

CALLOWAY COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2014

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INTRODUCTORY SECTION

CALLOWAY COUNTY SCHOOL DISTRICT

June 30, 2014

BOARD OF EDUCATION

Jeff Gordon, chairman
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Richard Smotherman, member

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

FINANCIAL SECTION

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Certified Public Accountants
Offices in Tennessee & Kentucky

112-A Robertson Rd. N.
Murray, KY 42071

Phone 270.753.2424
Fax 270.753.3878
www.atacpa.net

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, 2014, 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, 2014, 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 and budgetary comparison information on pages 4-11 and 42-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Calloway County School District's basic financial statements. The introductory section and combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the Calloway County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Calloway County School District's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 14, 2014

Calloway County Schools

BOARD OF EDUCATION



"Successful- Now and Beyond"

P. O. Box 800
MURRAY, KENTUCKY 42071
Phone (270) 762-7300
Fax (270) 762-7310
www.calloway.kyschools.us
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CALLOWAY COUNTY PUBLIC SCHOOL DISTRICT – MURRAY, KENTUCKY MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2014

The discussion and analysis of the Calloway County School District (District) provides a narrative overview and analysis of the District’s financial statements and the activities of the District for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information found within the body of the audited financial statements. This reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2014 are as follows:

- General revenues accounted for \$24,972,935 or 80% of all revenue. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$6,194,121 or 20% of total revenue.
- Among governmental funds, the General Fund had \$23,149,583 in revenue (including other financing sources), which primarily consisted of the state program (SEEK) and property, local utility, and motor vehicle taxes. General Fund expenditures (excluding transfers) were \$25,439,237.
- The General Fund’s balance decreased by \$1,985,373 from 2013. The unassigned fund balance from 2014 was \$4,476,665 compared to \$5,475,433 for 2012-2013. Effective for the end of year 2014, in compliance with the GASB 54 regulations, \$2,160,444 was either restricted or committed by the board for special projects including SBDM Council carry forward and accumulated sick leave liability compared to \$3,147,049 at the end of FY2013.
- Day care services were offered by the District for the ninth year at all three elementary schools and the preschool. The summer day care service, which was started in 2008 – 2009, continued during the 2013 – 2014 school year. Day care expenses exceeded revenues for the first time in nine years due in part to a shortened summer after a difficult winter. The day care program will continue to provide services in 2014 – 2015 with newly aligned budgets.

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

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

The Statement of Activities 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 operation in more detail than the government-wide statements by providing information about the District's most significant funds. All of the funds of the District can be divided into three categories: governmental, proprietary (business-type) and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary funds are the food service and day care operations. All other activities of the District are included in the governmental funds.

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.

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 \$23,838,739, a decrease of \$1,933,505 over the prior year.

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 2014 and 2013.

Net Position		
	<u>2014</u>	<u>2013</u>
Assets		
Current Assets	\$ 12,863,685	\$ 13,124,912
Noncurrent Assets	<u>34,871,032</u>	<u>30,347,853</u>
Total Assets	<u>47,734,717</u>	<u>43,472,765</u>
Deferred Outflows of Resources		
Deferred on Refunding	<u>409,629</u>	<u>-</u>
Total Deferred Outflows	<u>409,629</u>	<u>-</u>
Total Assets and Deferred Outflows	<u>48,144,346</u>	<u>43,472,765</u>
Liabilities		
Current liabilities	1,426,089	480,067
Noncurrent liabilities	<u>22,879,518</u>	<u>17,220,454</u>
Total Liabilities	<u>24,305,607</u>	<u>17,700,521</u>
Net position		
Net investment in capital assets	12,470,550	13,922,108
Restricted	5,329,934	3,225,498
Unrestricted	<u>6,068,255</u>	<u>8,624,638</u>
Total Net Position	<u>\$ 23,838,739</u>	<u>\$ 25,772,244</u>

The following table shows changes in net position for fiscal year 2014 and 2013. Total revenues decreased by \$920,304 compared to fiscal year 2013 revenues and expenses increased by \$588,499.

Changes in Net Position		
	2014	2013
Revenues		
Program Revenues:		
Charges for Services	\$ 785,554	\$ 895,030
Operating Grants and Contributions	5,408,567	5,921,108
General Revenues:		
Local Taxes	9,073,621	8,812,597
Investment Earnings	174,480	200,154
Other Local Revenue	119,024	283,718
Original Issue Discount	48,720	(40,900)
State Aid – Formula Grants	15,587,864	16,022,932
Transfer In/Out	(43,950)	1,050
Gain (Loss) on Sale of Fixed Assets	13,176	(8,329)
Total Revenues	31,167,056	32,087,360
Program Expenses		
Instruction	18,341,131	19,206,523
Support Services	6,267,114	5,402,899
Plant Operations and Management	2,848,801	2,496,454
Student Transportation	1,866,703	1,871,404
Non-instructional Services	233,920	226,305
Interest on long-term debt	823,651	552,073
Amortization – unallocated	4,772	47,714
Food Service	2,030,734	2,011,557
Day Care	300,268	313,666
Total Expenses	32,717,094	32,128,595
Increase/(Decrease) in Net Position	\$ (1,550,038)	\$ (41,235)

GOVERNMENTAL ACTIVITIES

Total revenues for governmental activities for 2014 were \$28,731,800 which was a decrease of approximately 3%. Taxes made up 31.5% of revenues for governmental activities for the District compared to 29.8% in fiscal year 2013. State aid and state and federal grants accounted for 66.5% of revenue in fiscal year 2014 compared to 68.7% in fiscal year 2013. The total cost of all programs and services for governmental activities was \$34,872,945 compared to \$29,803,372 in fiscal year 2013. Instructions comprised 50.7% of expenses in fiscal year 2014 compared to 64% in fiscal year 2013. A construction project to replace/repair HVAC and lighting systems at most locations caused a large increase in expenditures in fiscal year 2014 and can account for approximately \$4,000,000 in expenditure increases. A large land purchase, track renovation, and paving project can account for an additional \$950,000.

Revenues for the District in fiscal year 2014 failed to meet expenses by \$1,649,387 compared to a deficit of just \$183,361 in fiscal year 2013. Total revenues for the District decreased by almost 3% in fiscal year 2014 and expenses for the District increased by almost 2%. The reduction in total revenues and increase in total expenses resulted in a decrease total net position of \$1,550,038. The district gave a 1% salary increase in fiscal year 2014 and completed several projects in which funds had been committed previously.

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 2014 and 2013. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Cost of Services

	<u>Total Cost</u> <u>(2014)</u>	<u>Total Cost</u> <u>(2013)</u>	<u>Net Cost</u> <u>(2014)</u>	<u>Net Cost</u> <u>(2013)</u>
Instruction	\$ 18,341,131	\$ 19,206,523	14,568,046	\$ 14,851,659
Students & Instructional Staff	2,367,207	2,384,979	2,367,207	2,384,979
General , School Admin. & Business	3,899,907	3,017,920	3,899,907	3,017,920
Plant Operations and Main.	2,848,801	2,496,454	2,848,801	2,496,454
Student Transportation	1,866,703	1,871,404	1,866,703	1,871,404
Non-Instructional Services	233,920	226,305	233,920	226,305
Interest on Long-Term Debt	823,651	552,073	823,651	552,073
Amortization-Unallocated	<u>4,772</u>	<u>47,714</u>	<u>4,772</u>	<u>47,714</u>
Total Expenses	<u>\$ 30,386,092</u>	<u>\$29,803,372</u>	<u>\$ 26,613,007</u>	<u>\$ 25,448,508</u>

PROPRIETARY (BUSINESS-TYPE) ACTIVITIES

The proprietary (business-type) activities of the District are the food service operation and the day care operation. The following table represents a summary of revenues and expenses for the fiscal years which ended June 30, 2014 and June 30, 2013.

	<u>2014</u>	<u>2013</u>
Operating revenues		
Local revenue sources	\$ 723,335	\$ 854,226
Total operating revenue	<u>723,335</u>	<u>854,226</u>
Non-operating revenues (expenses)		
Investments	9,959	12,028
State revenue sources	43,631	111,409
State on-behalf payments	187,263	177,661
Federal revenue	1,347,021	1,183,739
Donated commodities	119,786	134,239
Transfers in (out)	-	-
Gain (loss) on disposal of assets	<u>(644)</u>	<u>(5,953)</u>
Total non-operating revenue	<u>1,707,016</u>	<u>1,613,123</u>
Total revenue	<u>2,430,351</u>	<u>2,467,349</u>
Expenses		
Food service	2,030,734	2,011,557
Day care	<u>300,268</u>	<u>313,666</u>
Total expenses	<u>2,331,002</u>	<u>2,325,223</u>
Change in net position	<u>\$ 99,349</u>	<u>\$ 142,126</u>

Food service revenues exceeded expenditures this year by \$117,577 compared to last year when revenues exceeded expenditures by \$101,259. The food service operation is self-operating without assistance from the General Fund. This business activity receives no support from tax revenues.

The day care program expenditures exceeded revenues this year by \$18,288 compared to last year when revenues exceeded expenditures by \$40,867. The program in fiscal year 2014 was shortened due to the extended school year which was a result of a difficult winter. The current year was the ninth year of the childcare program and the fifth complete year for the summer childcare program. The day care program is generally self-supporting and had maintained a sufficient carry forward from previous years to cover the deficit in fiscal year 2014.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined unassigned fund balance of \$4,476,665. Effective for the end of fiscal year 2014, in compliance with GASB 54 regulations, \$7,380,688 was restricted or committed by the board for special projects to include SBDM Council carry forward and accumulated sick leave liability.

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

The General Fund is the principal operating fund of the District. At year end, it was comprised of \$6,770,035 of which \$4,476,665 was unassigned and \$2,160,443 was either restricted or committed. The unassigned portion of \$4,476,665 was a significant reduction from the fiscal year 2013 unassigned

balance of \$5,475,433. This can be attributed in part to several large purchases/projects completed during the year to include a land purchase, paving work, and a track renovation.

The District is required to analyze any significant variations between the final budget (approved in September) and actual expenditures and revenues for the fiscal year. Significant variations are considered to be any variations over 10% of the budgeted amount. Total variations in the budgeted revenue and actual revenue were only 3.8% and do not represent a significant variation. The significant expenditure variations are summarized as follows:

- The unfavorable variance of \$267,740 (22.7%) in instructional support services is a result of a network upgrade completed in fiscal year 2014.
- The favorable variance of \$202,297 (11.4%) in district administrative support services is due to accrued sick leave paid. Out of the \$275,000 budgeted, only \$64,303 was paid out.
- The favorable variance of \$409,800 (12.5%) in plant operations and maintenance can be attributed to decreases in building repairs and maintenance as several repair projects were completed in fiscal year 2013 and to careful planning and cost comparisons in supply purchases.
- Budgets for supplies to include diesel fuel and gasoline costs were higher than actual expenditures due to decreasing fuel costs and decreases in the cost of repair parts. A favorable variance of \$395,497 (17.3%) can be attributed in large part to these fluctuations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At year end, the District had \$63,273,285 invested in land, buildings, equipment and vehicles compared to \$58,240,777 at the end of fiscal year 2013. The following schedule presents a summary of capital asset balances (net of depreciation) for the fiscal years ended June 30, 2014 and June 30, 2013.

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

	<u>2014</u>	<u>2013</u>
Land and Improvements	\$ 2,174,333	\$ 1,338,341
Buildings and Improvements	24,285,497	25,594,635
Technology Equipment	273,892	428,612
Vehicles	1,732,205	1,588,773
General Equipment	527,713	587,658
Construction Work in Progress	<u>3,956,040</u>	<u>-</u>
Total	<u>\$ 32,949,680</u>	<u>\$ 29,538,019</u>

Debt Administration: As of June 30, 2014 the District has \$21,170,332 of debt outstanding. This represents an increase from FY2013 in the amount of \$5,128,053 due to the issuance of new bonds related to a performance contract.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year runs from July 1st through June 30th; other programs, i.e., some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. Kentucky Statute requires each district to allocate a minimum of 2% of the total budget to contingency. The District adopted a budget for fiscal year 2015 that included \$2,300,000 in contingency or a total of 7.41% excluding on-behalf revenues and expenditures.

The remainder of the fiscal year 2015 budget was developed after careful consideration of several factors including:

- Reduction in carry forward from \$6,460,533 in FY2014 to \$4,609,591 in FY2015
- State mandated salary increases of 1% in FY2015 and 2% in FY2016
- KTRS employer portion increase from 1.5% in FY2014 to 2.25% in FY2015 and eventually to 3% in FY2016
- Kentucky School Board Insurance Trust Property and Liability Fund Assessment (payments due over a 6 year period)
- Trends of decreasing enrollment for the District

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

BASIC FINANCIAL STATEMENTS

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 11,104,063	\$ 1,077,496	\$ 12,181,559
Receivables			
Accounts	186,706	928	187,634
Intergovernmental - State	15,322	-	15,322
Intergovernmental - Federal	373,687	-	373,687
Inventories	-	105,483	105,483
Prepaid expenses	68,499	-	68,499
Restricted investments	1,571,280	-	1,571,280
Capital assets not being depreciated			
Land	1,697,102	-	1,697,102
Construction in progress	3,956,040	-	3,956,040
Capital assets, net of accumulated depreciation			
Land improvements	477,231	-	477,231
Building and improvements	24,209,504	75,993	24,285,497
Technology equipment	264,428	9,464	273,892
Vehicles	1,732,206	-	1,732,206
General equipment	225,247	302,465	527,712
Property under capital lease	281,573	-	281,573
Total assets	<u>46,162,888</u>	<u>1,571,829</u>	<u>47,734,717</u>
Deferred Outflows of Resources			
Deferred amount on refunding	409,629	-	409,629
Total deferred outflows of resources	<u>409,629</u>	<u>-</u>	<u>409,629</u>
Liabilities			
Accounts payable	1,098,900	-	1,098,900
Unearned revenue	124,379	-	124,379
Accrued interest	202,810	-	202,810
Long-term liabilities			
Portion due or payable within one year			
Insurance assessment	132,926	-	132,926
Bonds and capital lease	1,196,827	-	1,196,827
Accrued sick leave	113,054	-	113,054
Portion due or payable after one year			
Insurance assessment	305,481	-	305,481
Bonds and capital lease	19,973,505	-	19,973,505
Accrued sick leave	1,135,220	22,505	1,157,725
Total liabilities	<u>24,283,102</u>	<u>22,505</u>	<u>24,305,607</u>
Net Position			
Net investment in capital assets	12,082,628	387,922	12,470,550
Restricted for			
Sick leave	275,000	-	275,000
Construction	3,442,754	-	3,442,754
SFCC	143,650	-	143,650
Debt service	1,370,320	-	1,370,320
Other	98,210	-	98,210
Unrestricted	4,876,853	1,161,402	6,038,255
Total net position	<u>\$ 22,289,415</u>	<u>\$ 1,549,324</u>	<u>\$ 23,838,739</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

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	\$ 18,341,131	\$ 62,219	\$ 3,710,866	\$ (14,568,046)	\$ -	\$ (14,568,046)
Support services						
Student	1,068,179	-	-	(1,068,179)	-	(1,068,179)
Instructional staff	1,299,028	-	-	(1,299,028)	-	(1,299,028)
District administration	1,891,265	-	-	(1,891,265)	-	(1,891,265)
School administration	1,434,853	-	-	(1,434,853)	-	(1,434,853)
Business	573,789	-	-	(573,789)	-	(573,789)
Plant operation and management	2,848,801	-	-	(2,848,801)	-	(2,848,801)
Student transportation	1,866,703	-	-	(1,866,703)	-	(1,866,703)
Non-instructional services	233,920	-	-	(233,920)	-	(233,920)
Interest on long-term debt	823,651	-	-	(823,651)	-	(823,651)
Amortization - unallocated	4,772	-	-	(4,772)	-	(4,772)
Total governmental activities	<u>30,386,092</u>	<u>62,219</u>	<u>3,710,866</u>	<u>(26,613,007)</u>	<u>-</u>	<u>(26,613,007)</u>
Business-type activities:						
Food service	2,030,734	518,223	1,620,773	-	108,262	108,262
Other enterprise	300,268	205,112	76,928	-	(18,228)	(18,228)
Total business-type activities	<u>2,331,002</u>	<u>723,335</u>	<u>1,697,701</u>	<u>-</u>	<u>90,034</u>	<u>90,034</u>
Total primary government	<u>\$ 32,717,094</u>	<u>\$ 785,554</u>	<u>\$ 5,408,567</u>	<u>(26,613,007)</u>	<u>90,034</u>	<u>(26,522,973)</u>
General revenues:						
Taxes						
Property				5,992,233	-	5,992,233
Motor vehicle				1,056,221	-	1,056,221
Utilities				1,641,049	-	1,641,049
Other				384,118	-	384,118
Investment earnings				164,521	9,959	174,480
Other local revenue				119,024	-	119,024
Original issue discount				48,720	-	48,720
State aid - formula grants				15,587,864	-	15,587,864
Indirect cost reimbursement				1,050	-	1,050
Gain (loss) on sale of assets				13,820	(644)	13,176
Transfers				(45,000)	-	(45,000)
Total general revenues and transfers				<u>24,963,620</u>	<u>9,315</u>	<u>24,972,935</u>
Change in net position				(1,649,387)	99,349	(1,550,038)
Net position, beginning of year				24,322,268	1,449,975	25,772,243
Prior period adjustment				(383,466)	-	(383,466)
Total net position, beginning of year restated				<u>23,938,802</u>	<u>1,449,975</u>	<u>25,388,777</u>
Net position, end of year				<u>\$ 22,289,415</u>	<u>\$ 1,549,324</u>	<u>\$ 23,838,739</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and cash equivalents	\$ 6,318,699	\$ -	\$ 4,504,154	\$ 39,350	\$ 241,860	\$ 11,104,063
Receivables						
Accounts	186,706	-	-	-	-	186,706
Intergovernmental - State and local	-	15,322	-	-	-	15,322
Intergovernmental - Federal	-	373,687	-	-	-	373,687
Due from other funds	264,630	-	-	-	-	264,630
Restricted investments	-	-	-	1,533,780	-	1,533,780
Total assets	<u>\$ 6,770,035</u>	<u>\$ 389,009</u>	<u>\$ 4,504,154</u>	<u>\$ 1,573,130</u>	<u>\$ 241,860</u>	<u>\$ 13,478,188</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 132,926	\$ -	\$ 1,098,900	\$ -	\$ -	\$ 1,231,826
Due to other funds	-	264,630	-	-	-	264,630
Unearned revenue	-	124,379	-	-	-	124,379
Total liabilities	<u>132,926</u>	<u>389,009</u>	<u>1,098,900</u>	<u>-</u>	<u>-</u>	<u>1,620,835</u>
Fund Balances						
Restricted	275,000	-	3,405,254	1,573,130	241,860	5,495,244
Committed	1,885,444	-	-	-	-	1,885,444
Unassigned	4,476,665	-	-	-	-	4,476,665
Total fund balances	<u>6,637,109</u>	<u>-</u>	<u>3,405,254</u>	<u>1,573,130</u>	<u>241,860</u>	<u>11,857,353</u>
Total liabilities and fund balances	<u>\$ 6,770,035</u>	<u>\$ 389,009</u>	<u>\$ 4,504,154</u>	<u>\$ 1,573,130</u>	<u>\$ 241,860</u>	<u>\$ 13,478,188</u>

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, 2014

Total fund balances - governmental funds **\$ 11,857,353**

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

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$62,357,197 and the accumulated depreciation is \$29,513,866. 32,843,331

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. 378,551

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. 68,499

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	(21,139,254)	
Accrued interest on the bonds	(202,810)	
Accrued sick leave payable	(1,248,274)	
Insurance assessment	(305,481)	
		<u>(22,895,819)</u>

Total net position - governmental activities **\$ 22,289,415**

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, 2014

	General Fund	Special Revenue Fund	Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
From local sources						
Taxes						
Property	\$ 5,145,545	\$ -	\$ -	\$ -	\$ 846,688	\$ 5,992,233
Motor vehicle	1,056,221	-	-	-	-	1,056,221
Utilities	1,641,049	-	-	-	-	1,641,049
Other	384,118	-	-	-	-	384,118
Earnings on investments	105,974	1,291	29,761	17,062	10,433	164,521
Indirect cost reimbursements	13,685	-	-	-	-	13,685
Other local revenues	104,902	155,845	-	-	88,241	348,988
Intergovernmental - State	14,698,089	1,383,864	-	410,244	479,531	16,971,728
Intergovernmental - Direct Federal	-	39,441	-	44,216	-	83,657
Intergovernmental - Indirect Federal	-	2,075,600	-	-	-	2,075,600
Total revenues	<u>23,149,583</u>	<u>3,656,041</u>	<u>29,761</u>	<u>471,522</u>	<u>1,424,893</u>	<u>28,731,800</u>
Expenditures						
Current						
Instruction	14,792,296	2,916,589	-	-	-	17,708,885
Support Services						
Student	1,002,296	57,805	-	-	-	1,060,101
Instructional staff	1,444,522	193,311	-	-	-	1,637,833
District administration	1,559,722	-	-	-	-	1,559,722
School administration	1,338,536	21,529	-	-	-	1,360,065
Business	565,224	-	-	-	-	565,224
Plant operation and management	2,853,180	-	-	-	-	2,853,180
Student transportation	1,883,461	130,971	-	-	-	2,014,432
Non-instructional services	-	234,050	-	-	-	234,050
Facilities acquisition and construction	-	-	3,956,040	-	-	3,956,040
Debt service						
Principal	-	-	-	1,257,142	-	1,257,142
Interest and debt service issuance costs	-	-	-	653,636	-	653,636
Other	-	12,635	-	-	-	12,635
Total expenditures	<u>25,439,237</u>	<u>3,566,890</u>	<u>3,956,040</u>	<u>1,910,778</u>	<u>-</u>	<u>34,872,945</u>
Excess (deficit) of revenues over expenditures	<u>(2,289,654)</u>	<u>89,151</u>	<u>(3,926,279)</u>	<u>(1,439,256)</u>	<u>1,424,893</u>	<u>(6,141,145)</u>
Other Financing Sources (Uses)						
Original issue discount	-	-	-	48,720	-	48,720
Bond proceeds	-	-	-	5,995,000	-	5,995,000
Capital lease proceeds	354,844	-	-	-	-	354,844
Gain (loss) on sale of assets	14,569	-	-	-	-	14,569
Transfers in	220,876	45,880	7,171,132	1,315,569	9,969	8,763,426
Transfers out	(286,008)	(135,031)	-	(5,831,963)	(2,555,424)	(8,808,426)
Total other financing sources (uses)	<u>304,281</u>	<u>(89,151)</u>	<u>7,171,132</u>	<u>1,527,326</u>	<u>(2,545,455)</u>	<u>6,368,133</u>
Net change in fund balances	(1,985,373)	-	3,244,853	88,070	(1,120,562)	226,988
Fund balances, beginning of year	<u>8,622,482</u>	<u>-</u>	<u>160,401</u>	<u>1,485,060</u>	<u>1,362,422</u>	<u>11,630,365</u>
Fund balances, end of year	<u>\$ 6,637,109</u>	<u>\$ -</u>	<u>\$ 3,405,254</u>	<u>\$ 1,573,130</u>	<u>\$ 241,860</u>	<u>\$ 11,857,353</u>

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, 2014

Total net change in fund balances - governmental funds **\$ 226,988**

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays (\$5,551,085) exceeds depreciation (\$1,835,619) in the period. 3,715,466

Issuance of bonds (\$5,995,000) and leases (\$354,844) are other financing sources in the governmental funds, but the issuance increases long-term liabilities in the statement of net assets. (6,349,844)

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. 1,257,142

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. (92,142)

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. (170,015)

In the governmental funds, the KSBIT insurance assessment amount repaid during the year (\$132,926) 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 (\$132,926) reduces long-term liabilities. (305,481)

Expenditures for the maintenance contract on technology equipment covering more than one reporting period are recognized as an expense in the governmental funds. This amount is reported as a deferred charge in the government-wide statements. 68,499

Change in net position of governmental activities **\$ (1,649,387)**

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Food Service Fund	Other Enterprise Fund	Total Enterprise Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 941,882	\$ 135,614	\$ 1,077,496
Receivables			
Accounts	-	928	928
Inventories	105,483	-	105,483
Total current assets	1,047,365	136,542	1,183,907
Noncurrent assets			
Building and improvements	348,953	-	348,953
Technology equipment	25,429	15,067	40,496
General equipment	812,984	-	812,984
Accumulated depreciation	(807,546)	(6,965)	(814,511)
Total noncurrent assets	379,820	8,102	387,922
Total assets	1,427,185	144,644	1,571,829
Liabilities			
Noncurrent liabilities			
Accrued sick leave	22,505	-	22,505
Total noncurrent liabilities	22,505	-	22,505
Total liabilities	22,505	-	22,505
Net Position			
Investment in capital assets	379,820	8,102	387,922
Unrestricted	1,024,860	136,542	1,161,402
Total net position	\$ 1,404,680	\$ 144,644	\$ 1,549,324

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, 2014

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues			
Lunchroom sales	\$ 518,223	\$ -	\$ 518,223
Community service activities	-	205,112	205,112
Total operating revenues	<u>518,223</u>	<u>205,112</u>	<u>723,335</u>
Operating Expenses			
Salaries, wages and benefits	951,182	277,385	1,228,567
Contract services	47,378	2,445	49,823
Materials and supplies	965,768	14,177	979,945
Depreciation	49,848	3,013	52,861
Other	16,558	3,248	19,806
Total operating expenses	<u>2,030,734</u>	<u>300,268</u>	<u>2,331,002</u>
Operating loss	<u>(1,512,511)</u>	<u>(95,156)</u>	<u>(1,607,667)</u>
Non-Operating Revenues (Expenses)			
Interest income	9,959	-	9,959
Donated commodities	119,786	-	119,786
Grants - child nutrition program	1,347,021	-	1,347,021
State funding - on-behalf payments	135,509	51,754	187,263
State matching	18,457	25,174	43,631
Loss on disposal of assets	(644)	-	(644)
Total non-operating revenues (expenses)	<u>1,630,088</u>	<u>76,928</u>	<u>1,707,016</u>
Change in net position	117,577	(18,228)	99,349
Total net position, beginning of year	<u>1,287,103</u>	<u>162,872</u>	<u>1,449,975</u>
Total net position, end of year	<u>\$ 1,404,680</u>	<u>\$ 144,644</u>	<u>\$ 1,549,324</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, 2014

	Food Service Fund	Other Enterprise Fund	Enterprise Funds
Cash Flows from Operating Activities			
Cash received from			
Lunchroom sales	\$ 518,223	\$ -	\$ 518,223
Community service activities	-	211,718	211,718
Cash paid for			
Salaries, wages and benefits	(815,211)	(225,631)	(1,040,842)
Contract services	(47,378)	(2,445)	(49,823)
Materials and supplies	(863,963)	(14,177)	(878,140)
Other	(16,558)	(3,248)	(19,806)
Net cash used by operating activities	(1,224,887)	(33,783)	(1,258,670)
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(31,273)	-	(31,273)
Cash Flows from Noncapital Financing Activities			
Nonoperating federal grants received	1,427,441	-	1,427,441
Nonoperating state grants received	18,457	25,174	43,631
Net cash provided by noncapital financing activities	1,445,898	25,174	1,471,072
Cash Flows from Investing Activities			
Interest income	9,959	-	9,959
Net increase (decrease) in cash and cash equivalents	199,697	(8,609)	191,088
Cash and cash equivalents, beginning of year	742,185	144,223	886,408
Cash and cash equivalents, end of year	\$ 941,882	\$ 135,614	\$ 1,077,496
Reconciliation of Operating Loss to Net Cash Used by Operating Activities			
Operating loss	\$ (1,512,511)	\$ (95,156)	\$ (1,607,667)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	49,848	3,013	52,861
Salaries, wages and benefits (on-behalf payments)	135,509	51,754	187,263
Materials and supplies (commodities used)	119,786	-	119,786
Changes in assets and liabilities			
Receivables, account	-	6,606	6,606
Inventories	(17,980)	-	(17,980)
Accrued sick leave	462	-	462
Net cash used by operating activities	\$ (1,224,886)	\$ (33,783)	\$ (1,258,669)
Noncash Noncapital Financing Activities			
Donated food commodities received from the U.S. Department of Agriculture	\$ 119,786	\$ -	\$ 119,786
Loss on disposal of assets	\$ (644)	\$ -	\$ (644)
State funding - on-behalf payments	\$ 135,509	\$ 51,754	\$ 187,263

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

**CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2014**

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 316,395	\$ 473,456
Total assets	316,395	473,456
Liabilities		
Due to student groups	-	342,244
Due to grantor agencies	-	131,212
Total liabilities	-	\$ 473,456
Net Position		
Net position held in trust	316,395	
Total net position	\$ 316,395	

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, 2014**

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$ 3,700
Donations	1,165
Deductions	
Instruction	<u>(2,693)</u>
Change in net position	2,172
Net position, beginning of year	<u>314,223</u>
Net position, end of year	<u>\$ 316,395</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, 2014

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, 2014

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, 2014

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

II. Proprietary Fund Types (Enterprise Funds)

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

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

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

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

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

CALLOWAY COUNTY SCHOOL DISTRICT
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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 2014 are recorded when there is an enforceable legal claim and when the revenue is measurable and available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, and, matching requirements, in which the District must provide local resources to be used for a specified purpose. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

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

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

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

D. Property Taxes

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

The property tax rates for the year ended June 30, 2014 to finance the General Fund operations were \$.401 per \$100 valuation for real property, \$.404 per \$100 valuation for business tangible personal property, and \$.521 per \$100 valuation for motor vehicles.

**CALLOWAY COUNTY SCHOOL DISTRICT
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E. Capital Assets

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

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

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

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

F. Interfund Activity

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

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

G. Budgetary Process

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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

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H. Encumbrance Accounting

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

I. Cash, Cash Equivalents and Investments

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

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

J. Inventories

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

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

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

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. The deferred charge on refunding reported in the government-wide statement of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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 has does not have any items that qualifies for reporting in this category.

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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L. Restricted Assets

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

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

M. Accrued and Long-Term Liabilities

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

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

N. 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 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.

CALLOWAY COUNTY SCHOOL DISTRICT
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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.

O. 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.

P. 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.

Q. Impact of Recently Issued Accounting Pronouncements

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, is effective for financial statements for periods beginning after December 15, 2012. This statement improves financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows or resources and deferred inflows of resources to ensure consistency in financial reporting. The District has implemented this statement in the year ended June 30, 2014. As a result, prior year "deferred charges" of \$383,466 have been expensed in the prior period adjustment explained in Note 2J. In addition, \$409,629, representing the difference between the reacquisition price and the net carrying amount of the old debt on the 2010 refunding, has been reported as "deferred outflows of resources" and will be recognized as a component of interest expense over the remaining life of the new debt.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the

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governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have 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 \$12,971,410 and the bank balance was \$14,333,208. Of the District's bank balance, \$13,942,120 was collateralized as discussed above because it was uninsured, while \$391,088 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	\$ 12,181,559
Private purpose trust cash, including time deposits (not included in government-wide statement)	316,395
Agency fund cash (not included in government-wide statement)	<u>473,456</u>
	<u>\$ 12,971,410</u>

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

Governmental activities	\$ 11,104,063
Business-type activities	1,077,496
Fiduciary funds	<u>789,851</u>
	<u>\$ 12,971,410</u>

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B. Restricted Investments

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

The District sold a \$2,000,000 Qualified Zone Academy Bond (QZAB) on October 3, 2007 for the purpose of financing the cost of renovations to several school district instructional buildings. On the delivery date an initial cash payment in the amount of \$1,114,000 was required to be deposited in a Prefunded Escrow Account at Monticello Banking Company in Somerset, Kentucky, \$160,000 of which was for trustee fees. The trustee used the remaining prepayment to purchase a Federal Home Loan Mortgage Corporation (FHLMC) zero coupon bond in the amount of \$954,000, which will mature 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 \$48,720.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>Investment Maturities Within 1 Year</u>
Federal Home Loan Mortgage Corporation	\$ <u>1,533,780</u>	<u>100%</u>	\$ <u> -</u>

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

C. Capital Assets

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

<u>Governmental Activities</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2014</u>
Non-depreciable				
Land	\$ 1,015,020	\$ 682,082	\$ -	\$ 1,697,102
Construction in progress	-	3,956,040	-	3,956,040
Totals	<u>1,015,020</u>	<u>4,638,122</u>	<u>-</u>	<u>5,653,142</u>

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	Balance			Balance
Depreciable	July 1, 2013	Additions	Deductions	June 30, 2014
Land improvements	\$ 1,721,752	\$ 195,000	\$ -	\$ 1,916,752
Buildings and improvements	47,004,041	6,190	-	47,010,231
Technology equipment	1,819,796	-	(66,921)	1,752,875
Vehicles	4,457,238	426,177	(184,124)	4,699,291
General equipment	1,043,045	-	(4,484)	1,038,561
Property under capital lease	-	286,345	-	286,345
Totals	<u>56,045,872</u>	<u>913,712</u>	<u>(255,529)</u>	<u>56,704,055</u>
Less: Accumulated depreciation				
Land improvements	(1,398,431)	(41,090)		(1,439,521)
Buildings and improvements	(21,491,343)	(1,309,384)	-	(22,800,727)
Technology equipment	(1,406,823)	(148,366)	66,742	(1,488,447)
Vehicles	(2,868,465)	(282,744)	184,124	(2,967,085)
General equipment	(767,965)	(49,263)	3,914	(813,314)
Property under capital lease	-	(4,772)	-	(4,772)
Totals	<u>(27,933,027)</u>	<u>(1,835,619)</u>	<u>254,780</u>	<u>(29,513,866)</u>
Net Book Value	<u>28,112,845</u>	<u>(921,907)</u>	<u>(749)</u>	<u>27,190,189</u>
Governmental activities capital assets - net	<u>\$ 29,127,865</u>	<u>\$ 3,716,215</u>	<u>\$ (749)</u>	<u>\$ 32,843,331</u>

Business-Type Activities

Depreciable				
Buildings and improvements	\$ 348,953	\$ -	\$ -	\$ 348,953
Technology equipment	40,496	-	-	40,496
General equipment	790,437	31,273	(8,726)	812,984
Totals	<u>1,179,886</u>	<u>31,273</u>	<u>(8,726)</u>	<u>1,202,433</u>
Less: Accumulated depreciation				
Buildings and improvements	(267,016)	(5,944)	-	(272,960)
Technology equipment	(24,857)	(6,175)	-	(31,032)
General equipment	(477,859)	(40,742)	8,082	(510,519)
Totals	<u>(769,732)</u>	<u>(52,861)</u>	<u>8,082</u>	<u>(814,511)</u>
Business-type activities capital assets - net	<u>\$ 410,154</u>	<u>\$ (21,588)</u>	<u>\$ (644)</u>	<u>\$ 387,922</u>

Amortization expense of \$4,772 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	\$ 1,487,479
Support services:	
Student	2,487
Instructional staff	5,912

**CALLOWAY COUNTY SCHOOL DISTRICT
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District administration	34,575
School administration	21,128
Plant operations and management	41,485
Student transportation	<u>237,781</u>
	<u>\$ 1,830,847</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>
2002	\$ 9,570,000	2.10% - 4.80%	2022
2004	1,955,000	2.00% - 3.70%	2016
2007 (QZAB)	2,000,000	5.58%	2022
2008	3,510,000	2.60% - 4.875%	2028
2009	1,292,960	1.00% - 3.30%	2019
2010	3,195,000	1.40% - 5.60%	2030
2010	1,030,000	.70% - 2.50%	2021
2010	6,265,000	.60% - 2.90%	2022
2013	5,995,000	1.70% - 4.125%	2034

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, 2013</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2014</u>
2004	\$ 500,000	\$ -	\$ 185,000	\$ 315,000
2007	2,000,000	-	-	2,000,000
2008	3,210,000	-	80,000	3,130,000
2009	697,631	-	185,372	512,259
2010	2,810,000	-	130,000	2,680,000
2010	890,000	-	65,000	825,000
2010	5,970,000	-	535,000	5,435,000
2013	-	<u>5,995,000</u>	-	<u>5,995,000</u>
	<u>\$ 16,077,631</u>	<u>\$ 5,995,000</u>	<u>\$ 1,180,372</u>	<u>\$ 20,892,259</u>

**CALLOWAY COUNTY SCHOOL DISTRICT
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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, 2014 for debt service (principal and interest) are as follows:

Year	Calloway County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2015	\$ 834,640	\$ 573,995	\$ 297,091	\$ 137,090	\$ 1,842,816
2016	857,832	520,880	307,086	125,035	1,810,833
2017	884,135	497,094	308,964	116,193	1,806,386
2018	945,331	474,089	360,844	106,948	1,887,212
2019	982,204	447,537	347,032	95,629	1,872,402
2020-2024	6,204,713	1,787,266	1,172,387	330,897	9,495,263
2025-2029	3,398,649	1,081,736	796,351	147,729	5,424,465
2030-2034	<u>2,938,252</u>	<u>368,840</u>	<u>256,748</u>	<u>32,232</u>	<u>3,596,072</u>
	<u>\$ 17,045,756</u>	<u>\$ 5,751,437</u>	<u>\$ 3,846,503</u>	<u>\$ 1,091,753</u>	<u>\$ 27,735,549</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, 2014 are, as follows:

Year Ending June 30	Capital Lease Payable
2015	\$ 77,250
2016	77,250
2017	77,250
2018	<u>77,362</u>
Total minimum lease payments	309,112
Less: Amount representing interest	<u>(31,036)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 278,076</u>

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

	Balance at July 1, 2013	Increases	Decreases	Balance at June 30, 2014	Due in One Year
Bonds	\$16,077,631	\$5,995,000	\$1,180,372	\$20,892,259	\$1,131,729
Accrued sick leave:					
Governmental activities	1,156,132	156,445	64,303	1,248,274	113,054
Business-type activities	<u>22,043</u>	<u>462</u>	<u>-</u>	<u>22,505</u>	<u>-</u>
	1,178,175	156,907	64,303	1,270,779	113,054
Insurance assessment	<u>-</u>	<u>438,407</u>	<u>-</u>	<u>438,407</u>	<u>132,926</u>
	<u>\$17,255,806</u>	<u>\$6,590,314</u>	<u>\$1,244,675</u>	<u>\$22,601,445</u>	<u>\$1,377,709</u>

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

The District issued the May 1, 2010 bonds through the Build America Bond Program that provides 35% in federal subsidies on the total interest requirements. The interest is paid directly to the District's bond escrow account on a semi-annual basis corresponding with the interest payment dates to the bond holders. Total subsidy payments received at June 30, 2014 were \$44,216.

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, 2013. The total amount of accumulated benefits for all employees eligible to retire at this date is \$589,507. A \$275,000 balance is restricted in the General Fund at the balance sheet date. The District recognizes the expense of these benefits when payment is made by the governmental fund to a retiring employee.

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

F. Fund Balances

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2014 are as follows:

	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Restricted for:							
Sickleave	\$ 275,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
SFCC escrow	-	-	-	-	-	-	-
Construction	-	-	-	-	-	3,405,254	-
Debt service	-	-	-	-	-	-	1,573,130
Other	-	-	98,210	48,004	95,646	-	-
	<u>275,000</u>	<u>-</u>	<u>98,210</u>	<u>48,004</u>	<u>95,646</u>	<u>3,405,254</u>	<u>1,573,130</u>

**CALLOWAY COUNTY SCHOOL DISTRICT
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	General Fund	Special Revenue Fund	District Activity Fund	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund
Committed for:							
SBDM	163,225	-	-	-	-	-	-
Construction	934,851	-	-	-	-	-	-
Maintenance Equipme	150,000	-	-	-	-	-	-
Gear Up match	237,368	-	-	-	-	-	-
Salary increases	400,000	-	-	-	-	-	-
	<u>1,885,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>4,476,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$6,637,109</u>	<u>\$ -</u>	<u>\$ 98,210</u>	<u>\$ 48,004</u>	<u>\$ 95,646</u>	<u>\$ 3,405,254</u>	<u>\$ 1,573,130</u>

G. Deficit Operating/Fund Balances

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

General Fund	\$ 1,985,373
School Age Child Care Fund	18,228
Capital Outlay Fund	1,065,061
Building Fund	153,711
Agency Fund	214,342

H. Interfund Transactions

Interfund Receivables/Payables (Short-Term)

The General Fund extends short-term cash flow loans to funds outside the General Fund that receive funding on a reimbursement basis. Repayment is expected when available cash is in excess of that needed for operations. The balance of \$264,630 due to the General fund from Special Revenue is a short-term cash flow loan.

Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS match	\$ 45,880
General	Debt Service	Debt service	185,159
General	District Activity	Student activities	9,969
General	Agency	Operations	45,000
Special Revenue	General	Transportation	135,031
Capital Outlay	Debt Service	Debt service	155,261
Capital Outlay	General	Property insurance	85,845
Capital Outlay	Construction	Construction	1,117,976
Building	Debt Service	Debt service	975,149

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

June 30, 2014

Building	Construction	Construction	221,193
Debt Service	Construction	Construction	5,831,963

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	\$ 12,635
Fiscal Agent	<u>1,050</u>
	<u>\$ 13,685</u>

I. On-Behalf Payments

The Kentucky State Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2014:

Contributions to Kentucky Teachers'	
Retirement System	\$1,706,714
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	3,277,733
Technology	35,016
Debt service	<u>410,244</u>
	<u>\$ 5,429,707</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	\$4,832,200
Debt Service Fund	410,244
Business-type activities	
Food Service Fund	135,509
School Age Child Care Fund	<u>51,754</u>
	<u>\$5,429,707</u>

J. Prior Period Adjustment

Due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, described above in Note 1Q, beginning net position has been decreased by \$383,466 from \$24,322,268 to \$23,938,802. The difference represents a restatement for bond issue costs that were amortized under the prior standards but expensed in the period incurred under the new standards.

NOTE 3 - OTHER INFORMATION

A. Retirement Plans

Pension plan

The District contributes to the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS). These are cost-sharing, multiple employer defined benefit plans. KTRS administers retirement and disability annuities, and death and survivor benefits to certified employees and beneficiaries of the public school systems and other public educational

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

June 30, 2014

agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). CERS administers similar programs for its employees and beneficiaries of county governmental entities, which includes classified employees of the District.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>. CERS issues a publicly available financial report that can be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

Contribution rates for both plans are determined by the legislature. KTRS members are required to contribute 11.355% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contribution. The District is required to contribute 1.50% of all KTRS member salaries to KTRS. CERS members hired before September 1, 2008, are required to contribute 5% of their salaries to CERS. CERS members hired on or after September 1, 2008, are required to contribute an additional 1% their salaries to CERS. The District is required to contribute 18.89% of all CERS salaries.

The District's total payroll for the year was \$17,727,431. The payroll for employees covered under KTRS was \$12,896,780 and for CERS was \$3,740,315.

The contribution requirement for CERS for the year ended June 30, 2014 was \$852,931 which consisted of \$706,539 from the District and \$146,392 from the employees. The Commonwealth contributed \$1,706,714 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$334,552, which represents \$141,104 for those employees covered by federal programs and \$193,448 for all KTRS employees.

The three-year trend information for the District's contribution requirement to KTRS and CERS is as follows:

<u>Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>
6/30/14	\$ 1,041,091	100%
6/30/13	885,595	100%
6/30/12	870,165	100%

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations (all dollar amounts are \$1,000's) performed as of June 30, 2013, (the actuarial reports for the year ended June 30, 2014 are not yet available):

	<u>Actuarial</u> <u>Value</u> <u>of Assets</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u>	<u>Underfunded</u> <u>AAL</u>	<u>Funded</u> <u>Ratio</u>	<u>Covered</u> <u>Payroll</u>	<u>Underfunded</u> <u>Actuarial Liability</u> <u>as Percentage</u> <u>of Covered</u> <u>Payroll</u>
KTRS	\$ 14,962,758	\$ 28,817,232	\$ 13,854,474	51.9%	\$ 3,480,066	398.1%
CERS	7,438,786	12,503,082	5,064,296	60.0%	2,697,950	187.7%

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

June 30, 2014

As the Board is only one of several employers participating in the plan, it is not practical to determine the Board's portion of the unfunded past service cost or the vested benefits of the Board's portion of the plan assets. The District also offers employees the option to participate in a defined contribution plan under Internal Revenue Code Sections 403(b) and 457. The District does not contribute to these plans.

Medical insurance plan

In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit 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. KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the medical insurance plan. That report can be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://ktrs.ky.gov/>.

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 members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

B. Contingencies and Commitments

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

C. Insurance and Related Activities

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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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, 2014.

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.

REQUIRED SUPPLEMENTARY INFORMATION

ALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget (Positive Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources				
Taxes				
Property	\$ 4,953,151	\$ 4,953,151	\$ 5,145,545	\$ 192,394
Motor vehicle	925,663	925,663	1,056,221	130,558
Utilities	1,600,000	1,600,000	1,641,049	41,049
Other	410,000	410,000	384,118	(25,882)
Earnings on investments	140,000	140,000	105,974	(34,026)
Indirect cost reimbursements	15,972	15,629	13,685	(1,944)
Other local revenues	99,870	125,869	104,902	(20,967)
Intergovernmental - State	<u>14,118,487</u>	<u>14,118,487</u>	<u>14,698,089</u>	<u>579,602</u>
Total revenues	<u>22,263,143</u>	<u>22,288,799</u>	<u>23,149,583</u>	<u>860,784</u>
Expenditures				
Current				
Instruction	15,814,683	15,525,155	14,792,296	732,859
Support Services				
Student	1,025,298	1,033,226	1,002,296	30,930
Instructional staff	1,093,550	1,176,782	1,444,522	(267,740)
District administration	1,103,577	1,762,019	1,559,722	202,297
School administration	1,307,021	1,393,975	1,338,536	55,439
Business	556,595	585,857	565,224	20,633
Plant operation and management	2,851,717	3,262,980	2,853,180	409,800
Student transportation	2,202,289	2,278,958	1,883,461	395,497
Contingency	<u>2,365,637</u>	<u>2,549,311</u>	<u>-</u>	<u>2,549,311</u>
Total expenditures	<u>28,320,367</u>	<u>29,568,263</u>	<u>25,439,237</u>	<u>4,129,026</u>
Excess (deficit) of revenues over expenditures	<u>(6,057,224)</u>	<u>(7,279,464)</u>	<u>(2,289,654)</u>	<u>4,989,810</u>
Other Financing Sources (Uses)				
Capital lease proceeds	-	-	354,844	354,844
Gain (loss) on sale of assets	-	-	14,569	14,569
Transfers in	107,500	215,022	220,876	5,854
Transfers out	<u>(179,923)</u>	<u>(189,892)</u>	<u>(286,008)</u>	<u>(96,116)</u>
Total other financing sources (uses)	<u>(72,423)</u>	<u>25,130</u>	<u>304,281</u>	<u>279,151</u>
Net change in fund balances	(6,129,647)	(7,254,334)	(1,985,373)	5,268,961
Fund balances, beginning of year	<u>6,129,647</u>	<u>7,254,334</u>	<u>8,622,482</u>	<u>1,368,148</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,637,109</u>	<u>\$ 6,637,109</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget (Positive Negative)</u>
Revenues				
From local sources				
Earnings on investments	\$ 441	\$ 441	\$ 1,291	\$ 850
Other local revenues	-	102,958	155,845	52,887
Intergovernmental - State	1,111,675	1,160,644	1,383,864	223,220
Intergovernmental - Direct Federal	-	-	39,441	39,441
Intergovernmental - Indirect Federal	<u>2,208,747</u>	<u>2,258,808</u>	<u>2,075,600</u>	<u>(183,208)</u>
Total revenues	<u>3,320,863</u>	<u>3,522,851</u>	<u>3,656,041</u>	<u>133,190</u>
Expenditures				
Current				
Instruction	2,745,820	2,719,965	2,916,589	(196,624)
Support Services				
Student	24,000	56,624	57,805	(1,181)
Instructional staff	98,249	176,880	193,311	(16,431)
School administration	23,051	23,040	21,529	1,511
Student transportation	149,175	134,950	130,971	3,979
Non-instructional services	230,146	232,681	234,050	(1,369)
Other	-	-	12,635	(12,635)
Total expenditures	<u>3,270,441</u>	<u>3,344,140</u>	<u>3,566,890</u>	<u>(222,750)</u>
Excess of revenues over expenditures	<u>50,422</u>	<u>178,711</u>	<u>89,151</u>	<u>(89,560)</u>
Other Financing Sources (Uses)				
Transfers in	72,000	72,000	45,880	(26,120)
Transfers out	<u>(122,422)</u>	<u>(250,711)</u>	<u>(135,031)</u>	<u>115,680</u>
Total other financing sources (uses)	<u>(50,422)</u>	<u>(178,711)</u>	<u>(89,151)</u>	<u>89,560</u>
Net change in fund balances	-	-	-	-
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION SECTION

**CALLOWAY COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2014**

	District Activity Fund	Capital Outlay Fund	Building Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 98,210	\$ 48,004	\$ 95,646	\$ 241,860
Total assets	\$ 98,210	\$ 48,004	\$ 95,646	\$ 241,860
Liabilities and Fund Balances				
Liabilities				
Total liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances				
Restricted	98,210	48,004	95,646	241,860
Total fund balances	98,210	48,004	95,646	241,860
Total liabilities and fund balances	\$ 98,210	\$ 48,004	\$ 95,646	\$ 241,860

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, 2014

	<u>District Activity Fund</u>	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ -	\$ 846,688	\$ 846,688
Earnings on investments	-	7,271	3,162	10,433
Other local revenues	88,241	-	-	88,241
Intergovernmental - State	-	286,750	192,781	479,531
Total revenues	<u>88,241</u>	<u>294,021</u>	<u>1,042,631</u>	<u>1,424,893</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>88,241</u>	<u>294,021</u>	<u>1,042,631</u>	<u>1,424,893</u>
Other Financing Sources (Uses)				
Transfers in	9,969	-	-	9,969
Transfers out	-	(1,359,082)	(1,196,342)	(2,555,424)
Total other financing sources (uses)	<u>9,969</u>	<u>(1,359,082)</u>	<u>(1,196,342)</u>	<u>(2,545,455)</u>
Net change in fund balances	98,210	(1,065,061)	(153,711)	(1,120,562)
Fund balances, beginning of year	<u>-</u>	<u>1,113,065</u>	<u>249,357</u>	<u>1,362,422</u>
Fund balances, end of year	<u>\$ 98,210</u>	<u>\$ 48,004</u>	<u>\$ 95,646</u>	<u>\$ 241,860</u>

See independent auditor's report.

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

For the Year Ended June 30, 2014

<u>Fund</u>	<u>July 1, 2013</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2014</u>
Activity Funds				
Calloway County High School:				
Academic Club	\$ 2,553	\$ 4,649	\$ 4,332	\$ 2,870
Accounting Class	1,308	175	1,483	-
Advance Wellness Class	502	741	1,126	117
Agricultural Class	1,092	2,953	4,045	-
Art Class	678	2,378	3,056	-
Arts & Humanities	1,143	556	1,699	-
Athletic Booster Club	-	859	859	-
Athletic Miscellaneous	48,804	9,471	55,465	2,810
Basketball Chair Seats	-	21,800	21,800	-
Baseball	457	5,321	5,772	6
Band	153	4,803	4,838	118
Band Supply	10,480	692	11,172	-
Bank Trip	1,170	-	1,170	-
Beta Club	3,025	8,410	7,700	3,735
Biology Class	1,472	729	2,201	-
Boys' Basketball	25,565	19,116	20,541	24,140
Boys' Little League	270	-	70	200
Boys' Soccer	10,222	5,965	13,177	3,010
B/G Cross Country	357	6,516	4,053	2,820
B/G Tennis Boosters	7,652	10,760	14,615	3,797
Boys'-Girls' Tennis	3,013	5,389	4,916	3,486
Boys'-Girls' Track	136	4,119	2,631	1,624
Build. Part. Teachers	591	405	561	435
Business Economics	105	60	165	-
CCHS Bass Fishing Club	31	2,231	2,189	73
Calloway Live Club	-	1,230	-	1,230
CCHS Book Rental	120	8,410	8,525	5
CCHS Course Fees	-	14,188	14,188	-
CCHS Dance Team	1,498	16,695	18,193	-
Cheerleader	1,159	19,836	17,248	3,747
Chemistry Class	1,646	4,772	6,418	-
Chess Club	37	-	-	37
Choir Class	810	852	287	1,375
Choir Sales	2,081	1,147	510	2,718
Choir Supply	4,550	54	3,868	736
Class of 2012	20	-	20	-
Class of 2014	-	9,216	5,401	3,815
Class of 2013	2,944	60	3,004	-
Computer Class	330	627	957	-
Col Cowan Scholarship	600	-	-	600
District Baseball	-	1,805	1,805	-
District Softball	-	5,737	5,737	-
Drama Club	896	-	-	896
Drivers Education	2,677	150	-	2,827
Entrepreneurship Class	509	180	689	-
Electronic Office Class	1,802	439	2,241	-
FBLA Club	1,128	19,520	20,497	151
FBLA Trip	283	1,731	1,805	209
FEA	387	240	6	621

See independent auditor's report.

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

For the Year Ended June 30, 2014

<u>Fund</u>	<u>July 1, 2013</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2014</u>
FFA Club	\$ 1,482	\$ 19,658	\$ 18,392	\$ 2,748
FFA Regional	-	10,864	-	10,864
FCCLA Club	1,139	-	-	1,139
FCA	845	162	644	363
Football Alumni	5,164	-	-	5,164
Football Camp	-	20	-	20
Football	-	74,722	60,784	13,938
Football Touchdown Club	1,000	-	-	1,000
Football Playoffs	66,897	-	66,897	-
General	63,673	3,888	33,767	33,794
Girls' Basketball	8,828	17,416	26,086	158
Girls' Soccer	6,787	5,829	9,515	3,101
Girls' Softball	-	4,401	3,110	1,291
Girls' Softball Booster	-	1,286	1,286	-
Golf	-	3,624	3,624	-
Guidance Office	393	816	1,082	127
Home Ec Class	316	1,558	1,842	32
Homecoming Fund	-	716	716	-
Horticulture Class	3,748	3,942	5,510	2,180
Intro Physics/Chemistry	1,947	1,402	3,349	-
Instructional Fee	3,789	5,345	7,929	1,205
Japanese Club	299	801	463	637
Journalism Class	11,196	3,178	4,523	9,851
Jr. Beta	521	66	-	587
Keyboarding Class	2,004	2,553	4,557	-
KYA	-	8,319	8,319	-
KYAEA	46	32	-	78
Library	12	159	159	12
Little League Football	3,576	1,140	2,595	2,121
Multi Media Class	327	160	487	-
Math Class Fees	2,252	2,537	4,789	-
Memorial Fund/Josh	58	-	-	58
National Art Honor Soc	1,240	1,487	1,527	1,200
National Science	881	823	677	1,027
Pep Club	46	-	-	46
Physics Class	834	300	984	150
Prime Investment Fund	1,702	475	-	2,177
Principal's Discretionary	5,797	829	6,087	539
Project Graduation	281	25	47	259
Regional Basketball	-	5,432	5,432	-
Robotics Team	197	3,030	2,558	669
Sign Language Club	2	-	-	2
Spanish Club	1,102	2,002	1,308	1,796
Speech Team	8,779	6,418	15,197	-
Social Studies Fund	4,029	1,334	5,363	-
Sound System Upgrade	1,841	-	-	1,841
Special Ed. Vocational	3,376	2,247	2,847	2,776
Sports & Marketing Club	166	-	166	-
Swim Team Fund	919	5,400	6,172	147
Swim Wave Club Booster	5,414	5,760	8,283	2,891
Student Activities	773	-	226	547

See independent auditor's report.

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

For the Year Ended June 30, 2014

<u>Fund</u>	<u>July 1, 2013</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2014</u>
Student Council	\$ 1	\$ -	\$ -	\$ 1
Teachers' Room Fund	4,292	16,000	20,292	-
Teachers' Flower Club	82	89	171	-
Technology Education	953	2,703	3,656	-
Tech Ed Vinyl	-	314	69	245
Theft/Restitution	4,210	-	-	4,210
Travel & Tourism Club	636	226	862	-
TQI	83	-	-	83
TSA Club	785	-	-	785
T.V. Allotment	166	5,810	5,952	24
Usage Fee	137	300	-	437
USF Funds	10,398	-	-	10,398
Vending Fund	2,382	434	497	2,319
Vending/Teachers Fund	1,091	514	1,128	477
Vending/DTC Fund	499	817	1,144	172
Volleyball Team Fund	374	8,800	4,766	4,408
Volleyball Booster	140	32,993	19,556	13,577
Wrestling	6,048	13,863	10,356	9,555
Wrestling Boosters	3,500	53	1,543	2,010
Yearbook	24,841	21,447	27,037	19,251
Youth Service Center	2,731	1,687	1,839	2,579
Youth Service / CCCL	200	1,206	604	802
	<u>431,483</u>	<u>542,399</u>	<u>727,806</u>	<u>246,076</u>
Less: Inter-fund transfers	-	196,880	196,880	-
Total Calloway County High School	431,483	345,519	530,926	246,076
Calloway County Middle School	46,445	132,780	135,362	43,863
North Calloway County Elementary School	19,777	37,305	42,785	14,297
East Calloway County Elementary School	15,071	54,597	66,313	3,355
Southwest Calloway County Elementary School	29,515	79,401	78,879	30,037
Calloway County Preschool	<u>23,303</u>	<u>7,523</u>	<u>26,210</u>	<u>4,616</u>
Total activity funds	<u>565,594</u>	<u>657,125</u>	<u>880,475</u>	<u>342,244</u>
Fiscal Agent Funds	122,204	138,896	173,838	87,262
Transfers in	-	45,000	-	45,000
Transfers out - indirect costs	-	-	1,050	(1,050)
Total fiscal agent funds	<u>122,204</u>	<u>183,896</u>	<u>174,888</u>	<u>131,212</u>
Total agency funds	<u>\$ 687,798</u>	<u>\$ 841,021</u>	<u>\$ 1,055,363</u>	<u>\$ 473,456</u>

See independent auditor's report.

ALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ CFDA Program Title	Federal CFDA Number	MUNIS Account Number	Program or Award Amount	Expenditures
U.S. Department of Education				
Passed Through State Department of Education:				
Title I Cluster:				
Title I Grants to Local Educational Agencies	84.010	220-4500-3104	\$ 664,275	\$ 545,055
Title I Grants to Local Educational Agencies	84.010	220-4500-3104M	21,000	13,480
Title I Grants to Local Educational Agencies	84.010	220-4500-3103	704,983	140,981
Title I Grants to Local Educational Agencies	84.010	220-4500-3103M	24,000	6,653
Title I Grants to Local Educational Agencies	84.010	220-4500-3102	638,584	3,390
Title I Grants to Local Educational Agencies	84.010	220-4500-3102D	73,622	2,028
Title I Grants to Local Educational Agencies	84.010	220-4500-3134	10,480	10,480
Title I Grants to Local Educational Agencies	84.010	220-4500-3134T	2,360	2,360
Title I Grants to Local Educational Agencies	84.010	220-4500-3202	67,834	20,341
Total Title I Cluster			<u>2,207,138</u>	<u>744,768</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3363	312,478	62,985
Special Education_Grants to States	84.027	220-4500-3364	312,478	201,543
Special Education_Grants to States	84.027	220-4500-3374	646,728	300,982
Special Education_Grants to States	84.027	220-4500-3373	688,376	301,266
Special Education_Grants to States	84.027	220-4500-3373P	7,171	472
Special Education_Grants to States	84.027	220-4500-3372P	11,453	10,712
Special Education_Grants to States	84.027	220-4500-3372	669,979	220
		Sub-total	<u>2,648,663</u>	<u>878,180</u>
Special Education_Preschool Grants	84.173	220-4500-3432P	823	823
Special Education_Preschool Grants	84.173	220-4500-3433	64,041	1,891
Special Education_Preschool Grants	84.173	220-4500-3434	62,685	62,497
		Sub-total	<u>127,549</u>	<u>65,211</u>
Total Special Education Cluster			<u>2,776,212</u>	<u>943,391</u>
Career and Technical Education - Basic Grants to States	84.048	220-4500-3484	26,827	26,827
Career and Technical Education - Basic Grants to States	84.048	220-4500-3483A	1,399	1,399
			<u>28,226</u>	<u>28,226</u>
Rural Low Income Grants	84.358B	220-4500-3504	57,744	57,007
Rural Low Income Grants	84.358B	220-4500-3503	61,308	3,862
			<u>119,052</u>	<u>60,869</u>
Improving Teacher Quality State Grants	84.367	220-4500-4012	148,426	307
Improving Teacher Quality State Grants	84.367	220-4500-4013	147,947	590
Improving Teacher Quality State Grants	84.367	220-4500-4014	140,229	135,267
			<u>436,602</u>	<u>136,164</u>
Race to the Top Incentive Grants, Recovery Act	84.395	220-4500-4521	29,688	10,531
Total U.S. Department of Education			<u>5,596,918</u>	<u>1,923,949</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/ CFDA Program Title</u>	<u>Federal CFDA Number</u>	<u>MUNIS Account Number</u>	<u>Program or Award Amount</u>	<u>Expenditures</u>
U.S. Department of Agriculture				
Passed Through State Department of Education:				
Child Nutrition Cluster:				
School Breakfast Program	10.553	510-4500	\$ 390,665	\$ 390,665
National School Lunch Program - Donated Commodities	10.555	510-4950	119,786	119,786
National School Lunch Program	10.555	510-4500	939,745	939,745
Summer Food Service Program for Children	10.559	510-4500	17,183	17,183
Total Child Nutrition Cluster			<u>1,467,379</u>	<u>1,467,379</u>
Total U.S. Department of Agriculture			<u>1,467,379</u>	<u>1,467,379</u>
U.S. Department of Justice				
Drug Free Community Support	16.279	220-4300-5003	125,000	39,399
Total U.S. Department of Justice			<u>125,000</u>	<u>39,399</u>
U.S. Department of Health and Human Services				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	220-4300-5202	50,000	42
Passed Through Murray Independent School District:				
Head Start	93.600	220-4700-6552	173,382	1,439
Head Start	93.600	220-4700-6553	150,000	100
Head Start	93.600	220-4700-6554	150,602	150,112
			<u>473,984</u>	<u>151,651</u>
Total U.S. Department of Health & Human Services			<u>523,984</u>	<u>151,693</u>
Total Federal Awards			<u>\$ 7,713,281</u>	<u>\$ 3,582,420</u>

Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures

Total expenditures of Federal awards	\$ 3,582,420
Total expenditures of State and Local awards	1,451,849
Expenditure of Federal awards in the Food Service Fund	<u>(1,467,379)</u>
Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,566,890</u>

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Calloway County School District under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Calloway County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Calloway County School District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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, 2014, 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 14, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated November 14, 2014, as required by the auditor's contract with the Kentucky Department of Education.

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 14, 2014

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**Report on Compliance for Each Major Federal Program and Report on
Internal Control Over Compliance Required by OMB Circular A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Calloway County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Calloway County School District's major federal programs for the year ended June 30, 2014. Calloway County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Calloway County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 14, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2014

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:
 Material weakness(es) identified? yes x no
 Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major 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 programs: unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Clusters</u>
84,027; 84.173	Special Education Cluster

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

Auditee qualified as low-risk auditee? x yes

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

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Steve Hoskins, Superintendent
Calloway County Board of Education
Murray, Kentucky

In planning and performing our audit of the financial statements of Calloway County School District for the year ended June 30, 2014, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated November 14, 2014, on the financial statements of Calloway County School District.

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

Sincerely,

Alexander Thompson Arnold PLLC

Murray, Kentucky
November 14, 2014

**CALLOWAY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
June 30, 2014**

MANAGEMENT LETTER POINTS

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

Criteria: Kentucky Revised Statute 61.835 requires the minutes of action taken at every meeting of any public agency, setting forth an accurate record of votes and actions at such meetings. Shall be promptly recorded and shall be open to public inspection at reasonable times no later than that of the next meeting of the body.

Cause: The employee responsible for recording board minutes suddenly passed away during the year and the replacement was not aware of the importance of maintaining minutes for each board meeting.

Effect: Noncompliance with the provisions of the Kentucky Revised Statutes related to recording minutes of board meetings.

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

Response: Management agrees with the above recommendation.

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

Criteria: Kentucky Revised Statute 65.944(1)(b) and 702 KAR 3:300 prohibits school districts from entering into a lease in excess of \$100,000 without first receiving the approval from the chief state school officer.

Cause: The District was unaware of need to obtain approval before executing the lease.

Effect: The District is in violation of the above referenced criteria.

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

Response: Management agrees with the above recommendation and has applied to the Kentucky Department of Education for retroactive approval of the lease.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**CALLOWAY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
June 30, 2014

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

None