

**CALLOWAY COUNTY SCHOOL DISTRICT**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**CALLOWAY COUNTY SCHOOL DISTRICT  
TABLE OF CONTENTS**

**Introductory Section**

Board of Education and Administrative Staff

**Financial Section**

Independent Auditor’s Report ..... 1

Management’s Discussion and Analysis ..... 4

**Basic Financial Statements**

Government-wide Financial Statements:

Statement of Net Position ..... 11

Statement of Activities ..... 12

Fund Financial Statements

Balance Sheet – Governmental Funds ..... 13

Reconciliation of the Governmental Funds Balance Sheet to the Statement of  
Net Position ..... 14

Statement of Revenues, Expenditures and Changes in Fund Balances –  
Governmental Funds ..... 15

Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities ..... 16

Statement of Net Position – Proprietary Funds ..... 17

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds ..... 18

Statement of Cash Flows - Proprietary Funds ..... 19

Statement of Fiduciary Net Position – Fiduciary Funds ..... 20

Statement of Changes in Fiduciary Net Position – Fiduciary Funds ..... 21

Notes to Financial Statements ..... 22

**Required Supplementary Information**

Statement of Budgetary Comparison – General Fund ..... 48

Statement of Budgetary Comparison – Special Revenue Fund ..... 49

Schedule of the District’s Proportionate Share of the Net Pension Liability – County  
Employee’s Retirement System ..... 50

Schedule of the District’s Contributions – County Employee’s Retirement System ..... 51

Schedule of the Commonwealth of Kentucky’s Proportionate Share of the Net Pension  
Liability Associated With Calloway County School District – Special Funding Situation -  
Kentucky Teachers’ Retirement System ..... 52

Schedule of the District’s Contributions – Kentucky Teachers’ Retirement System ..... 53

Notes to Required Supplementary Information ..... 54

**Supplementary and Other Information Section**

Combining Balance Sheet – Nonmajor Governmental Funds ..... 55

Combining Statement of Revenues, Expenditures and Changes in Fund Balances –  
Nonmajor Governmental Funds ..... 56

Combining Statement of Revenues and Expenditures – Agency Funds ..... 57

Schedule of Expenditures of Federal Awards ..... 59

**CALLOWAY COUNTY SCHOOL DISTRICT  
TABLE OF CONTENTS**

Notes to Schedule of Expenditures of Federal Awards .....	60
<b>Internal Control and Compliance Section</b>	
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	61
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by <i>the Uniform Guidance</i> .....	63
Schedule of Findings and Questioned Costs .....	65
Management Letter Points	
Independent Auditor’s Transmittal Letter for Management Letter Points .....	67
Management Letter Points .....	68
Summary Schedule of Prior Audit Findings .....	70
Summary Schedule of Prior Management Letter Points .....	71

## **INTRODUCTORY SECTION**

**CALLOWAY COUNTY SCHOOL DISTRICT**

June 30, 2017

**BOARD OF EDUCATION**

Jeff Gordon, chairman  
B. Leeann Myers, vice-chairman  
Jay Housden, member  
Danny Pittman, member  
Scott Lowe, member

**ADMINISTRATIVE STAFF**

Tres Settle, Superintendent  
Josh McKeel, Director of Pupil Personnel  
Amy Owens, District Finance Officer

## **FINANCIAL SECTION**



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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Calloway County School District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Calloway County School District's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and notes are presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining fund financial statements and the schedule of expenditures of federal awards and notes are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2017, on our consideration of the Calloway County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Calloway County School District's internal control over financial reporting and compliance.

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2017

**ALLOWAY COUNTY PUBLIC SCHOOL DISTRICT – MURRAY, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

The discussion and analysis of the Calloway County School District (District) provides a narrative overview and analysis of the District’s financial statements and the activities of the District for the fiscal year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audited financial statements.

**FINANCIAL HIGHLIGHTS**

- The enrollment of Calloway County School District at the end of fiscal year 2017 decreased from 2978 at the end of fiscal year 2016 to 2914 which continued a trend of decreasing enrollment for the District. State level funding is calculated primarily on AADA (Adjusted Annual Daily Attendance) which is directly affected by enrollment trends. As such, AADA for the District decreased by the end of fiscal year 2017 to 2711.649 from 2758.942 at the end of fiscal year 2016.
- The state’s level of support (SEEK) provided a guaranteed base per student of \$3,981 in fiscal year 2016 and in fiscal year 2017. However, a decrease in AADA combined with increase in property assessments of \$73,882,498 resulted in a decrease in Net General Fund SEEK of \$418,500 from \$9,681,054 in fiscal year 2016 to \$9,262,554 in fiscal year 2017. An additional decrease of \$421,316 is expected in fiscal year 2018.
- General revenues accounted for \$25,778,828 or 78.25% of all revenue. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$7,164,499 or 21.75% of total revenue.
- Among governmental funds, the General Fund had \$24,350,472 in revenue (including transfers), which primarily consisted of SEEK funding from the state and tax revenues. General Fund expenditures (including transfers) totaled \$24,147,759. The General Fund’s balance increased by \$202,713 from 2016. The unassigned fund balance at the end of fiscal year 2017 was \$5,244,826 compared to \$4,679,059 at the end of fiscal year 2016. Effective for the end of year 2017, in compliance with the GASB 54 regulations, \$1,770,409 was either assigned, restricted or committed by the board for special projects including SBDM Council carry forward and accumulated sick leave liability.
- Tax revenues for the District totaled \$9,876,660 in fiscal year 2017, compared to \$9,484,739 in fiscal year 2016. Property tax collections totaled \$6,873,055, motor vehicle taxes totaled \$1,160,678, and utility taxes totaled \$1,543,956. The remainder of taxes included revenue amounts paid in lieu of taxes.
- No district-wide raises were given in fiscal year 2017. General Fund salary expenses for the year totaled \$19,932,435 or 82.5% of the total General Fund expenditures for the District. This was a decrease in General Fund salary expenditures of \$936,858 (4.49%). Of the \$19,932,435, \$760,527 was paid to KTRS (Kentucky Teachers’ Retirement System) and CERS (County Employee Retirement System) by the District on behalf of employees and \$5,288,466 was paid by the state on behalf of employees for retirement, health insurance, and life insurance costs. Decreases in General Fund salary expenditures can be attributed to several changes made in fiscal year 2017 to include a decrease in contract days from 186 to 182 for most classified employees and 186 to 185 for most certified employees. In addition, over half of the custodial services for the District were outsourced reducing custodial staff by approximately 50%.
- Our current bonding capacity is approximately \$6,000,000. Our current Capital Outlay funding is \$271,165. Our local Building Fund portion is \$948,778 with state funding at \$112,832. Total bond payments for 2017 – 2018 are \$974,691 in principal and \$369,239 in interest. \$242,687 of these obligations are covered by the

general fund based on an Energy Savings Contract. \$231,532 remains available in the Capital Outlay Fund after debt payments are made.

- A district-wide technology refresh initiative which began in fiscal year 2014, completed its first rotation at the end of fiscal year 2017, one year earlier than planned. The 5 year plan included a network upgrade as well as the replacement of all outdated hardware at each location.

## OVERVIEW OF FINANCIAL STATEMENTS

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

**Government-wide financial statements:** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements include the Statement of Net Position and the Statement of Activities. In the Statement of Net Position and the Statement of Activities, the District is divided into two distinct types of activities:

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

The Statement of Net Position (on page 11) presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the two reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities (on page 12) presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Fund financial statements start on page 13 of this report.

**Notes to the financial statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 22 of this report.

## FINANCIAL ANALYSIS

The Statement of Net Position provides the perspective of the District as a whole. Net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$18,356,607, a decrease of \$62,942 from the prior year. This decrease reflects an increase in net position for governmental activities of \$37,274 and a decrease in net position for business-type activities of \$100,216.

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

The following table provides a comparison of the District's net position for 2017 and 2016.

### Net Position for the period ending June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		Total Activities	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Current and Noncurrent Assets</b>	\$ 9,480,883	\$ 9,225,997	\$ 1,343,266	\$ 1,251,604	\$ 10,824,149	\$ 10,477,601
<b>Capital Assets</b>	30,653,528	31,926,266	341,511	399,160	30,995,039	32,325,426
<b>Joint Venture Rights</b>	<u>1,941,363</u>	<u>1,678,867</u>	<u>0</u>	<u>0</u>	<u>1,941,363</u>	<u>1,678,867</u>
<b>Total Assets</b>	<u>42,075,774</u>	<u>42,831,130</u>	<u>1,684,777</u>	<u>1,650,764</u>	<u>43,760,551</u>	<u>44,481,894</u>
<b>Deferred Outflows</b>	<u>1,822,561</u>	<u>1,585,729</u>	<u>353,772</u>	<u>268,893</u>	<u>2,176,333</u>	<u>1,854,622</u>
<b>Long-Term Debt</b>	25,353,921	25,986,621	1,689,410	1,467,183	27,043,331	27,453,804
<b>Other Liabilities</b>	<u>484,250</u>	<u>381,624</u>	<u>3,643</u>	<u>0</u>	<u>487,893</u>	<u>381,624</u>
<b>Total Liabilities</b>	<u>25,838,171</u>	<u>26,368,245</u>	<u>1,693,053</u>	<u>1,467,183</u>	<u>27,531,224</u>	<u>27,835,428</u>
<b>Deferred Inflows</b>	<u>38,708</u>	<u>64,432</u>	<u>10,345</u>	<u>17,107</u>	<u>49,053</u>	<u>81,539</u>
<b>Net Investment in Capital Assets</b>	13,385,449	13,385,838	341,511	399,160	13,726,960	13,784,998
<b>Restricted</b>	4,089,937	3,908,153	0	0	4,089,937	3,908,153
<b>Unrestricted</b>	<u>546,070</u>	<u>690,191</u>	<u>(6,360)</u>	<u>36,207</u>	<u>539,710</u>	<u>726,398</u>
<b>Total Net Position</b>	<u>\$ 18,021,456</u>	<u>\$ 17,984,182</u>	<u>\$ 335,151</u>	<u>\$ 435,367</u>	<u>\$ 18,356,607</u>	<u>\$ 18,419,549</u>

The following table shows the changes in net position for fiscal year 2017 and 2016. Total revenues increased by \$143,150 compared to fiscal year 2016 and expenses decreased by \$452,413.

**Changes in Net Position for the period ending June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Program Revenues		
Charges for Services	\$ 875,301	\$ 860,975
Operating Grants & Contributions	6,289,198	5,834,761
General Revenues		
Local Taxes	9,876,660	9,484,739
Investment Earnings	117,610	119,800
Other Local Revenue	209,809	189,784
Original Issue Discount/Premium	(5,400)	156,660
State Aid – Formula Grants	15,566,712	16,042,466
Gain/Loss on Sale of Assets	<u>13,437</u>	<u>110,992</u>
Total Revenues	<u>32,943,327</u>	<u>32,800,177</u>
Program Expenses		
Instruction	19,648,086	19,928,811
Support Services	5,115,969	5,241,149
Plant Operations & Maintenance	2,701,610	2,861,770
Student Transportation	1,896,538	1,801,917
Non-instructional services	252,514	253,762
Interest on long-term debt	545,048	650,057
Amortization – unallocated	57,269	57,269
Food Service	2,431,939	2,359,002
Day Care	274,256	<u>304,945</u>
Adult Education	<u>83,040</u>	<u>-</u>
Total Expenses	<u>33,006,269</u>	<u>33,458,682</u>
Increase/Decrease in Net Position	<u>(\$ 62,942)</u>	<u>(\$ 658,505)</u>

**GOVERNMENTAL ACTIVITIES**

Total revenues for governmental activities for fiscal year 2017 were \$30,254,308 compared to \$30,264,336 for fiscal year 2016, a decrease of approximately \$10,000. Expenses decreased by 1.9%. Revenues in fiscal year 2017 exceeded expenses by \$37,274 compared to a deficit of \$530,399 in fiscal year 2016.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows the total cost of services and the net cost of services for governmental activities for 2017 and 2016. The net cost shows the financial burden that was placed on the District's taxpayers in each of these functions.

### Cost of Services

	Total Cost - 2017	Total Cost - 2016	Net Cost - 2017	Net Cost - 2016
Instruction	\$ 19,648,086	\$ 19,928,811	\$ 15,524,073	\$ 16,042,307
Students & Instructional Staff	2,326,000	2,498,111	2,226,068	2,498,111
General, School Admin. & Business	2,789,969	2,743,038	2,789,969	2,743,038
Plant Operations & Maintenance	2,701,610	2,861,770	2,439,114	2,577,282
Student Transportation	1,896,538	1,801,917	1,896,538	1,801,917
Non-Instructional Services	252,514	253,762	252,514	253,762
Interest on Long-Term Debt	545,048	650,057	545,048	650,057
Amortization-Unallocated	57,269	57,269	57,269	57,269
<b>Total Expenses</b>	<b>\$ 30,217,034</b>	<b>\$ 30,794,735</b>	<b>\$ 25,730,593</b>	<b>\$ 26,623,743</b>

### PROPRIETARY (BUSINESS-TYPE ACTIVITIES)

The main proprietary (business-type) activities of the District are the food service operation and the day care operation.

The food service operation is self-operating without assistance from the General Fund. This business activity receives no support from tax revenues. The food service operation paid \$99,932 in indirect costs to the District during fiscal year 2017.

The cash balance for the day care operation increased by \$53,986 in fiscal year 2017. Receipts increased by \$28,117 and expenses decreased by \$30,689. The day care program is generally self-supporting and maintains a sufficient carry forward each year to compensate for fluctuations in revenues and expenses.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets:** At the end of fiscal year 2017, the District had \$66,367,531 invested in land, buildings, equipment, and vehicles compared to \$66,035,750 at the end of fiscal year 2016. An additional asset currently under capital lease in the amount of \$286,345 is not included in the above total. Accumulated depreciation for the aforementioned investments totals \$35,482,258 with an additional \$176,579 for an asset currently under capital lease.

#### Capital Assets (Net of Depreciation) as of June 30, 2017 and June 30, 2016

	Governmental Activities		Business Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land and Improvements	1,851,746	1,660,921	0	0	1,851,746	1,660,921
Construction in Progress	52,304	0	0	0	52,304	0
Buildings & Improvements	27,141,806	28,593,884	58,161	64,105	27,199,967	28,657,989
Technology Equipment	136,356	97,858	0	2,075	136,356	99,933
Vehicles	1,243,298	1,249,842	0	0	1,243,298	1,249,842
General Equipment	118,252	156,726	283,350	332,980	401,602	489,706
<b>Totals</b>	<b>30,543,762</b>	<b>31,759,231</b>	<b>341,511</b>	<b>399,160</b>	<b>30,885,273</b>	<b>32,158,391</b>

**Debt Administration:** As of June 30, 2017 the District has \$17,767,142 of debt outstanding. This represents a decrease from FY2016 in the amount of \$1,346,279.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined unassigned fund balance of \$5,244,826. Effective for the end of fiscal year 2017, in compliance with GASB 54 regulations, \$3,833,411 was restricted, committed or assigned by the board for special projects to include SBDM Council carry forward and accumulated sick leave liability.

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

The General Fund is the principal operating fund of the District. At year end, it was comprised of \$7,015,235 of which \$5,244,826 was unassigned and \$1,770,409 was either restricted, committed or assigned. The unassigned portion was \$565,767 greater than last year's total of \$4,679,059.

Local revenues and investments accounted for 35.0% of Governmental Fund Revenues while 65.0% was comprised of state and federal funding. The percentage of funds received from local sources increased by 1.5% from fiscal year 2016 primarily due to an increase in property value assessments and a decrease in AADA.

The District is required to analyze any significant variations between the final budget (approved in September) and actual expenditures and revenues for the fiscal year. Significant variations are considered to be any variations over 10% of the budgeted amount. Total variations in the final budgeted revenue and actual revenue were 3.0% and do not represent a significant variation. The significant expenditure variations are summarized as follows:

- The favorable variance of \$376,731 (32.4%) in district administration is due in large part to accrued sick leave paid. Of the \$250,000 budgeted, only \$59,833 was paid out in fiscal year 2017. Property insurance which is normally funded at this level and was budgeted for the amount of \$90,000 was partially funded through a Capital Outlay transfer for fiscal year 2017. Tax collection fees were lower than anticipated due to a lower than normal tax collection rate. Finally, the District budgets a reasonable sum to legal expenses during the year as the actual cost of these is difficult to anticipate.
- The favorable variance of \$672,834 (20.4%) in plant operations and maintenance can be partially attributed to the paving project initiated and completed in fiscal year 2017. This project was budgeted for in the General Fund, yet funds committed previously for paving were utilized for the project. A gym floor restoration project was budgeted at \$250,000 yet completed for just under \$167,000. Budgeted amounts for building operations and maintenance have been increased to handle additional costs of aging buildings. Regular preventative maintenance however, have kept those costs lower than anticipated.
- The favorable variance of \$641,458 (28.0%) can be attributed in part to the funding of bus purchases via a Capital Outlay transfer. Three bus purchases were funded through a Capital Outlay transfer which did not directly affect the transportation budget. In addition, the District also budgeted for a number of vehicle purchases which did not occur due to unexpected expense increases in other areas.

## BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year runs from July 1<sup>st</sup> through June 30<sup>th</sup>; other programs, i.e., some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. Kentucky Statute requires each district to allocate a minimum of 2% of the total budget to contingency. The District adopted a budget for fiscal year 2018 that included \$2,650,060 in contingency or a total of 11%.

The remainder of the fiscal year 2018 budget was developed after careful consideration of several factors including:

- The District anticipates \$18,414,922 in receipts excluding on-behalf payments received from the state for fiscal year 2018 as opposed to the \$18,984,459 receipted during fiscal year 2017. A proposed tax rate of

\$.444 per \$100 valuations for both real and personal property is expected to produce an additional \$629,758 in revenues. However, a lower than normal collection rate in fiscal year 2017 and an increase in the required transfer to building funds is expected to result in an increase of just over \$300,000 of the anticipated \$629,758 to the General Fund. In addition, decreasing enrollment and increases in property assessments are expected to result in a reduction in state funding of approximately \$420,000 and transfers from Capital Outlay funds utilized in prior fiscal years are not anticipated for fiscal year 2018, due to changes in state budget language.

- The employer portion of CERS increased from 18.68% in fiscal year 2017 to 19.18% in fiscal year 2018. Pension reform plans, although not in place at this time, include increases to the employer's portion of contributions and budget decisions for the year will be made in light of those expectations. In addition, a state-wide budget shortfall has led to requests from the governor's office to reduce many state program budgets by more than 17%. Although reductions are not expected to directly affect state school funding, indirect impacts to the budget are expected.
- The District budgeted for four new buses in fiscal year 2018. The District runs approximately 35 regular bus routes, 3 special education bus routes and 6 preschool bus routes on a daily basis. Additional fleet is maintained to provide substitute buses when regular route buses are being serviced and field trip buses for trips during the day when regular routes still need to be run. The District will need to continue purchasing 4 buses per year to maintain a fleet of buses where all in-service vehicles are less than 13 years old.
- Although no building or renovation projects are currently scheduled, aging HVAC systems at Calloway County High School are requiring the administration to begin looking at a possible HVAC overhaul in the near future. And the need for expanded athletic facilities is leading to discussion regarding building an auxiliary gym in the coming years. Budget decisions are always made with the desire to provide the best possible education and facilities for our students.

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

## **BASIC FINANCIAL STATEMENTS**

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2017

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 7,191,817	\$ 1,219,875	\$ 8,411,692
Receivables			
Accounts	242,469	2,092	244,561
Intergovernmental - State	26,423	-	26,423
Intergovernmental - Federal	203,090	12,645	215,735
Inventories	-	107,609	107,609
Prepaid expenses	32,824	1,045	33,869
Restricted investments	1,784,260	-	1,784,260
Capital assets not being depreciated			
Land	1,267,227	-	1,267,227
Construction in progress	52,304	-	52,304
Capital assets, net of accumulated depreciation			
Land improvements	584,519	-	584,519
Building and improvements	27,141,806	58,161	27,199,967
Technology equipment	136,356	-	136,356
Vehicles	1,243,298	-	1,243,298
General equipment	118,252	283,350	401,602
Property under capital lease	109,766	-	109,766
Joint venture rights	<u>1,941,363</u>	<u>-</u>	<u>1,941,363</u>
Total assets	<u>42,075,774</u>	<u>1,684,777</u>	<u>43,760,551</u>
<b>Deferred Outflows of Resources</b>			
Deferred amount on refunding	499,063	-	499,063
Pension related	<u>1,323,498</u>	<u>353,772</u>	<u>1,677,270</u>
Total deferred outflows of resources	<u>1,822,561</u>	<u>353,772</u>	<u>2,176,333</u>
<b>Liabilities</b>			
Accounts payable	81,351	3,643	84,994
Unearned revenue	288,471	-	288,471
Accrued interest	114,428	-	114,428
Long-term liabilities			
Portion due or payable within one year			
Bonds and capital lease	1,437,555	-	1,437,555
Accrued sick leave	108,773	-	108,773
Portion due or payable after one year			
Insurance assessment	106,315	-	106,315
Bonds and capital lease	16,329,587	-	16,329,587
Accrued sick leave	1,169,270	31,710	1,200,980
Pension liability	<u>6,202,421</u>	<u>1,657,700</u>	<u>7,860,121</u>
Total liabilities	<u>25,838,171</u>	<u>1,693,053</u>	<u>27,531,224</u>
<b>Deferred Inflows of Resources</b>			
Pension related	<u>38,708</u>	<u>10,345</u>	<u>49,053</u>
<b>Net Position</b>			
Net investment in capital assets	13,385,449	341,511	13,726,960
Restricted for			
Sick leave	200,000	-	200,000
Construction	122,197	-	122,197
Debt service	1,669,832	-	1,669,832
Joint venture	1,941,363	-	1,941,363
Other	156,545	-	156,545
Unrestricted	<u>546,070</u>	<u>(6,360)</u>	<u>539,710</u>
<b>Total net position</b>	<b><u>\$ 18,021,456</u></b>	<b><u>\$ 335,151</u></b>	<b><u>\$ 18,356,607</u></b>

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Instruction	\$ 19,648,086	\$ 24,620	\$ 4,099,393	\$ (15,524,073)	\$ -	\$ (15,524,073)
Support services						
Student	1,159,699	-	-	(1,159,699)	-	(1,159,699)
Instructional staff	1,166,301	99,932	-	(1,066,369)	-	(1,066,369)
District administration	771,497	-	-	(771,497)	-	(771,497)
School administration	1,431,216	-	-	(1,431,216)	-	(1,431,216)
Business	587,256	-	-	(587,256)	-	(587,256)
Plant operation and management	2,701,610	262,496	-	(2,439,114)	-	(2,439,114)
Student transportation	1,896,538	-	-	(1,896,538)	-	(1,896,538)
Non-instructional services	252,514	-	-	(252,514)	-	(252,514)
Interest on long-term debt	545,048	-	-	(545,048)	-	(545,048)
Amortization - unallocated	57,269	-	-	(57,269)	-	(57,269)
Total governmental activities	<u>30,217,034</u>	<u>387,048</u>	<u>4,099,393</u>	<u>(25,730,593)</u>	<u>-</u>	<u>(25,730,593)</u>
Business-type activities:						
Food service	2,431,939	301,396	1,980,489	-	(150,054)	(150,054)
Child care	274,256	186,857	126,276	-	38,877	38,877
Other enterprise	83,040	-	83,040	-	-	-
Total business-type activities	<u>2,789,235</u>	<u>488,253</u>	<u>2,189,805</u>	<u>-</u>	<u>(111,177)</u>	<u>(111,177)</u>
Total primary government	<u>\$ 33,006,269</u>	<u>\$ 875,301</u>	<u>\$ 6,289,198</u>	<u>(25,730,593)</u>	<u>(111,177)</u>	<u>(25,841,770)</u>
<b>General revenues:</b>						
Taxes						
Property				6,873,055	-	6,873,055
Motor vehicle				1,160,678	-	1,160,678
Utilities				1,543,956	-	1,543,956
Other				298,971	-	298,971
Investment earnings				106,649	10,961	117,610
Other local revenue				209,809	-	209,809
Original issue discount				(5,400)	-	(5,400)
State aid - formula grants				15,566,712	-	15,566,712
Gain (loss) on sale of assets				13,437	-	13,437
Total general revenues and transfers				<u>25,767,867</u>	<u>10,961</u>	<u>25,778,828</u>
<b>Change in net position</b>				<b>37,274</b>	<b>(100,216)</b>	<b>(62,942)</b>
Net position, beginning of year				17,984,182	435,367	18,419,549
Net position, end of year				<u>\$ 18,021,456</u>	<u>\$ 335,151</u>	<u>\$ 18,356,607</u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 6,791,640	\$ 102,286	\$ -	\$ 297,891	\$ 7,191,817
Receivables					
Accounts	242,469	-	-	-	242,469
Intergovernmental - State and local	-	26,423	-	-	26,423
Intergovernmental - Federal	-	203,090	-	-	203,090
Restricted investments	-	-	1,784,260	-	1,784,260
<b>Total assets</b>	<b>\$ 7,034,109</b>	<b>\$ 331,799</b>	<b>\$ 1,784,260</b>	<b>\$ 297,891</b>	<b>\$ 9,448,059</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 18,874	\$ 43,328	\$ -	\$ 19,149	\$ 81,351
Unearned revenue	-	288,471	-	-	288,471
<b>Total liabilities</b>	<b>18,874</b>	<b>331,799</b>	<b>-</b>	<b>19,149</b>	<b>369,822</b>
<b>Fund Balances</b>					
Restricted	200,000	(144,992)	1,784,260	278,742	2,118,010
Committed	1,570,409	-	-	-	1,570,409
Assigned	-	144,992	-	-	144,992
Unassigned	5,244,826	-	-	-	5,244,826
<b>Total fund balances</b>	<b>7,015,235</b>	<b>-</b>	<b>1,784,260</b>	<b>278,742</b>	<b>9,078,237</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,034,109</b>	<b>\$ 331,799</b>	<b>\$ 1,784,260</b>	<b>\$ 297,891</b>	<b>\$ 9,448,059</b>

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

**ALLOWAY COUNTY SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
June 30, 2017

**Total fund balances - governmental funds** **\$ 9,078,237**

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. The cost of the assets is \$65,343,040 and the accumulated depreciation is \$34,689,512. 30,653,528

Certain long-term assets related to current and prior bond issues are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net position. 499,063

Expenditures paid by governmental funds for maintenance contracts that extend over more than one reporting period are accounted for as an expenditure in the period paid. These are reported as prepaid expenses in the government-wide statements. 32,824

Deferred outflows of resources related to pensions are not reported in the governmental fund because the consumption of net position will occur in future periods. 1,323,498

Joint ventures are not reported in the governmental funds because current financial resources are not required. This investment is, however, included in the statement of net position. 1,941,363

Deferred inflows of resources related to pensions are not reported in the governmental fund because the acquisition of net position will occur in future periods. (38,708)

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

Bonds and capital leases payable	(17,767,142)	
Accrued interest on the bonds	(114,428)	
Accrued sick leave payable	(1,278,043)	
Insurance assessment	(106,315)	
Pension liability	<u>(6,202,421)</u>	
		<u>(25,468,349)</u>

**Total net position - governmental activities** **\$ 18,021,456**

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
From local sources					
Taxes					
Property	\$ 5,944,651	\$ -	\$ -	\$ 928,404	\$ 6,873,055
Motor vehicle	1,160,678	-	-	-	1,160,678
Utilities	1,543,956	-	-	-	1,543,956
Other	298,971	-	-	-	298,971
Earnings on investments	100,322	1,074	-	5,253	106,649
Indirect cost reimbursements	136,169	-	-	-	136,169
Other local revenues	116,627	86,451	-	160,249	363,327
Intergovernmental - State	14,713,811	1,584,037	425,157	427,744	17,150,749
Intergovernmental - Indirect Federal	38,658	2,317,407	-	-	2,356,065
Total revenues:	<u>24,053,843</u>	<u>3,988,969</u>	<u>425,157</u>	<u>1,521,650</u>	<u>29,989,619</u>
<b>Expenditures</b>					
Current					
Instruction	14,660,082	3,337,966	-	111,863	18,109,911
Support Services					
Student	1,016,020	97,578	-	12,254	1,125,852
Instructional staff	977,491	147,127	-	26,382	1,151,000
District administration	786,305	-	-	-	786,305
School administration	1,375,268	24,396	-	-	1,399,664
Business	580,272	-	-	-	580,272
Plant operation and management	2,631,953	17,899	-	41	2,649,893
Student transportation	1,651,440	149,316	-	205	1,800,961
Non-instructional services	-	236,387	-	-	236,387
Facilities acquisition and construction	-	-	-	52,304	52,304
Debt service					
Principal	-	-	1,344,011	-	1,344,011
Interest and debt service issuance costs	-	-	476,172	-	476,172
Other	-	36,237	-	-	36,237
Total expenditures:	<u>23,678,831</u>	<u>4,046,906</u>	<u>1,820,183</u>	<u>203,049</u>	<u>29,748,969</u>
Excess (deficit) of revenues over expenditure	<u>375,012</u>	<u>(57,937)</u>	<u>(1,395,026)</u>	<u>1,318,601</u>	<u>240,650</u>
<b>Other Financing Sources (Uses)</b>					
Original issue discount	-	-	(5,400)	-	(5,400)
Gain (loss) on sale of assets	13,437	-	-	-	13,437
Transfers in	283,192	57,937	1,384,682	129,472	1,855,283
Transfers out	(468,928)	-	-	(1,386,355)	(1,855,283)
Total other financing sources (uses)	<u>(172,299)</u>	<u>57,937</u>	<u>1,379,282</u>	<u>(1,256,883)</u>	<u>8,037</u>
<b>Net change in fund balances</b>	<b>202,713</b>	<b>-</b>	<b>(15,744)</b>	<b>61,718</b>	<b>248,687</b>
Fund balances, beginning of year	<u>6,812,522</u>	<u>-</u>	<u>1,800,004</u>	<u>217,024</u>	<u>8,829,550</u>
Fund balances, end of year	<u>\$ 7,015,235</u>	<u>\$ -</u>	<u>\$ 1,784,260</u>	<u>\$ 278,742</u>	<u>\$ 9,078,237</u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017**

<b>Total net change in fund balances - governmental funds</b>	<b>\$ 248,687</b>
 Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which depreciation (\$2,059,522) exceeds capital outlays (\$786,784) in the period.	(1,272,738)
Repayment of long-term liabilities such as bond principal and capital leases are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.	1,346,279
In the statement of activities, certain operating expenses - accumulated sick leave - are recognized when they are incurred during the year. In the governmental funds, however, expenditures for these items are limited to only those that use current financial resources.	(40,879)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(71,144)
In the governmental funds, the KSBIT insurance assessment amount repaid during the year is recorded as an expenditure. However, in the government-wide statements of net position, the total KSBIT insurance assessment (\$438,407) was recorded as a long-term liability in the year assessed, and the amount repaid during the current year reduces long-term liabilities.	35,439
Expenditures for the maintenance contract on technology equipment covering more than one reporting period are recognized as an expense in the governmental funds in the year incurred. This amount is reported as a deferred charge in the government-wide statements and amortized in the statement of activities.	(17,125)
Joint ventures are only reported in governmental funds to the extent that current financial resources are required. In the government-wide financial statements, the entire investment is reported as a single amount adjusted for any profit or loss.	262,496
The actuarially determined pension expense does not consume current financial resources and, therefore, is not reported in the governmental funds. It is reported as expenses in the statement of activities.	(457,802)
The payment of pension contributions consumes current financial resources in the governmental funds. In the statement of activities, however, current year pension contributions are reported as deferred outflows of resources.	<u>4,061</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 37,274</u></b>

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2017

	<b>Food Service Fund</b>	<b>School Age Child Care Fund</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 988,605	\$ 231,270	\$ -	\$ 1,219,875
Receivables				
Accounts	2,092	-	-	2,092
Intergovernmental - Federal	12,645	-	-	12,645
Inventories	107,609	-	-	107,609
Prepaid expenses	1,045	-	-	1,045
Total current assets	<u>1,111,996</u>	<u>231,270</u>	<u>-</u>	<u>1,343,266</u>
Noncurrent assets				
Building and improvements	348,953	-	-	348,953
Technology equipment	18,592	15,067	-	33,659
General equipment	928,224	-	-	928,224
Accumulated depreciation	(954,258)	(15,067)	-	(969,325)
Total noncurrent assets	<u>341,511</u>	<u>-</u>	<u>-</u>	<u>341,511</u>
Total assets	<u>1,453,507</u>	<u>231,270</u>	<u>-</u>	<u>1,684,777</u>
<b>Deferred Outflows of Resources</b>				
Pension related	<u>301,091</u>	<u>52,681</u>	<u>-</u>	<u>353,772</u>
<b>Liabilities</b>				
Current liabilities				
Accounts Payable	<u>1,551</u>	<u>2,092</u>	<u>-</u>	<u>3,643</u>
Total current liabilities	<u>1,551</u>	<u>2,092</u>	<u>-</u>	<u>3,643</u>
Noncurrent liabilities				
Accrued sick leave	31,710	-	-	31,710
Pension liability	<u>1,410,892</u>	<u>246,808</u>	<u>-</u>	<u>1,657,700</u>
Total noncurrent liabilities	<u>1,442,602</u>	<u>246,808</u>	<u>-</u>	<u>1,689,410</u>
Total liabilities	<u>1,444,153</u>	<u>248,900</u>	<u>-</u>	<u>1,693,053</u>
<b>Deferred Inflows of Resources</b>				
Pension related	<u>8,805</u>	<u>1,540</u>	<u>-</u>	<u>10,345</u>
<b>Net Position</b>				
Investment in capital assets	341,511	-	-	341,511
Unrestricted	<u>(39,871)</u>	<u>33,511</u>	<u>-</u>	<u>(6,360)</u>
<b>Total net position</b>	<u><b>\$ 301,640</b></u>	<u><b>\$ 33,511</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 335,151</b></u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2017

	<u>Food Service Fund</u>	<u>School Age Child Care Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues</b>				
Lunchroom sales	\$ 301,396	\$ -	\$ -	\$ 301,396
Community service activities	-	186,857	-	186,857
Total operating revenue:	<u>301,396</u>	<u>186,857</u>	<u>-</u>	<u>488,253</u>
<b>Operating Expenses</b>				
Salaries, wages and benefits	1,068,065	248,081	74,587	1,390,733
Contract services	46,638	7,447	5,639	59,724
Materials and supplies	1,155,228	10,561	2,814	1,168,603
Depreciation	55,574	2,075	-	57,649
Indirect costs	99,932	-	-	99,932
Other	6,502	6,092	-	12,594
Total operating expense:	<u>2,431,939</u>	<u>274,256</u>	<u>83,040</u>	<u>2,789,235</u>
Operating loss	<u>(2,130,543)</u>	<u>(87,399)</u>	<u>(83,040)</u>	<u>(2,300,982)</u>
<b>Non-Operating Revenues (Expenses)</b>				
Interest income	10,961	-	-	10,961
Donated commodities	130,582	-	-	130,582
Grants - child nutrition program	1,681,127	-	-	1,681,127
State funding - on-behalf payments	150,094	47,730	-	197,824
State matching	18,686	78,546	83,040	180,272
Total non-operating revenues (expenses):	<u>1,991,450</u>	<u>126,276</u>	<u>83,040</u>	<u>2,200,766</u>
<b>Change in net position</b>	<b>(139,093)</b>	<b>38,877</b>	<b>-</b>	<b>(100,216)</b>
Total net position, beginning of year	<u>440,733</u>	<u>(5,366)</u>	<u>-</u>	<u>435,367</u>
Total net position, end of year	<u>\$ 301,640</u>	<u>\$ 33,511</u>	<u>\$ -</u>	<u>\$ 335,151</u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2017

	<u>Food Service Fund</u>	<u>School Age Child Care Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>Cash Flows from Operating Activities</b>				
Cash received from				
Lunchroom sales	\$ 300,438	\$ -	\$ -	\$ 300,438
Community service activities	-	186,857	-	186,857
Cash paid for				
Salaries, wages and benefits	(798,327)	(189,409)	(74,587)	(1,062,323)
Contract services	(46,638)	(7,447)	(5,639)	(59,724)
Materials and supplies	(1,040,660)	(8,469)	(2,814)	(1,051,943)
Prepaid expenses	(1,045)	-	-	(1,045)
Indirect costs	(99,932)	-	-	(99,932)
Other	(6,502)	(6,092)	-	(12,594)
Net cash used by operating activities	<u>(1,692,666)</u>	<u>(24,560)</u>	<u>(83,040)</u>	<u>(1,800,266)</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Nonoperating federal grants received	1,668,482	-	-	1,668,482
Nonoperating state grants received	<u>18,686</u>	<u>78,546</u>	<u>83,040</u>	<u>180,272</u>
Net cash provided by noncapital financing activities	<u>1,687,168</u>	<u>78,546</u>	<u>83,040</u>	<u>1,848,754</u>
<b>Cash Flows from Investing Activities</b>				
Interest income	<u>10,961</u>	<u>-</u>	<u>-</u>	<u>10,961</u>
<b>Net increase in cash and cash equivalents</b>	<b>5,463</b>	<b>53,986</b>	<b>-</b>	<b>59,449</b>
Cash and cash equivalents, beginning of year	<u>983,142</u>	<u>177,284</u>	<u>-</u>	<u>1,160,426</u>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 988,605</b>	<b>\$ 231,270</b>	<b>\$ -</b>	<b>\$ 1,219,875</b>
<b>Reconciliation of Operating Loss to Net Cash Used by Operating Activities</b>				
Operating loss	\$ (2,130,543)	\$ (87,399)	\$ (83,040)	\$ (2,300,982)
Adjustments to reconcile operating loss to net cash used by operating activities				
Depreciation	55,574	2,075	-	57,649
Salaries, wages and benefits (on-behalf payments)	150,094	47,730	-	197,824
Materials and supplies (commodities used)	130,582	-	-	130,582
Changes in assets and liabilities				
Receivables, account	(958)	-	-	(958)
Inventories	(17,565)	-	-	(17,565)
Prepaid expenses	(1,045)	-	-	(1,045)
Accounts Payable	1,551	2,092	-	3,643
Accrued sick leave	1,477	-	-	1,477
Pension related - changes in deferred outflows/inflows and net pension liability	<u>118,167</u>	<u>10,942</u>	<u>-</u>	<u>129,109</u>
Net cash used by operating activities	<u>\$ (1,692,666)</u>	<u>\$ (24,560)</u>	<u>\$ (83,040)</u>	<u>\$ (1,800,266)</u>
<b>Noncash Noncapital Financing Activities</b>				
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 130,582</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,582</u>
State funding - on-behalf payments	<u>\$ 150,094</u>	<u>\$ 47,730</u>	<u>\$ -</u>	<u>\$ 197,824</u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
June 30, 2017**

	<b>Private Purpose Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 83,596	\$ 609,222
Total assets	83,596	609,222
<b>Liabilities</b>		
Due to student groups	-	330,040
Due to grantor agencies	-	279,182
Total liabilities	-	\$ 609,222
<b>Net Position</b>		
Net position held in trust	83,596	
<b>Total net position</b>	<b>\$ 83,596</b>	

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
For the Year Ended June 30, 2017

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Interest	\$ 1,247
Donations	2,205
<b>Deductions</b>	
Support Services	
Non-instructional services	<u>(2,500)</u>
<b>Change in net position</b>	<b>952</b>
Net position, beginning of year	<u>82,644</u>
Net position, end of year	<u>\$ 83,596</u>

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

## **NOTES TO FINANCIAL STATEMENTS**

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The Calloway County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Calloway County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

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

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

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

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

**B. Basis of Presentation**

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

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

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

June 30, 2017

expenses are those that are specifically associated with a particular function. Program revenues include charges paid for goods or services offered by the program and grants and contributions that are restricted to meeting the financial requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each function is self-financing or is subsidized by the general revenues of the District. The District does not allocate indirect expenses.

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

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

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

The District has the following funds:

I. Governmental Fund Types

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

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

June 30, 2017

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

II. Proprietary Fund Types (Enterprise Funds)

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

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

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

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

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

**C. Basis of Accounting**

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Property taxes levied to finance fiscal year 2017 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

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

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

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

June 30, 2017

**D. Property Taxes**

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

The property tax rates for the year ended June 30, 2017 to finance the General Fund operations were \$.434 per \$100 valuation for real property, \$.434 per \$100 valuation for business tangible personal property, and \$.521 per \$100 valuation for motor vehicles.

**E. Capital Assets**

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

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

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

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

**F. Interfund Activity**

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

All other interfund transactions are treated as transfers. Transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

**G. Budgetary Process**

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

**H. Encumbrance Accounting**

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

**I. Fair Value Inputs and Methodologies and Hierarchy**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. See Note 2B for investments subject to fair value valuation. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

**Level 1** – unadjusted price quotations in active markets/exchanges for identical assets or liabilities that each fund has the ability to access.

**Level 2** – other observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets and liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).

**Level 3** – unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available (including each Fund's own assumptions used in determining the fair value of investments).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

**J. Cash, Cash Equivalents and Investments**

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

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

**K. Inventories**

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

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

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

**L. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are recorded as expenditures when consumed rather than when purchased.

**M. Deferred Outflows and Inflows of Resources**

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

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

**N. Restricted Assets**

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

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

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

June 30, 2017

**O. Accrued and Long-Term Liabilities**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements and all payables and accrued liabilities, if any, payable from proprietary funds are reported in the proprietary fund financial statements. Bond premiums and discounts, as well as deferred amounts on refunding, are deferred and amortized over the life of the bond.

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

**P. Pensions**

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

**Q. Fund Balances**

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

**Nonspendable fund balance**

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

**Restricted fund balance**

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

**Committed fund balance**

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

**Assigned fund balance**

This classification includes amounts intended to be used by the District for specific purposes that are neither restricted nor committed. The Board and its designee, the Superintendent, have the authority

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

**Unassigned fund balance**

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

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

**R. Net Position**

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

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

**S. Estimates**

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

**T. Impact of Recently Issued Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The scope of this Statement includes OPEB plans – defined benefit and defined contribution – administered through trusts that

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

June 30, 2017

meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable, 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms, and 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This statement has not had any impact on the District's financial statements.

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for financial statements for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. Management is currently evaluating the impact that the adoption of this statement will have on the District's financial statements.

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for reporting periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68 – *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. This statement has not had any impact on the District's financial statements.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Specifically, this Statement addresses issues regarding 1) the presentation of payroll-related measures in required supplementary information, 2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Management is

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

June 30, 2017

currently evaluating the impact that the adoption of this statement will have on the District's financial statements. This statement has not had any impact on the District's financial statements.

**NOTE 2 - DETAILED NOTES ON ACCOUNTS**

**A. Deposits**

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

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

At fiscal year-end, the carrying amount of the District's deposits was \$9,104,510 and the bank balance was \$10,204,360. Of the District's bank balance, \$9,938,160 was collateralized as discussed above because it was uninsured, while \$266,200 was covered by Federal Deposit Insurance.

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

Reconciliation to Government-wide Statement of Net Position:	
Unrestricted cash, including time deposits	\$ 8,411,692
Private purpose trust cash, including time deposits (not included in government-wide statement)	83,596
Agency fund cash (not included in government-wide statement)	<u>609,222</u>
	<u>\$ 9,104,510</u>

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

Governmental activities	\$ 7,191,817
Business-type activities	1,219,875
Fiduciary funds	<u>692,818</u>
	<u>\$ 9,104,510</u>

**B. Restricted Investments**

The District sold a \$2,000,000 Qualified Zone Academy Bond (QZAB) on October 3, 2007 for the purpose of financing the cost of renovations to several school district instructional buildings. On the delivery date an initial cash payment in the amount of \$1,114,000 was required to be deposited in a Prefunded Escrow Account at Monticello Banking Company in Somerset, Kentucky, \$160,000 of which was for trustee fees. The trustee used the remaining prepayment to purchase a Federal Home Loan Mortgage Corporation (FHLMC) zero coupon bond in the amount of \$954,000, which will mature on September 15, 2022 and should earn an amount sufficient to retire the \$2,000,000 bond principal due on that date. The original issue discount recognized in the current year was \$(5,400).

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

As of June 30, 2017, the District held the following investment:

Investment Type	Credit Rating	Fair Value	Investment Maturities (Years)		
			Less Than 1	1-10	More Than 10
U.S. government securities:					
Federal Home Loan Mortgage Corporation	Aaa	\$ 1,784,260	\$ 1,784,260	\$ -	\$ -
		<u>\$ 1,784,260</u>	<u>\$ 1,784,260</u>	<u>\$ -</u>	<u>\$ -</u>

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2017:

	Fair Value	Level 1	Level 2	Level 3
Investments by fair value level				
U.S. government securities	<u>\$ 1,784,260</u>	<u>\$ 1,784,260</u>	<u>\$ -</u>	<u>\$ -</u>

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

**C. Capital Assets**

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

Governmental Activities	Balance			Balance June 30, 2017
	July 1, 2016	Additions	Deductions	
Non-depreciable				
Land	\$ 1,267,227	\$ -	\$ -	\$ 1,267,227
Construction in progress	-	52,304	-	52,304
Totals	<u>1,267,227</u>	<u>52,304</u>	<u>-</u>	<u>1,319,531</u>

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2017</u>
<b>Depreciable</b>				
Land improvements	\$ 1,916,752	\$ 233,400	\$ -	\$ 2,150,152
Buildings and improvements	54,321,994	150,625	-	54,472,619
Technology equipment	1,625,704	85,351	(17,541)	1,693,514
Vehicles	4,526,731	265,104	(420,122)	4,371,713
General equipment	1,057,560	-	(8,394)	1,049,166
Property under capital lease	286,345	-	-	286,345
Totals	<u>63,735,086</u>	<u>734,480</u>	<u>(446,057)</u>	<u>64,023,509</u>
<b>Less: Accumulated depreciation</b>				
Land improvements	(1,523,058)	(42,575)	-	(1,565,633)
Buildings and improvements	(25,728,110)	(1,602,703)	-	(27,330,813)
Technology equipment	(1,527,846)	(46,853)	17,541	(1,557,158)
Vehicles	(3,276,889)	(271,648)	420,122	(3,128,415)
General equipment	(900,834)	(38,474)	8,394	(930,914)
Property under capital lease	(119,310)	(57,269)	-	(176,579)
Totals	<u>(33,076,047)</u>	<u>(2,059,522)</u>	<u>446,057</u>	<u>(34,689,512)</u>
Net Book Value	<u>30,659,039</u>	<u>(1,325,042)</u>	<u>-</u>	<u>29,333,997</u>
Governmental activities capital assets - net	<u>\$ 31,926,266</u>	<u>\$ (1,272,738)</u>	<u>\$ -</u>	<u>\$ 30,653,528</u>
	Balance <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2017</u>
<b>Business-Type Activities</b>				
<b>Depreciable</b>				
Buildings and improvements	\$ 348,953	\$ -	\$ -	\$ 348,953
Technology equipment	40,496	-	(6,837)	33,659
General equipment	930,333	-	(2,109)	928,224
Totals	<u>1,319,782</u>	<u>-</u>	<u>(8,946)</u>	<u>1,310,836</u>
<b>Less: Accumulated depreciation</b>				
Buildings and improvements	(284,848)	(5,944)	-	(290,792)
Technology equipment	(38,421)	(2,075)	6,837	(33,659)
General equipment	(597,353)	(49,630)	2,109	(644,874)
Totals	<u>(920,622)</u>	<u>(57,649)</u>	<u>8,946</u>	<u>(969,325)</u>
Business-type activities capital assets - net	<u>\$ 399,160</u>	<u>\$ (57,649)</u>	<u>\$ -</u>	<u>\$ 341,511</u>

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

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

Instruction	\$ 1,419,297
Support services:	

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

June 30, 2017

Student	1,339
Instructional staff	2,108
District administration	23,118
School administration	3,894
Plant operations and management	345,920
Student transportation	<u>206,577</u>
	<u>\$ 2,002,253</u>

**D. Long-Term Liabilities**

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

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

<u>Issue</u>	<u>Original Amount</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>
2007 (QZAB)	\$ 2,000,000	5.58%	2022
2008	3,510,000	2.60% - 4.875%	2018
2009	1,292,960	1.00% - 3.30%	2019
2010	1,030,000	.70% - 2.50%	2021
2010	6,265,000	.60% - 2.90%	2022
2013	5,995,000	1.70% - 4.125%	2034
2014	2,765,000	0.90% - 3.00%	2030
2016	2,955,000	2.00% - 2.10%	2028

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

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

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

<u>Issue</u>	<u>Balance at July 1, 2016</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2017</u>
2007 - QZAB	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
2008	285,000	-	90,000	195,000
2009 - KISTA	350,609	-	83,099	267,510
2010 - Refunding	675,000	-	125,000	550,000
2010 - Refunding	4,350,000	-	665,000	3,685,000
2013	5,860,000	-	90,000	5,770,000
2014 - Refunding	2,465,000	-	155,000	2,310,000
2016 - Refunding	2,955,000	-	65,000	2,890,000
	<u>\$ 18,940,609</u>	<u>\$ -</u>	<u>\$ 1,273,099</u>	<u>\$ 17,667,510</u>

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2017 for debt service (principal and interest) are as follows:

Year	Calloway County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2018	\$ 974,691	\$ 369,239	\$ 386,484	\$ 81,308	\$ 1,811,722
2019	1,006,233	346,358	373,002	69,655	1,795,248
2020	1,038,823	322,919	378,277	59,201	1,799,220
2021	1,082,464	296,916	292,536	50,998	1,722,914
2022	3,072,946	268,885	287,054	44,050	3,672,935
2023-2027	2,984,088	1,054,286	830,912	146,994	5,016,280
2028-2032	3,120,528	583,348	474,472	56,247	4,234,595
2033-2034	1,256,185	78,816	108,815	6,778	1,450,594
	<u>\$ 14,535,958</u>	<u>\$ 3,320,767</u>	<u>\$ 3,131,552</u>	<u>\$ 515,231</u>	<u>\$ 21,503,508</u>

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

Future minimum payments under the long-term capital lease obligation, together with the present value of the net minimum lease payments as of June 30, 2017 are, as follows:

	Year Ending June 30 2018	Capital Lease Payable
Total minimum lease payments		<u>\$ 77,362</u>
Less: Amount representing interest		<u>(3,240)</u>
Present Value of Net Minimum Lease Payments		<u>\$ 74,122</u>

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

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017	Due in One Year
Bonds	\$ 18,940,609	\$ -	\$ 1,273,099	\$ 17,667,510	\$ 1,361,165
Premium on bond issue	27,778	-	2,268	25,510	2,268
Capital lease obligation	145,034	-	70,912	74,122	74,122
	<u>19,113,421</u>	<u>-</u>	<u>1,346,279</u>	<u>17,767,142</u>	<u>1,437,555</u>

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017	Due in One Year
Accrued sick leave:					
Governmental activities	\$ 1,237,164	\$ 100,712	\$ 59,833	\$ 1,278,043	\$ 108,773
Business-type activities	30,233	3,844	2,367	31,710	-
	<u>1,267,397</u>	<u>104,556</u>	<u>62,200</u>	<u>1,309,753</u>	<u>108,773</u>
Insurance assessment	141,754	-	35,439	106,315	-
	<u>\$ 20,522,572</u>	<u>\$ 104,556</u>	<u>\$ 1,443,918</u>	<u>\$ 19,183,210</u>	<u>\$ 1,546,328</u>

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

**E. Compensated Absences and Accumulated Sick Leave**

Certified and classified employees of the District are entitled to payment of 30% of the value of accumulated sick and personal days upon retirement. Kentucky Revised Statutes allow the District to restrict up to 50% of accumulated benefits for all employees eligible to retire as of September 15, 2016. The total amount of accumulated benefits for all employees eligible to retire at this date is \$436,493. A \$200,000 balance is restricted in the General Fund at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

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

**Fund Balances**

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2017 are as follows:

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Restricted for:							
Sick leave	\$ 200,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction	-	-	-	-	-	122,197	-
Debt service	-	-	-	-	-	-	1,784,260
Other	-	-	156,545	-	-	-	-
	<u>200,000</u>	<u>-</u>	<u>156,545</u>	<u>-</u>	<u>-</u>	<u>122,197</u>	<u>1,784,260</u>

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Committed for:							
SBDM	\$ 81,590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Construction	701,451	-	-	-	-	-	-
Maintenance Equipment	150,000	-	-	-	-	-	-
Gear Up match	237,368	-	-	-	-	-	-
Salary increases	400,000	-	-	-	-	-	-
	<u>1,570,409</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Assigned for:							
Encumbrances	-	-	-	-	-	-	-
Unassigned	<u>5,244,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,015,235</u>	<u>\$ -</u>	<u>\$ 156,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,197</u>	<u>\$ 1,784,260</u>

**F. Deficit Operating/Fund Balances**

The following funds had operations that resulted in a current year deficit of revenues/transfers-in over expenditures/transfers-out:

Debt Service Fund	\$ 15,744
Capital Outlay Fund	25,608
Food Service Fund	139,093
Agency Funds	90,857

**G. Interfund Transactions**

**Interfund Receivables/Payables (Short-Term)**

The General Fund extends short-term cash flow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. There are currently no outstanding loans as of June 30, 2017.

**Transfers**

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	KETS match	\$ 57,937
General	Debt Service	Debt service	281,519
General	Construction	Construction project	129,472
Capital Outlay	Debt Service	Debt service	19,743
Capital Outlay	General	Fixed assets	283,192
Building	Debt Service	Debt service	1,083,420

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

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

Special Revenue	\$ 36,237
Food Service	<u>99,932</u>
	<u>136,169</u>

**H. On-Behalf Payments**

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2017:

Contributions to Kentucky Teachers' Retirement System	\$ 2,047,792
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	3,438,497
Technology	77,548
Debt service	<u>425,157</u>
	<u>\$ 5,988,994</u>

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

Governmental activities	
General Fund	\$ 5,366,013
Debt Service Fund	425,157
Business-type activities	
Food Service Fund	150,094
School Age Child Care Fund	<u>47,730</u>
	<u>\$ 5,988,994</u>

**NOTE 3 - OTHER INFORMATION**

**A. Retirement Plans**

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

For the year ended June 30, 2017, the District's total payroll for all employees was \$16,966,617. Total covered payroll was \$3,393,287 for CERS and \$13,505,359 for KTRS. Covered payroll refers to all compensation paid by the District to active employees covered by the Plan.

**County Employees Retirement System Non-Hazardous (CERS)**

*Plan description* – Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit plan. CERS is

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

June 30, 2017

administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (KRS) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

Employee membership data related to the Plan as of June 30, 2016 was as follows:

Retirees and beneficiaries currently receiving benefits	51,673
Terminated employees entitled to but not yet receiving benefits	75,904
Active plan members	83,346
	210,923

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

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

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

*Contributions* – Required contributions by the employee are based on the tier:

	<b>Required Contribution</b>
Tier 1	5%

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

Employer contributions rates for the fiscal year were adopted by the Board of KRS based on actuarially recommended rates. The District's contributions to CERS for the year ended June 30, 2017 were \$478,493.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At June 30, 2017, the District reported a liability \$7,860,121 for its proportionate share of the net pension liability. The net pension liability for the plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.15964%.

For the year ended June 30, 2017, the District recognized pension expense of \$582,850. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 34,316	\$ -
Changes of assumptions	416,387	-
Net difference between projected and actual earnings on pension plan investments	738,932	-
Changes in proportion and differences between District contributions and proportionate share of contributions	9,142	49,053
District contributions subsequent to the measurement date	<u>478,493</u>	<u>-</u>
	<u>\$ 1,677,270</u>	<u>\$ 49,053</u>

Deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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>	
2018	\$ 440,087
2019	274,465
2020	271,001
2021	164,171

*Actuarial assumptions* – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
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**CALLOWAY COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

June 30, 2017

Projected salary increases	4.00%
Investment rate of return, net of investment expense and inflation	7.50%

Mortality rates for the period after service retirement are according to the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females) for all healthy retired members and beneficiaries. The RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. These assumptions are used to measure the probabilities of each benefit payment being made after retirement. These assumptions contain margin form mortality improvement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash equivalent	2%	-0.25%
Total	100%	

*Discount rate* – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

June 30, 2017

*Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate* – The following table presents the net pension liability of the District, calculated using the discount rate selected, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District’s proportionate share of net pension liability	\$ 9,794,982	\$ 7,860,121	\$ 6,201,558

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

**Teachers’ Retirement System of the State of Kentucky (KTRS)**

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

Employee membership data related to the Plan as of June 30, 2016 was as follows:

Retirees and beneficiaries currently receiving benefits	51,563
Terminated vested employees entitled to but not yet receiving benefits	9,240
Inactive non-vested members	46,055
Active plan members	71,848
	178,706

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

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

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to 2% (service prior to July 1, 1983) and 2.5% (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of the final average salary for each year of service if, upon retirement, their total service is less than ten years. New employees

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2017

after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

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

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

*Contributions* – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.855% of their salaries to the System. University members are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 8.185% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% for salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

The District's contributions to KTRS for the year ended June 30, 2017 were \$561,391.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At June 30, 2017, the District did not report a liability for the District's proportionate share of the net pension liability because the Commonwealth of Kentucky provides the pension support directly to KTRS on behalf of the District. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability for KTRS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.00%.

For the year ended June 30, 2017, the District did not recognized pension expense related to KTRS. At June 30, 2017, the District did not report deferred outflows of resources or deferred inflows of resources related to pensions.

*Actuarial assumptions* – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

June 30, 2017

Inflation	3.50%
Projected salary increases	4.0 – 8.2%
Investment rate of return, net of investment expense and inflation	7.50%
Municipal bond index rate	3.01%
Single equivalent interest rate	4.20%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females.

The actuarial assumptions used in the June 30, 2015 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 results of the experience study for the period July 1, 2010 – June 30, 2015 will be reflected in the June 30, 2016 valuation and the June 30, 2017 GASB 67 and GASB 68 reports.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45%	6.4%
Non U.S. Equity	17%	6.5%
Fixed Income	24%	1.6%
High Yield Bonds	4%	3.1%
Real Estate	4%	5.8%
Alternatives	4%	6.8%
Cash	2%	1.5%
	<u>100%</u>	

*Discount rate* –The discount rate used to measure the total pension liability as of the measurement date was 4.20%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year and, as a result the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). 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 SEIR at the measurement date of 4.20% was calculated using the Municipal Bond

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

June 30, 2017

Index Rate as of the measurement date (3.01%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

*Sensitivity of KTRS proportionate share of net pension liability to changes in the discount rate* – The following table presents the net pension liability of the Commonwealth of Kentucky on-behalf of the District, calculated using the discount rate selected, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rates.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
KTRS	3.20%	4.20%	5.20%
State’s proportionate share of net pension liability	\$ 152,679,418	\$ 124,454,760	\$ 101,290,096

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

**Medical Insurance Plan**

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

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

*Funding policy* – In order to fund the post-retirement healthcare benefit, 6% of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent is paid by member contributions and 0.75% from Commonwealth appropriation and 2.25% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**B. Contingencies and Commitments**

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

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

June 30, 2017

**C. Insurance and Related Activities**

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

**D. Litigation**

The Board's legal counsel has advised that the District is not subject to any litigation or unasserted claims as of June 30, 2017.

**E. Risk Management**

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

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

**F. COBRA**

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

**G. Joint Venture**

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

The operations are controlled by the board, which is comprised of representative from each District. The District's interest in this joint venture is accounted for using the equity method. The District's equity interest represents its explicit, measurable right to the net present or future resources of the joint venture. Under this method, the District records its share of the joint venture's net income or loss for each period. For additional financial information regarding the joint venture, contact Murray Independent School District (270.753.4363) or by mail at 208 South 13<sup>th</sup> Street, Murray, KY 42071.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND**  
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget (Positive Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources				
Taxes				
Property	\$ 5,750,000	\$ 5,928,800	\$ 5,944,651	\$ 15,851
Motor vehicle	1,100,000	1,100,000	1,160,678	60,678
Utilities	1,600,000	1,600,000	1,543,956	(56,044)
Other	215,000	225,000	298,971	73,971
Earnings on investments	90,000	90,000	100,322	10,322
Indirect cost reimbursements	134,825	133,316	136,169	2,853
Other local revenues	60,500	76,191	116,627	40,436
Intergovernmental - State	14,127,000	14,142,082	14,713,811	571,729
Intergovernmental - Indirect Federal	50,000	50,000	38,658	(11,342)
Total revenues	<u>23,127,325</u>	<u>23,345,389</u>	<u>24,053,843</u>	<u>708,454</u>
<b>Expenditures</b>				
Current				
Instruction	15,080,991	14,949,504	14,660,082	289,422
Support Services				
Student	1,044,757	1,002,178	1,016,020	(13,842)
Instructional staff	1,060,381	1,007,493	977,491	30,002
District administration	1,109,837	1,163,036	786,305	376,731
School administration	1,325,340	1,344,723	1,375,268	(30,545)
Business	598,913	629,621	580,272	49,349
Plant operation and management	2,522,789	3,304,787	2,631,953	672,834
Student transportation	2,025,984	2,292,898	1,651,440	641,458
Contingency	2,486,330	2,500,000	-	2,500,000
Total expenditures	<u>27,255,322</u>	<u>28,194,240</u>	<u>23,678,831</u>	<u>4,515,409</u>
Excess (deficit) of revenues over expenditures	<u>(4,127,997)</u>	<u>(4,848,851)</u>	<u>375,012</u>	<u>5,223,863</u>
<b>Other Financing Sources (Uses)</b>				
Gain (loss) on sale of assets	-	9,295	13,437	4,142
Transfers in	120,000	283,193	283,192	(1)
Transfers out	(349,753)	(333,940)	(468,928)	(134,988)
Total other financing sources (uses)	<u>(229,753)</u>	<u>(41,452)</u>	<u>(172,299)</u>	<u>(130,847)</u>
<b>Net change in fund balances</b>	<b>(4,357,750)</b>	<b>(4,890,303)</b>	<b>202,713</b>	<b>5,093,016</b>
Fund balances, beginning of year	<u>4,357,750</u>	<u>4,890,303</u>	<u>6,812,522</u>	<u>1,922,219</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,015,235</u>	<u>\$ 7,015,235</u>

See independent auditor's report.

**ALLOWAY COUNTY SCHOOL DISTRICT**  
**STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND**  
For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget (Positive Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
From local sources				
Earnings on investments	\$ 1,186	\$ 536	\$ 1,074	\$ 538
Other local revenues	35,784	115,309	86,451	(28,858)
Intergovernmental - State	1,596,767	1,560,684	1,584,037	23,353
Intergovernmental - Indirect Federal	<u>2,132,231</u>	<u>2,667,182</u>	<u>2,317,407</u>	<u>(349,775)</u>
Total revenues	<u>3,765,968</u>	<u>4,343,711</u>	<u>3,988,969</u>	<u>(354,742)</u>
<b>Expenditures</b>				
Current				
Instruction	2,950,124	3,651,073	3,337,966	313,107
Support Services				
Student	53,784	96,309	97,578	(1,269)
Instructional staff	222,656	147,779	147,127	652
District administration	-	2,181	-	2,181
School administration	23,704	25,000	24,396	604
Plant operation and management	44,811	17,853	17,899	(46)
Student transportation	137,499	180,555	149,316	31,239
Non-instructional services	244,300	236,386	236,387	(1)
Other	-	-	<u>36,237</u>	<u>(36,237)</u>
Total expenditures	<u>3,676,878</u>	<u>4,357,136</u>	<u>4,046,906</u>	<u>310,230</u>
Excess of revenues over expenditures	<u>89,090</u>	<u>(13,425)</u>	<u>(57,937)</u>	<u>(44,512)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	167,174	66,384	57,937	(8,447)
Transfers out	<u>(256,264)</u>	<u>(52,959)</u>	<u>-</u>	<u>52,959</u>
Total other financing sources (uses)	<u>(89,090)</u>	<u>13,425</u>	<u>57,937</u>	<u>44,512</u>
<b>Net change in fund balances</b>	-	-	-	-
Fund balances, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.15964%	0.15930%	0.16246%
District's proportionate share of the net pension liability (asset)	<u>\$ 7,860,121</u>	<u>\$ 6,849,144</u>	<u>\$ 5,270,868</u>
District's covered-employee payroll	<u>\$ 3,817,066</u>	<u>\$ 3,728,876</u>	<u>\$ 3,740,315</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	205.92%	183.68%	140.92%
Plan fiduciary net position as a percentage of the total pension liability	55.50%	59.97%	66.80%

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 478,493	\$ 472,653	\$ 475,596	\$ 513,936
Contributions in relation to the contractually required contribution	<u>(478,493)</u>	<u>(472,653)</u>	<u>(475,596)</u>	<u>(513,936)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 3,393,287</u>	<u>\$ 3,817,066</u>	<u>\$ 3,728,876</u>	<u>\$ 3,740,315</u>
Contributions as a percentage of covered-employee payroll	14.10%	12.38%	12.75%	13.74%

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

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability (asset)	0.000%	0.000%	0.000%
District's proportionate share of the net pension liability (asset)	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability (asset) associated with the District	<u>124,454,760</u>	<u>100,030,883</u>	<u>90,898,723</u>
Total proportionate share of the net pension liability (asset)	<u>\$ 124,454,760</u>	<u>\$ 100,030,883</u>	<u>\$ 90,898,723</u>
District's covered-employee payroll	<u>\$ 12,668,985</u>	<u>\$ 12,643,315</u>	<u>\$ 12,896,480</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	35.22%	42.49%	45.59%

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

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 561,391	\$ 573,547	\$ 444,967	\$ 334,552
Contributions in relation to the contractually required contribution	<u>(561,391)</u>	<u>(573,547)</u>	<u>(444,967)</u>	<u>(334,552)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	<u>\$ 13,505,359</u>	<u>\$ 12,668,985</u>	<u>\$ 12,643,315</u>	<u>\$ 12,896,480</u>
Contributions as a percentage of covered-employee payroll	4.16%	4.53%	3.52%	2.59%

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

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

For the Year Ended June 30, 2017

**County Employees Retirement System**

*Changes of benefit terms* - The following changes were made by the Kentucky Legislature and reflected in the valuation performed as of June 30 listed below:

2009: A new benefit tier for members who first participate on or after September 1, 2008 was introduced which included the following changes:

1. Tiered Structure for benefit accrual rates
2. New retirement eligibility requirements
3. Different rules for the computation of final average compensation

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

*Changes of assumptions* - The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015.

The assumed investment rate of return was decreased from 7.75% to 7.50%.

The assumed rate of inflation was reduced from 3.50% to 3.25%.

The assumed rate of wage inflation was reduced from 1.00% to 0.75%.

Payroll growth assumption was reduced from 4.50% to 4.00%.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (setback one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

Assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

**Kentucky Teachers' Retirement System**

*Changes of benefit terms*- None.

*Changes of assumptions* - The following changes were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2016.

In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

## **SUPPLEMENTARY AND OTHER INFORMATION SECTION**

**CALLOWAY COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2017**

	<u>District Activity Fund</u>	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 156,545	\$ -	\$ -	\$ 141,346	\$ 297,891
<b>Total assets</b>	<b><u>\$ 156,545</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 141,346</u></b>	<b><u>\$ 297,891</u></b>
<b>Liabilities and Fund Balances</b>					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 19,149	\$ 19,149
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,149</u>	<u>\$ 19,149</u>
Fund Balances					
Restricted	156,545	-	-	122,197	278,742
Total fund balances	<u>156,545</u>	<u>-</u>	<u>-</u>	<u>122,197</u>	<u>278,742</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 156,545</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 141,346</u></b>	<b><u>\$ 297,891</u></b>

*See independent auditor's report.*

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended June 30, 2017

	<b>District Activity Fund</b>	<b>Capital Outlay Fund</b>	<b>Building Fund</b>	<b>Construction Fund</b>	<b>Total Nonmajor Governmental Funds</b>
<b>Revenues</b>					
From local sources					
Taxes					
Property	\$ -	\$ -	\$ 928,404	\$ -	\$ 928,404
Earnings on investments	-	1,305	3,294	654	5,253
Other local revenues	160,249	-	-	-	160,249
Intergovernmental - State	-	276,022	151,722	-	427,744
Total revenues	<u>160,249</u>	<u>277,327</u>	<u>1,083,420</u>	<u>654</u>	<u>1,521,650</u>
<b>Expenditures</b>					
Current					
Instruction	111,863	-	-	-	111,863
Support Services					
Student	12,254	-	-	-	12,254
Instructional staff	26,382	-	-	-	26,382
Plant operation and management	41	-	-	-	41
Student transportation	205	-	-	-	205
Facilities acquisition and construction	-	-	-	52,304	52,304
Total expenditures	<u>150,745</u>	<u>-</u>	<u>-</u>	<u>52,304</u>	<u>203,049</u>
Excess of revenues over expenditures	<u>9,504</u>	<u>277,327</u>	<u>1,083,420</u>	<u>(51,650)</u>	<u>1,318,601</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	129,472	129,472
Transfers out	-	(302,935)	(1,083,420)	-	(1,386,355)
Total other financing sources (uses)	<u>-</u>	<u>(302,935)</u>	<u>(1,083,420)</u>	<u>129,472</u>	<u>(1,256,883)</u>
<b>Net change in fund balances</b>	<b>9,504</b>	<b>(25,608)</b>	<b>-</b>	<b>77,822</b>	<b>61,718</b>
Fund balances, beginning of year	<u>147,041</u>	<u>25,608</u>	<u>-</u>	<u>44,375</u>	<u>217,024</u>
Fund balances, end of year	<u>\$ 156,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 122,197</u>	<u>\$ 278,742</u>

See independent auditor's report.

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

For the Year Ended June 30, 2017

Fund	July 1, 2016	Revenues	Expenditures	June 30, 2017
<b>Activity Funds</b>				
<b>Calloway County High School:</b>				
General	\$ 9,851	\$ 400	\$ 400	\$ 9,851
Guidance Office	2	7,431	6,299	1,134
Library	10,336	-	10,336	-
Build. Part. Teachers	1,081	516	473	1,124
Teachers Fund	-	200	200	-
Vending Fund	2,577	226	-	2,803
Vending/Teachers Fund	787	398	630	555
Vending/DTC Fund	172	-	172	-
Class of 2017	2,585	5,115	6,504	1,196
Class of 2015	-	-	-	-
Class of 2018	2,599	526	-	3,125
Class of 2019	1,054	-	-	1,054
Homecoming Fund	4,015	440	1,274	3,181
Project Graduation	570	1,000	247	1,323
Sound System Upgrade	1,841	-	-	1,841
Academic Club	1,505	6,828	5,636	2,697
Special Ed. Vocational	1,902	-	189	1,713
Archery	1,767	9,008	6,691	4,084
Athletic Miscellaneous	2	42,464	30,034	12,432
Athletic Pass	-	7,340	7,310	30
Baseball	-	10,484	10,484	-
CCHS Bass Fishing Club	1,059	3,691	3,990	760
Band	325	3,740	4,065	-
Band Supply	126	8,955	8,329	752
Beta Club	6,351	6,944	6,513	6,782
BOE Sweep	-	81,933	81,933	-
Boys' Basketball	4,193	25,300	21,417	8,076
Boys' Little League	8	-	-	8
Boys' Soccer	5,333	8,194	6,046	7,481
B/G Cross Country	4,277	4,485	3,892	4,870
Boys'-Girls' Tennis	7,141	3,804	5,596	5,349
Boys'-Girls' Track	4,840	18,340	19,789	3,391
Calloway Live Club	3,982	10,602	12,159	2,425
Basketball Chair Seats	12,928	16,300	29,228	-
Cheerleader	9,791	7,491	17,237	45
Choir Class	5,395	741	671	5,465
Choir Supply	2,464	2,500	3,343	1,621
Class of 2016	2,131	407	2,538	-
Col Cowan Scholarship	600	-	-	600
CCHS Dance Team	399	-	385	14
Drama Club	896	-	-	896
FBLA Club	-	20,129	17,591	2,538
FEA	1,008	310	315	1,003
FFA Club	11,112	21,838	17,863	15,087
FCCLA Club	326	-	-	326
FCA	663	-	-	663
Football	9,634	33,303	31,736	11,201
French Club	48	-	48	-
Girls' Basketball	8,342	34,886	24,997	18,231
Girls' Little League BB	199	-	-	199
Girls' Soccer	1,658	8,587	5,438	4,807
Girls' Softball	1,061	4,027	3,128	1,960

See independent auditor's report.

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

For the Year Ended June 30, 2017

<u>Fund</u>	<u>July 1, 2016</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2017</u>
Golf	\$ 2,090	\$ 2,063	\$ 1,879	\$ 2,274
Horticulture Class	4,287	10,508	4,511	10,284
Japanese Club	1,025	-	1,025	-
Journalism Class	15,370	8,065	10,045	13,390
KYA	555	-	-	555
National Art Honor Soc	603	609	(53)	1,265
National Science	1,055	267	416	906
Pep Club	169	-	-	169
Principal's Discretionary	5,005	2,631	1,367	6,269
Robotics Team	1,507	490	682	1,315
Spanish Club	1,335	3,521	3,200	1,656
Speech Team	4,016	10,293	11,764	2,545
Swim Team Fund	816	-	-	816
Student Activities	5,307	5,949	4,800	6,456
Student Council	466	730	335	861
Tech Ed Vinyl	531	3,260	2,500	1,291
TSA Club	785	-	785	-
Volleyball Team Fund	13,722	26,061	25,901	13,882
Wrestling	18,688	3,843	17,693	4,838
Yearbook	15,340	20,197	25,855	9,682
Youth Service Center	1,212	4,587	3,668	2,131
Youth Service / CCCL	286	1,354	376	1,264
District Tournament	-	11,848	11,088	760
Regional Tournament	-	19,000	19,000	-
State Tournament	-	-	-	-
	<u>243,106</u>	<u>554,159</u>	<u>561,963</u>	<u>235,302</u>
Less: Inter-fund transfers	-	<u>82,010</u>	<u>82,010</u>	-
<b>Total Calloway County High School</b>	243,106	472,149	479,953	235,302
<b>Calloway County Middle School</b>	40,033	126,655	109,492	57,196
<b>North Calloway County Elementary School</b>	13,517	26,197	30,048	9,666
<b>East Calloway County Elementary School</b>	6,126	22,502	25,164	3,464
<b>Southwest Calloway County Elementary School</b>	29,929	32,604	47,273	15,260
<b>Calloway County Preschool</b>	<u>7,599</u>	<u>7,521</u>	<u>5,968</u>	<u>9,152</u>
<b>Total activity funds</b>	340,310	687,628	697,898	330,040
<b>Fiscal Agent Funds</b>	<u>359,769</u>	<u>145,586</u>	<u>226,173</u>	<u>279,182</u>
<b>Total agency funds</b>	<u>\$ 700,079</u>	<u>\$ 833,214</u>	<u>\$ 924,071</u>	<u>\$ 609,222</u>

See independent auditor's report.

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/ CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
<b>U.S. Department of Education</b>				
Passed Through State Department of Education:				
Title I:				
Title I Grants to Local Educational Agencies	84.010	220-4500-310A	\$ 697,566	\$ 7,501
Title I Grants to Local Educational Agencies	84.010	220-4500-310B	744,981	195,102
Title I Grants to Local Educational Agencies	84.010	220-4500-310BM	18,000	1,628
Title I Grants to Local Educational Agencies	84.011	220-4500-310C	758,929	512,135
Title I Grants to Local Educational Agencies	84.012	220-4500-310CM	18,000	18,000
Title I Grants to Local Educational Agencies	84.010	220-4500-313C	<u>15,400</u>	<u>15,400</u>
Total Title I Cluster			<u>2,252,876</u>	<u>749,766</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-337AP	7,218	7,218
Special Education_Grants to States	84.027	220-4500-337B	656,913	206,926
Special Education_Grants to States	84.027	220-4500-337BP	10,151	53
Special Education_Grants to States	84.027	220-4500-337C	<u>666,779</u>	<u>400,382</u>
		Sub-total	<u>1,341,061</u>	<u>614,579</u>
Special Education_Preschool Grants	84.173	220-4500-336B	312,478	55,806
Special Education_Preschool Grants	84.173	220-4500-336C	312,478	210,710
Special Education_Preschool Grants	84.173	220-4500337BP	63,607	47
Special Education_Preschool Grants	84.173	220-4500-343C	<u>63,607</u>	<u>55,281</u>
		Sub-total	<u>752,170</u>	<u>321,844</u>
Total Special Education Cluster			<u>2,093,231</u>	<u>936,423</u>
Career and Technical Education - Basic Grants to States				
Career and Technical Education - Basic Grants to States	84.048	220-4500-348BA	1,376	1,376
Career and Technical Education - Basic Grants to States	84.048	220-4500-348C	<u>25,749</u>	<u>25,749</u>
			<u>27,125</u>	<u>27,125</u>
Rural and Low Income Education				
Rural and Low Income Education	84.358B	220-4500-350B	60,234	58,031
Rural and Low Income Education	84.358B	220-4500-350C	<u>64,314</u>	<u>36,284</u>
			<u>124,548</u>	<u>94,315</u>
Supporting Effective Instruction State Grants				
Supporting Effective Instruction State Grants	84.367	220-4500-401B	83,416	23,843
Supporting Effective Instruction State Grants	84.367	220-4500-401C	<u>137,665</u>	<u>89,087</u>
			<u>221,081</u>	<u>112,930</u>
State Fiscal Stabilization Fund (SFSF)				
State Fiscal Stabilization Fund (SFSF)	84.395	220-4500-475AR	<u>451,864</u>	<u>254,890</u>
Total U.S. Department of Education			<u>5,170,725</u>	<u>2,175,449</u>
<b>U.S. Department of Agriculture</b>				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	545,285	545,285
National School Lunch Program - Donated Commodities	10.555	510-4950	130,582	130,582
National School Lunch Program	10.555	510-4500	1,100,296	1,100,296
Summer Food Program	10.559	510-4500	<u>35,546</u>	<u>35,546</u>
Total Child Nutrition Cluster			<u>1,811,709</u>	<u>1,811,709</u>
Total U.S. Department of Agriculture			<u>1,811,709</u>	<u>1,811,709</u>
<b>U.S. Department of Health and Human Resources</b>				
Passed Through Murray Independent Board of Education:				
Head Start	93.600	220-4700-655B	149,805	8,401
Head Start	93.600	220-4700-655C	<u>146,221</u>	<u>133,557</u>
Total U.S. Department of Health & Human Services			<u>296,026</u>	<u>141,958</u>
<b>Total Federal Awards</b>			<b><u>\$ 7,278,460</u></b>	<b><u>\$ 4,129,116</u></b>
<b>Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures</b>				
Total expenditures of Federal awards				\$ 4,129,116
Total expenditures of State and Local awards				1,729,499
Expenditure of Federal awards in the Food Service Fund				<u>(1,811,709)</u>
<b>Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds</b>				<b><u>\$ 4,046,906</u></b>

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

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended June 30, 2017

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Murray Independent School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Murray Independent School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Calloway County School District.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3 - INDIRECT COST RATE**

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

**NOTE 4 - FOOD DISTRIBUTION**

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

## **INTERNAL CONTROL AND COMPLIANCE SECTION**



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Calloway County School District's basic financial statements and have issued our report thereon dated November 13, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and question costs as item 2017-001, that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the District in a separate letter dated November 13, 2017, as required by the auditor's contract with the Kentucky Department of Education. The Calloway County School District's response to the finding identified in our report is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2017



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**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control  
Over Compliance Required By the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

We have audited Calloway County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Calloway County School District's major federal programs for the year ended June 30, 2017. Calloway County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Calloway County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Calloway County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### ***Opinion on Each Major Federal Program***

In our opinion, Calloway County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

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

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

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

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

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2017

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 June 30, 2017

**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of report auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

unmodified

Internal control over financial reporting:

Material weakness(es) identified?

       yes        x   no

Significant deficiency(ies) identified?

  x   yes             none reported

Noncompliance material to financial statements noted?

       yes        x   no

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?

       yes        x   no

Significant deficiency(ies) identified?

       yes        x   none reported

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

unmodified

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

       yes        x   no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Clusters
84.027; 84.173	Special Education Cluster
10.553; 10.555; 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

  x   yes

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
June 30, 2017

**FINANCIAL STATEMENT FINDINGS**

**SIGNIFICANT DEFICIENCY**

**2017-001**

**Condition:** Subsequent to the balance sheet date, control procedures were altered to allow the District Finance Officer to have custody, authorization, recording and reconciliation duties over the District's cash.

**Criteria:** When obtaining an understanding of the entity's processes related to financial reporting and their associated control activities, the auditor considers proper segregation of duties. AU-C Section 315-Understanding the Entity and its Environment, Including the Entity's Internal Control and Assessing the Risks of Material Misstatement, specifically notes the segregation of duties related to assigning different people the responsibilities of authorizing transactions, recording transaction, and maintaining custody of assets.

**Cause:** The individual that had previously performed the reconciliation of the District's bank account was relieved of this duty beginning in July 2017.

**Effect:** Duties related to the District's cash are not properly segregated, thus elevating the potential for misappropriation of assets.

**Recommendation:** Remove the finance officer's superuser access within MUNIS to achieve effective segregation of duties.

**Response:** The client agrees with this finding and will implement the recommendation.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

## **MANAGEMENT LETTER POINTS**



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Tres Settle, Superintendent  
Calloway County Board of Education  
Murray, Kentucky

In planning and performing our audit of the financial statements of Calloway County School District as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United State of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 effective 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 deficiencies in internal control other than significant deficiencies and material weaknesses as well as matters that are opportunities for strengthening internal controls, improving operating efficiency, and reducing expenses. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 13, 2017, on the financial statements of Calloway County School District.

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

This communication is intended solely for the information and use of management of Calloway County School District and others within the District, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

*Alexander Thompson Arnold PLLC*

Murray, Kentucky  
November 13, 2017

**CALLOWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS**

June 30, 2017

**MANAGEMENT LETTER POINTS**

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

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

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

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

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

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

- II. **Condition:** The per diem pay schedule for substitute teachers does not take experience into account.

**Criteria:** 702 KAR 3:075 requires a local board of education to adopt annually a per diem pay schedule for substitute teachers based on training and experience.

**Cause:** Management was unaware of the requirement.

**Effect:** The school district does not fully comply with 702 KAR 3:075.

**Recommendation:** The per diem pay schedule for substitute teachers should take experience into account.

**Response:** The client agrees with the recommendation and has adopted a revised schedule.

- III. **Condition:** Donation Acceptance Forms for activity funds (F-SA-18) are not completed upon receiving donations at Southwest Elementary.

**Criteria:** 702 KAR 3:130 requires a district board of education to comply with "Redbook". "Redbook" requires the Donation Acceptance Form (Form F-SA-18) to be completed stating the purpose of and any restrictions on the donation received.

**Cause:** Management was unaware of the requirement.

**CALLOWAY COUNTY SCHOOL DISTRICT  
MANAGEMENT LETTER POINTS**

June 30, 2017

***Effect:*** The school district is not in compliance with the “Redbook”.

***Recommendation:*** Donation Acceptance Forms for activity funds (F-SA-18) should be completed upon receiving donations.

***Response:*** The client agrees with the recommendation.

## **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
June 30, 2017

**FINANCIAL STATEMENT FINDINGS**

None reported

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

**CALLOWAY COUNTY SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR MANAGEMENT LETTER POINTS**  
June 30, 2017

**MANAGEMENT LETTER POINTS**

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

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

**Current Status:** This condition continues to exist.