should be turned into the Treasurer and receipted on a daily basis. Deposits should be made on a daily basis. There should not be more than one day between the time funds are collected and deposited into the bank.

Management's Response: Bookkeeper will remind all persons remitting money to turn it in the DAY of collecting it. No money will be kept in classrooms, teacher's desks, etc. All money will be locked in a bank bag in the school safe or deposited directly in the bank daily.

All other prior year recommendations appear to have been properly addressed.

Paducah Middle School

Finding: Several activity fund accounts had excessive balances at year end or no activity during the year but carried a fund balance. Grade level accounts carried excessive balances at year end. Funds, such as the yearbook and office, should be at the district activity fund level and not at the school level. The beginning balance of the Athletic fund did not agree to the ending balance of the prior year. This is a repeat comment from the prior year.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), school activity funds are raised for a specific function or purpose during a specific fiscal year and must be used for that specific function during that period. Due to timing of fundraiser activities, a school may carry forward funds from year to year. However, the carry over balances should not be excessive and should be associated with a specific expense that was not paid by the end of the fiscal year. If extra funds were raised over expenditures, the activity fund group should vote on how to handle the extra funds at year end. If the activity fund group does not vote, the funds shall be transferred to the school general activity fund account. It is permissible to leave a balance in the account sufficient to cover startup costs for the next year. The beginning balances in each account should equal the ending balances of the prior year.

Cause: Fees and fundraising receipts were more than actual expenditures or were raised for purposes not allowed as expenditures from activity funds. A voided check could have been treated as an adjustment to beginning balance rather than a decrease in current year expenditures.

Effect: Activity funds are intended for the use of the students that actually paid or raised the funds. Excessive funds could cause the student organization to be prohibited from fundraising until excessive fund/balances have been appropriately used.

Recommendation: Principal and Central Fund Treasurer should evaluate activity fund balances on a regular basis, especially year end, for excessive amounts and evaluate if the specific student organization should be prohibited from fundraising until the excessive balances have decreased appropriately or if the funds should be transferred to the general fund for the benefit of the entire student body. Any additional collections for the yearbook and office should be deposited at the district level. At the end of each year, the accounts should be evaluated to see if it is necessary for the student group to vote on how to handle any remaining unspent funds. Check to see if beginning balances agree to prior year ending balances.

Management's Response: Athletics carries a \$2,000+ budget to begin the upcoming school year due to three sports active in the month of August, sometimes with the first game before school starts. We must pull \$1500 for gate and concessions cash boxes for these three sports to start with. Athletics must also purchase concession items to sell at games before revenue is taken in from gate sales. Athletics also helps purchase

ACTIVITY FUNDS

Paducah Middle School (Continued)

equipment and uniforms if needed for the three sports, which are baseball, softball, and football. Due to the early start of the season and the start of the school year, a carryover of \$2,500-\$3,000 needs to be obtained to avoid a negative balance in the account and to provide the proper needs to our athletes.

Tornado Star is our Family Resource Center. On 6/30/15 a \$4,713.47 check was received from the Paducah Board that was deposited into this account.

Yearbook: We did not have an active sponsor at the end of the year for this account. It has been explained to the new sponsor that the account must not have a large carryover.

6th & 7th Grade: We now have two teams per grade and during our July SBDM meeting it was decided that the money in these accounts would be divided between those teams. The new accounts have been set up for the 2015-2016 school year which will benefit all grades.

Office: On 7/27/2015 - \$2,000 was transferred to Athletics to cover expenses uniforms and equipment for baseball, softball, basketball. The \$2,424.82 in Athletics was not enough to cover all the upcoming expenses in the month of August.

Finding: No budget was provided. This is a repeat comment from the prior year.

Criteria: According to "Accounting Procedures for Kentucky School Activity Funds," (the Redbook), a budget should be prepared for all activity funds for the school year unless the school has been specifically exempted by regulations of the board. Budgets provide a guide for the coming year's revenues and expenditures. This helps the Principal, Central Fund Treasurer, and corresponding sponsor have an approximation of the funding that will be available so they may plan activities accordingly. Budgets also provide a reasonable estimate that can be compared to the actual numbers and allow for any large discrepancies to be investigated.

Cause: This could be due to a lack of understanding the budgeting process. Adequate time and effort was not spent on preparing the budget.

Effect: There were no estimates of revenues and expenses to compare actual amounts to in order to plan for activities during the year.

Recommendation: A budget should be prepared for each activity fund on an annual basis. The columns should be totaled. For each individual account, and in total, the beginning balance plus budgeted receipts less budgeted expenditures should equal the ending budgeted balance. An excel spreadsheet with formulas would be helpful in preparing the budget.

Management's Response: Under the new school treasurer a budget for the Speech Team was submitted within 30 days of opening the new account on 3/25/2015. We have corrected this with budgets for all activity accounts being submitted to the principal by April 15, 2015 for the 2015-2016 school year.

Finding: During our disbursements testing, we identified disbursements for which the individual receiving goods did not initial the packing slip/invoice. This is a repeat comment from the prior year.

Criteria: When goods are purchased and shipped to the District, the individual receiving the purchase must initial the packing slip or invoice to indicate all items purchased were received prior to paying the invoice.

Cause: Lack of initials on the packing slip/invoice is a weakness in internal controls.

Effect: The initials provide accountability and reassurance that the goods have been received and the invoice is ready for payment. This mitigates the risk of paying an invoice for items that were not received. It also mitigates the risk of unauthorized purchases through the District that may be shipped to another location.

Recommendation: Extra care should be used to make sure the proper internal control procedures are in place and always being followed.

Management's Response: The school treasure will make sure that all packing slips are verified before the invoice is paid for. All invoices will also be stamped paid, dated and have check number on them.

All other prior year recommendations appear to have been properly addressed.

ACTIVITY FUNDS

McNabb Elementary

All prior year recommendations appear to have been properly addressed.

Morgan Elementary

Finding: Invoices were not properly cancelled or approved for payment. This is a repeat comment from the prior year.

Criteria: Invoices should be properly cancelled using a paid stamp on the actual invoice, not the purchase order, including the check number, amount, and an authorization for payment noted by a signature or initials.

Cause: This was due to a break down in internal controls over payment of invoices.

Effect: When invoices are not properly cancelled, the risk for duplicate payment increases as well as the risk of unauthorized purchases.

Recommendation: Invoices should be viewed along with the checks for payment and canceled at the time the checks are signed.

Management's Response: I will be sure to mark the invoices paid and include the check number, amount, and authorization for payment noted by a signature or initials on all invoices in the future. I will make sure that the invoices are viewed and cancelled at the same time that the checks for payment are signed so there will be no risk of duplicate payments or unauthorized purchases.

All other prior year recommendations appear to have been properly addressed.

Clark Elementary

All prior year recommendations appear to have been properly addressed.

* * * * *

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. This communication is intended solely for the information and use of the Board, management, and others within the organization as deemed appropriate, and is not intended to be, and should not be, used by anyone other than these specified parties.

Williams, Williams & Luty, LLP

Paducah, Kentucky
November 3, 2015