

CALLOWAY COUNTY SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013

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INTRODUCTORY SECTION

CALLOWAY COUNTY SCHOOL DISTRICT

June 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Calloway County School District, as of and for the year ended June 30, 2013, 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, 2013, 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 4-12 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 12, 2013, 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 12, 2013



Calloway County Schools

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CALLOWAY COUNTY PUBLIC SCHOOL DISTRICT- MURRAY, KY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) YEAR ENDED JUNE 30, 2013

The discussion and analysis of the Calloway County School District (District) provides a narrative overview and analysis of the District's financial statements and activities of the District for the fiscal year ended June 30, 2013. 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 2013 are as follows:

- General revenues accounted for \$25,271,222 or 79% of all revenue. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$6,816,138 or 21% of total revenue.
- Revenue from local sources increased by \$597,927 or 6%. Revenue from the state decreased by \$263,673 or 2%.
- The District had \$32,128,595 in expenses; only \$6,816,138 of these expenses was offset by program specific charges for services, grants or contributions.
- Among governmental funds, the General Fund had \$23,957,803 in revenue (including other financing sources), which primarily consisted of the state program (SEEK) and property, local utility, and motor vehicle taxes. General Fund expenditures (including transfers) were \$24,478,299.
- The General Fund's unassigned fund balance decreased by \$461,887 from 2012. The unassigned fund balance from 2013 was \$5,475,433 compared to \$5,937,320 for 2011-2012. Effective for the end of year 2013, in compliance with the GASB 54 regulations, \$3,147,049 was either restricted or committed by the board for special projects including SBDM Council carry forward and accumulated sick leave liability.
- Day care services were offered by the District for the eighth year at all three elementary schools and the preschool. The summer day care service, which was started in 2008-2009, continued at North Elementary and Southwest Elementary during the 2012-2013 year. As anticipated, the day

care service was self-supporting for the seventh straight year. The day care service will continue to operate for 2013-2014.

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

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

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 the expenses of the goods or services provided. The Food Service Enterprise Fund and Day Care Fund are reported business activities.

The Statement of Net Position (on page 13) presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities (on page 14) presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

student education, welfare and teacher support. The proprietary funds are the food service and day care operations. All other activities of the District are included in the governmental funds.

Fund financial statements start on page 15 of this report.

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

THE SCHOOL DISTRICT AS A WHOLE -- GOVERNMENT-WIDE 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 government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$25,772,244 as of June 30, 2013, a decrease of \$41,234 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.

Table 1 provides a comparison of the District's net position for 2013 and 2012.

**Table 1
Net Position**

Assets	2013	2012
Current assets	\$13,124,912	\$13,240,025
Noncurrent assets	<u>30,347,853</u>	<u>31,383,917</u>
Total assets	<u>43,472,765</u>	<u>44,623,942</u>
Liabilities		
Current liabilities	480,067	484,246
Noncurrent liabilities	<u>17,220,454</u>	<u>18,326,218</u>
Total liabilities	<u>17,700,521</u>	<u>18,810,464</u>
Net position		
Net investment in capital assets	13,922,108	13,883,158
Restricted	3,225,498	2,761,527
Unrestricted	<u>8,624,638</u>	<u>9,168,793</u>
Total net position	<u>\$25,772,244</u>	<u>\$25,813,478</u>

Table 2 shows changes in net position for fiscal year 2013 and 2012. Revenues for 2012-2013 remained stable compared to 2011-2012 revenues. Program expenses were slightly up from the total in 2011-2012.

**Table 2
Changes in Net Position**

	2013	2012
Revenues		
Program revenues:		
Charges for services	\$ 895,030	\$ 923,705
Operating grants and contributions	5,921,108	5,873,960
General revenues:		
Local taxes	8,812,597	8,338,581
Investment earnings	200,154	201,017
Other local revenue	283,718	130,249
Original issue discount	(40,900)	297,100
State aid - formula grants	16,022,932	16,286,605
Medicaid reimbursement	-	-
Indirect cost reimbursement	1,050	1,050
Gain (loss) on sale of assets	<u>(8,329)</u>	<u>(14,747)</u>
Total revenues	<u>32,087,360</u>	<u>32,037,520</u>
Program expenses		
Instruction	19,206,523	19,177,657
Support services:		
Student and instructional staff	2,384,979	2,342,169
District and school admin. and business operations	3,017,920	2,291,557
Plant operations and management	2,496,454	2,540,727
Student transportation	1,871,404	1,781,265
Non-instructional services	226,305	232,254
Interest on long-term debt	552,073	635,298
Amortization – unallocated	47,714	67,275
Food service	2,011,557	2,037,216
Day care	<u>313,666</u>	<u>313,440</u>
Total expenses	<u>32,128,595</u>	<u>31,418,858</u>
Change in net position	<u>\$ (41,235)</u>	<u>\$ 618,662</u>

Governmental Activities

Total revenues for governmental activities for 2013 were \$29,620,011. Taxes made up 29.8% of revenues for governmental activities for the District compared to 28.2% in 2012. State aid and state and federal grants accounted for 68.7% (state – 54.1%; grants/contributions – 14.6%) of revenue in 2013 compared to 69.5% in 2012.

The total cost of all programs and services for governmental activities was \$29,803,372 compared to \$29,068,202 in 2012. Instruction comprised 64% of expenses compared to 66% for 2012.

Revenues for the District for 2013 failed to meet expenses by \$(183,361) compared to exceeding expenses by \$520,499 for 2012. Revenues increased .1% over the previous year while expenses increased by 2.3%. Revenue amounts were reduced at the Federal level for 2012-2013. An increase in local taxes and revenues from the state level were sufficient to maintain approximately the same level of revenue as was received in 2012. The District gave no salary increase and approved a very conservative budget for 2013.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services for governmental activities for 2013 and 2012. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

**Table 3
Cost of Services**

	<u>Total Cost of Services 2013</u>	<u>Total Cost of Services 2012</u>	<u>Net Cost of Services 2013</u>	<u>Net Cost of Services 2012</u>
Instruction	\$ 19,206,523	\$ 19,177,657	\$ 14,851,659	\$ 14,822,393
Students and instructional staff	2,384,979	2,342,169	2,384,979	2,342,169
General and school admin. and business operations	3,017,920	2,291,557	3,017,920	2,291,557
Plant operations and management	2,496,454	2,540,727	2,496,454	2,540,727
Student transportation	1,871,404	1,781,265	1,871,404	1,781,265
Non-instructional services	226,305	232,254	226,305	232,254
Interest on long-term debt	552,073	635,298	552,073	635,298
Amortization-unallocated	<u>47,714</u>	<u>67,275</u>	<u>47,714</u>	<u>67,275</u>
Total Expenses	\$ <u>29,803,372</u>	\$ <u>29,068,202</u>	\$ <u>25,448,508</u>	\$ <u>24,712,938</u>

Proprietary (Business-Type) Activities

The proprietary (business-type) activities of the school 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, 2013 and 2012.

	2013	2012
Operating revenues		
Local revenue sources	\$ <u>854,226</u>	\$ <u>872,132</u>
Total operating revenue	<u>854,226</u>	<u>872,132</u>
Non-operating revenues (expenses)		
Investments	12,028	10,874
State revenue sources	111,409	116,027
State on-behalf payments	177,661	185,722
Federal revenue	1,183,739	1,145,772
Donated commodities	134,239	122,748
Transfers in (out)	-	2,392
Gain (loss) on disposal of assets	<u>(5,953)</u>	<u>(6,848)</u>
Total non-operating revenue	<u>1,613,123</u>	<u>1,576,687</u>
Total revenue	<u>2,467,349</u>	<u>2,448,819</u>
Expenses		
Food service	2,011,557	2,037,216
Day care	<u>313,666</u>	<u>313,440</u>
Total expenses	<u>2,325,223</u>	<u>2,350,656</u>
Change in net position	\$ <u>142,126</u>	\$ <u>98,163</u>

Food service revenues exceeded expenditures this year by \$101,259 compared to last year when revenues exceeded expenditures by \$73,397.

The food service operation is self-operating without assistance from the General Fund. This business activity receives no support from tax revenues.

The day care program revenues exceeded expenditures this year by \$40,867 as opposed to last year when revenues exceeded expenditures by \$24,766. This current year was the eighth year of the childcare program and the fourth complete year for the summer childcare program. When all levels (Preschool, East, North, Southwest, and Summer) of the day care program are reviewed, this is the seventh year that the program revenues have been sufficient to maintain the program as self-supporting.

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined unassigned fund balance of \$5,475,433. Effective for the end of year 2013, in compliance with the GASB 54 regulations, \$6,154,932 was restricted or committed by the board for special projects including SBDM Council carry forward and accumulated sick leave liability.

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

General Fund Budgetary Highlights

A component of the MD&A is an analysis of significant variations between the original (May) and final (September) budgets and between final budget amounts and actual budget results (actual revenues and expenses) for the General Fund. These analyses are listed below.

Significant Variations between Original (May) and Final (September) Budget Amounts

This required component compares the May tentative budget with the final September working budget. It should be noted that the May budget is prepared in April before final staff have been determined and employed, before state revenue forecasts have been received and before tax assessments and tax rates have been levied. The May budget is not intended to be the final budget for the District but merely an estimate based on available information at the time of preparation. No significant variations were noted for the year ending June 30, 2013.

Significant Variances between Final Budget Amounts and Actual Expenditure Amounts

<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Plant operation	2,888,153	2,340,450	547,703

Analysis: Budgeted expenses for utilities were increased in anticipation of supplier cost increases. However, lower than projected increases, conservative usage, and a very mild winter, wet spring, and mild summer resulted in lower expenses for utilities (\$276,950); salaries and fringes were less than budgeted due to unfilled positions (\$90,722); amounts spent for contractual services and repair services were less than budgeted (\$115,746); Miscellaneous Expenditures were less than budgeted (\$16,494) and there were also normal reductions in expenses in other budgeted areas. The actual amount does not include on-behalf payments.

<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
District administrative support	1,048,627	1,161,862	(113,235)

Analysis: There was a \$468,168 land purchase in conjunction with Murray Independent School District included in the actual total, which was not budgeted. However, the amount budgeted for unused sick leave was higher than actually expended due to a fairly low retirement level leaving a variance of (\$213,032). In an attempt to maximize resources in a time of economic instability, district administrative personnel continued to operate at a minimum expense level. The following categories were less than budgeted by the amounts indicated: purchased and professional services (\$69,782) and other purchased services (\$37,709). There were also minor reductions in expenses in other budgeted areas. The actual amount does not include on-behalf payments.

<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Student transportation	2,012,373	1,678,158	334,215

Analysis: Budgets for supplies to include diesel fuel and gasoline costs were determined based on a trend of increasing costs, but actual expenses were less than budgeted and included offsetting transportation reimbursements creating a significant variance (\$221,509). The purchase of property/fixed assets was less than budgeted (\$40,928) and miscellaneous expenditures were less than budgeted (\$17,711). Expenditures for salaries and fringes were also less than budgeted (\$31,702). There were also minor reductions in expenses in other budgeted areas. The actual amount does not include on-behalf payments.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2013, the District had \$58,240,777 invested in land, buildings, equipment and vehicles. At the end of fiscal year 2012 the District had \$57,825,435 invested in land, buildings, equipment and vehicles. Table 4 shows capital asset balances (net of depreciation) for fiscal years 2013 and 2012.

**Table 4
Capital Assets (Net of Depreciation) at June 30, 2013 and 2012**

	<u>Governmental Activities 2013</u>	<u>Governmental Activities 2012</u>	<u>Proprietary (Business-type) Activities 2013</u>	<u>Proprietary (Business-type) Activities 2012</u>
Land and improvements	\$ 1,338,341	\$ 943,504	\$ -	\$ -
Buildings and improvements	25,512,698	26,804,337	81,937	87,881
Technology equipment	412,973	546,140	15,639	22,064
Vehicles	1,588,773	1,473,519	-	-
General equipment	<u>275,080</u>	<u>281,213</u>	<u>312,578</u>	<u>319,894</u>
Total capital assets	<u>\$29,127,865</u>	<u>\$30,048,713</u>	<u>\$410,154</u>	<u>\$429,839</u>

Debt Administration

As of June 30, 2013 the District had \$16,042,279 of outstanding debt.

**Table 5
Outstanding Debt at June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Bonds	<u>\$ 16,042,279</u>	<u>\$ 17,203,378</u>

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e., some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget for 2014 with \$2,527,517 in contingency (7.48%) excluding on-behalf payments.

The District enrollment decreased by approximately 83 students from 2012-2013. Calloway County has an any and all non-resident agreement with five West Kentucky districts. These five districts sent approximately 51 students during 2012-2013 and this number is expected to hold for 2013-2014. 2013-2014 begins year four of a 25 year non-resident agreement with the Murray Independent School District. Either district can have a maximum of 500 non-residents from the other district. Either district receives full ADA funding on the first 300 (or 100 over the number of non-residents attending the other district, whichever is less). Any students over that amount are subject to a formula, with that funding going into an escrow account for the building of a new Career and Technical Education Center to serve students from both districts. The first payment was made into this escrow account in July 2011 by the Murray Independent District. All payments made by the Murray District under this agreement will be deposited monthly into the escrow account which is a joint account monitored by both districts. Withdrawals will require the signature of superintendents of both districts as well as the Executive Director of the West Kentucky Educational Cooperative. During the term of this agreement, no annexation petitions can be filed.

There continues to be economic uncertainty for the Commonwealth of Kentucky. Reductions were received for the 2013-2014 school year from the State in several major grant areas including a \$6.00 per pupil reduction from the final 2012-2013 SEEK base rate. This trend has continued for the past several years as grant amounts continue to be reduced at state levels. General Fund resources are being called upon to pick up the shortage in these areas in order to keep programs and services available at the current levels. There have also been increases in the Kentucky Teachers Retirement System matching contributions that must be made by the employer for the next several years. This matched retirement began for the first time in 2010-2011 for all non-federal employees at the rate of .25%. It increased for 2011-2012 to .5%, for 2012-2013 to 1% and for 2013-2014 to 1.5%. The final increase for non-federal employees is planned for 2015-2016 when the rate will increase to 3.0%. The KTRS matched rate for federal employees increased from 14.105% in 2012-2013 to 14.605% for 2013-2014. The CERS matched contribution rate decreased for 2013-2014 from 19.55% to 18.89%. Interest rates have also decreased which impacts the school District's income from investments. General uncertainty as to the economic stability of Kentucky and the nation as a whole causes concern and the necessity for extreme caution in budgeting for the future.

The Calloway County School District General Fund continued to fund a 186 day school calendar for 2013-2014. This includes one day above the 185 day school calendar funded by the State. The District School Board passed a 1% increase for the 2013-2014 school year.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives.

Questions regarding this report should be directed to Superintendent Kenneth Bargo or to Amy Owens, School Business Administrator (270-762-7300) or by mail to P.O. Box 800, Murray, Kentucky 42071.

BASIC FINANCIAL STATEMENTS

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 10,178,993	\$ 886,408	\$ 11,065,401
Receivables			
Accounts	117,254	7,534	124,788
Intergovernmental - State	8,563	-	8,563
Intergovernmental - Federal	235,677	80,420	316,097
Inventories	-	87,503	87,503
Deferred bond issuance cost, net	383,466	-	383,466
Deferred amount on refunding	426,368	-	426,368
Restricted investments	1,522,560	-	1,522,560
Capital assets not being depreciated:			
Land	1,015,020	-	1,015,020
Capital assets, net of accumulated depreciation:			
Land improvements	323,321	-	323,321
Building and improvements	25,512,698	81,937	25,594,635
Technology equipment	412,973	15,639	428,612
Vehicles	1,588,773	-	1,588,773
General equipment	275,080	312,578	587,658
Total assets	<u>42,000,746</u>	<u>1,472,019</u>	<u>43,472,765</u>
Liabilities			
Unearned revenue	395,182	-	395,182
Accrued interest	84,885	-	84,885
Long-term liabilities			
Portion due or payable within one year			
Bonds	1,176,100	-	1,176,100
Accrued sick leave	147,191	387	147,578
Portion due or payable after one year			
Bonds	14,866,179	-	14,866,179
Accrued sick leave	1,008,941	21,656	1,030,597
Total liabilities	<u>17,678,478</u>	<u>22,043</u>	<u>17,700,521</u>
Net Position			
Net investment in capital assets	13,511,954	410,154	13,922,108
Restricted for			
Sick leave	265,000	-	265,000
Construction	197,901	-	197,901
SFCC	1,362,422	-	1,362,422
Debt service	1,400,175	-	1,400,175
Unrestricted	7,584,816	1,039,822	8,624,638
Total net position	<u>\$ 24,322,268</u>	<u>\$ 1,449,976</u>	<u>\$ 25,772,244</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, 2013

Functions / Programs	Program Revenues			Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
Instruction	\$ 19,206,523	\$ 40,804	\$ 4,314,060	\$ (14,851,659)	\$ -	\$ (14,851,659)
Support services						
Student	1,057,207	-	-	(1,057,207)	-	(1,057,207)
Instructional staff	1,327,772	-	-	(1,327,772)	-	(1,327,772)
District administration	1,216,085	-	-	(1,216,085)	-	(1,216,085)
School administration	1,225,305	-	-	(1,225,305)	-	(1,225,305)
Business	576,530	-	-	(576,530)	-	(576,530)
Plant operation and management	2,496,454	-	-	(2,496,454)	-	(2,496,454)
Student transportation	1,871,404	-	-	(1,871,404)	-	(1,871,404)
Non-instructional services	226,305	-	-	(226,305)	-	(226,305)
Interest on long-term debt	552,073	-	-	(552,073)	-	(552,073)
Amortization - unallocated	47,714	-	-	(47,714)	-	(47,714)
Total governmental activities	<u>29,803,372</u>	<u>40,804</u>	<u>4,314,060</u>	<u>(25,448,508)</u>	<u>-</u>	<u>(25,448,508)</u>
Business-type activities:						
Food service	2,011,557	643,105	1,463,636	-	95,184	95,184
Other enterprise	313,666	211,121	143,412	-	40,867	40,867
Total business-type activities	<u>2,325,223</u>	<u>854,226</u>	<u>1,607,048</u>	<u>-</u>	<u>136,051</u>	<u>136,051</u>
Total primary government	<u>\$ 32,128,595</u>	<u>\$ 895,030</u>	<u>\$ 5,921,108</u>	<u>(25,448,508)</u>	<u>136,051</u>	<u>(25,312,457)</u>
General revenues:						
Taxes						
Property				5,814,684	-	5,814,684
Motor vehicle				964,292	-	964,292
Utilities				1,617,497	-	1,617,497
Other				416,124	-	416,124
Investment earnings				188,126	12,028	200,154
Other local revenue				283,718	-	283,718
Original issue discount				(40,900)	-	(40,900)
State aid - formula grants				16,022,932	-	16,022,932
Indirect cost reimbursement				1,050	-	1,050
Gain (loss) on sale of assets				(2,376)	(5,953)	(8,329)
Total general revenues				<u>25,265,147</u>	<u>6,075</u>	<u>25,271,222</u>
Change in net position				(183,361)	142,126	(41,235)
Net position, beginning of year				<u>24,505,629</u>	<u>1,307,850</u>	<u>25,813,479</u>
Net position, end of year				<u>\$ 24,322,268</u>	<u>\$ 1,449,976</u>	<u>\$ 25,772,244</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 8,505,228	\$ 150,942	\$ -	\$ 1,522,823	\$ 10,178,993
Receivables					
Accounts	117,254	-	-	-	117,254
Intergovernmental - State	-	8,563	-	-	8,563
Intergovernmental - Federal	-	235,677	-	-	235,677
Restricted investments	-	-	1,485,060	-	1,485,060
Total assets	<u>\$ 8,622,482</u>	<u>\$ 395,182</u>	<u>\$ 1,485,060</u>	<u>\$ 1,522,823</u>	<u>\$ 12,025,547</u>
Liabilities and Fund Balances					
Liabilities					
Unearned revenue	\$ -	\$ 395,182	\$ -	\$ -	\$ 395,182
Total liabilities	<u>-</u>	<u>395,182</u>	<u>-</u>	<u>-</u>	<u>395,182</u>
Fund Balances					
Restricted	265,000	-	1,485,060	1,522,823	3,272,883
Committed	2,882,049	-	-	-	2,882,049
Unassigned	5,475,433	-	-	-	5,475,433
Total fund balances	<u>8,622,482</u>	<u>-</u>	<u>1,485,060</u>	<u>1,522,823</u>	<u>11,630,365</u>
Total liabilities and fund balances	<u>\$ 8,622,482</u>	<u>\$ 395,182</u>	<u>\$ 1,485,060</u>	<u>\$ 1,522,823</u>	<u>\$ 12,025,547</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, 2013

Total fund balances - governmental funds	\$ 11,630,365
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>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.</p>	37,500
<p>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 \$57,060,892 and the accumulated depreciation is \$27,933,027.</p>	29,127,865
<p>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.</p>	809,834
<p>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:</p>	
Bonds payable	(16,042,279)
Accrued interest on the bonds	(84,885)
Accrued sick leave payable	<u>(1,156,132)</u>
	<u>(17,283,296)</u>
Total net position - governmental activities	<u>\$ 24,322,268</u>

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, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
From local sources					
Taxes					
Property	\$ 4,996,903	\$ -	\$ -	\$ 817,781	\$ 5,814,684
Motor vehicle	964,292	-	-	-	964,292
Utilities	1,617,497	-	-	-	1,617,497
Other	416,124	-	-	-	416,124
Earnings on investments	161,693	2,851	-	23,582	188,126
Indirect cost reimbursements	17,430	-	-	-	17,430
Other local revenues	563,047	172,823	-	-	735,870
Intergovernmental - State	15,077,029	1,322,018	427,476	518,427	17,344,950
Intergovernmental - Direct Federal	-	145,287	49,831	-	195,118
Intergovernmental - Indirect Federal	-	2,385,576	-	-	2,385,576
Total revenues	<u>23,814,015</u>	<u>4,028,555</u>	<u>477,307</u>	<u>1,359,790</u>	<u>29,679,667</u>
Expenditures					
Current					
Instruction	14,917,412	3,224,974	-	-	18,142,386
Support Services					
Student	990,586	57,551	-	-	1,048,137
Instructional staff	1,078,959	223,567	-	-	1,302,526
District administration	1,252,775	-	-	-	1,252,775
School administration	1,171,074	29,812	-	-	1,200,886
Business	577,522	-	-	-	577,522
Plant operation and management	2,496,646	-	-	-	2,496,646
Student transportation	1,838,996	152,137	-	-	1,991,133
Non-instructional services	-	226,535	-	-	226,535
Debt service					
Principal	-	-	1,165,372	-	1,165,372
Interest and debt service issuance costs	-	-	527,979	-	527,979
Other	-	16,380	-	-	16,380
Total expenditures	<u>24,323,970</u>	<u>3,930,956</u>	<u>1,693,351</u>	<u>-</u>	<u>29,948,277</u>
Excess (deficit) of revenues over expenditures	<u>(509,955)</u>	<u>97,599</u>	<u>(1,216,044)</u>	<u>1,359,790</u>	<u>(268,610)</u>
Other Financing Sources (Uses)					
Original issue discount	-	-	(40,900)	-	(40,900)
Transfers in	143,788	46,189	1,216,030	-	1,406,007
Transfers out	(154,329)	(143,788)	-	(1,107,890)	(1,406,007)
Total other financing sources (uses)	<u>(10,541)</u>	<u>(97,599)</u>	<u>1,175,130</u>	<u>(1,107,890)</u>	<u>(40,900)</u>
Net change in fund balances	(520,496)	-	(40,914)	251,900	(309,510)
Fund balances, beginning of year	<u>9,142,978</u>	<u>-</u>	<u>1,525,974</u>	<u>1,270,923</u>	<u>11,939,875</u>
Fund balances, end of year	<u>\$ 8,622,482</u>	<u>\$ -</u>	<u>\$ 1,485,060</u>	<u>\$ 1,522,823</u>	<u>\$ 11,630,365</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, 2013

Total net change in fund balances - governmental funds	\$ (309,510)
 Amounts reported for governmental activities in the statement of activities are different because:	
Investment of funds held in a restricted escrow account for future construction are reported in governmental funds as expenditures, but are included as assets in the statement of net position.	37,500
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation. This is the amount by which depreciation (\$1,832,437) exceeds capital outlays (\$911,589) in the period.	(920,848)
Inventories 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.	(31,288)
Repayment of long-term liabilities such as bond principal are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position.	1,165,372
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.	(52,779)
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.	(24,094)
Some expenses, such as amortization expense on bond issue costs and discounts, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(47,714)</u>
Change in net position of governmental activities	<u>\$ (183,361)</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Food Service Fund	Other Enterprise Fund	Total Enterprise Funds
Assets			
Current assets			
Cash and cash equivalents	\$ 742,185	\$ 144,223	\$ 886,408
Receivables			
Accounts	-	7,534	7,534
Intergovernmental - federal	80,420	-	80,420
Inventories	87,503	-	87,503
Total current assets	910,108	151,757	1,061,865
Noncurrent assets			
Building and improvements	348,953	-	348,953
Technology equipment	25,429	15,067	40,496
General equipment	790,437	-	790,437
Accumulated depreciation	(765,780)	(3,952)	(769,732)
Total noncurrent assets	399,039	11,115	410,154
Total assets	1,309,147	162,872	1,472,019
Liabilities			
Current liabilities			
Accrued sick leave	387	-	387
Total current liabilities	387	-	387
Noncurrent liabilities			
Accrued sick leave	21,656	-	21,656
Total noncurrent liabilities	21,656	-	21,656
Total liabilities	22,043	-	22,043
Net Assets			
Net investment in capital assets	399,039	11,115	410,154
Unrestricted	888,065	151,757	1,039,822
Total net position	\$ 1,287,104	\$ 162,872	\$ 1,449,976

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, 2013

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Total Enterprise Funds</u>
Operating Revenues			
Lunchroom sales	\$ 643,105	\$ -	\$ 643,105
Community service activities	-	211,121	211,121
Total operating revenues	<u>643,105</u>	<u>211,121</u>	<u>854,226</u>
Operating Expenses			
Salaries, wages and benefits	941,859	284,604	1,226,463
Contract services	51,061	2,147	53,208
Materials and supplies	954,119	17,289	971,408
Depreciation	49,378	3,013	52,391
Other	15,140	6,613	21,753
Total operating expenses	<u>2,011,557</u>	<u>313,666</u>	<u>2,325,223</u>
Operating loss	<u>(1,368,452)</u>	<u>(102,545)</u>	<u>(1,470,997)</u>
Non-Operating Revenues (Expenses)			
Interest income	12,028	-	12,028
Donated commodities	134,239	-	134,239
Grants - child nutrition program	1,183,739	-	1,183,739
State funding - on-behalf payments	126,914	50,747	177,661
State matching	18,744	92,665	111,409
Loss on disposal of assets	(5,953)	-	(5,953)
Total non-operating revenues (expenses)	<u>1,469,711</u>	<u>143,412</u>	<u>1,613,123</u>
Change in net position	101,259	40,867	142,126
Total net position, beginning of year	<u>1,185,845</u>	<u>122,005</u>	<u>1,307,850</u>
Total net position, end of year	<u>\$ 1,287,104</u>	<u>\$ 162,872</u>	<u>\$ 1,449,976</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, 2013

	<u>Food Service Fund</u>	<u>Other Enterprise Fund</u>	<u>Enterprise Funds</u>
Cash Flows from Operating Activities			
Cash received from:			
Lunchroom sales	\$ 643,105	\$ -	\$ 643,105
Community service activities	-	222,533	222,533
Cash paid for:			
Salaries, wages and benefits	(812,389)	(233,857)	(1,046,246)
Contract services	(51,061)	(2,147)	(53,208)
Materials and supplies	(817,717)	(17,289)	(835,006)
Other	(15,140)	(6,613)	(21,753)
Net cash used by operating activities	<u>(1,053,202)</u>	<u>(37,373)</u>	<u>(1,090,575)</u>
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	<u>(38,659)</u>	-	<u>(38,659)</u>
Cash Flows from Noncapital Financing Activities			
Nonoperating federal grants received	1,115,490	-	1,115,490
Nonoperating state grants received	18,744	92,665	111,409
Net cash provided by noncapital financing activities	<u>1,134,234</u>	<u>92,665</u>	<u>1,226,899</u>
Cash Flows from Investing Activities			
Interest income	<u>12,028</u>	-	<u>12,028</u>
Net increase in cash and cash equivalents	54,401	55,292	109,693
Cash and cash equivalents, beginning of year	<u>687,784</u>	<u>88,931</u>	<u>776,715</u>
Cash and cash equivalents, end of year	<u>\$ 742,185</u>	<u>\$ 144,223</u>	<u>\$ 886,408</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities			
Operating loss	\$ (1,368,452)	\$ (102,545)	\$ (1,470,997)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation	49,378	3,013	52,391
Salaries, wages and benefits (on-behalf payments)	126,914	50,747	177,661
Materials and supplies (commodities used)	110,387	-	110,387
Changes in assets and liabilities			
Receivables, Account	-	11,412	11,412
Inventories	26,015	-	26,015
Accrued sick leave	2,556	-	2,556
Net cash used by operating activities	<u>\$ (1,053,202)</u>	<u>\$ (37,373)</u>	<u>\$ (1,090,575)</u>
Noncash Noncapital Financing Activities			
Donated food commodities received from the U.S. Department of Agriculture	<u>\$ 134,239</u>	<u>\$ -</u>	<u>\$ 134,239</u>
Loss on disposal of assets	<u>\$ (5,953)</u>	<u>\$ -</u>	<u>\$ (5,953)</u>
State funding - on-behalf payments	<u>\$ 126,914</u>	<u>\$ 50,747</u>	<u>\$ 177,661</u>

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

**CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013**

	Private Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 314,223	\$ 687,798
Total assets	<u>314,223</u>	<u>687,798</u>
 Liabilities		
Due to student groups	-	565,594
Due to grantor agencies	-	122,204
Total liabilities	<u>-</u>	<u>\$ 687,798</u>
 Net Position		
Net position held in trust	<u>314,223</u>	
Total net position	<u>\$ 314,223</u>	

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, 2013

	<u>Private Purpose Trust Funds</u>
Additions	
Interest	\$ 4,924
Donations	7,235
Deductions	
Instruction	<u>(1,500)</u>
Change in net position	10,659
Net position, beginning of year	<u>303,564</u>
Net position, end of year	<u>\$ 314,223</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, 2013

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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 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. The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to disbursements for specified purposes. They include 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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

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

II. Proprietary Fund Types (Enterprise Funds)

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

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 2013 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.

CALLOWAY COUNTY SCHOOL DISTRICT
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The property tax rates for the year ended June 30, 2013 to finance the General Fund operations were \$.401 per \$100 valuation for real property, \$.401 per \$100 valuation for business tangible personal property, and \$.521 per \$100 valuation for motor vehicles.

E. Capital Assets

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

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

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

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

F. Interfund Activity

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

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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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G. Budgetary Process

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

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

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

An approved budget can be amended by the Board and all budget appropriations lapse at year-end.

H. Encumbrance Accounting

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

I. 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.

CALLOWAY COUNTY SCHOOL DISTRICT
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K. 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.

L. 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.

M. Fund Balances

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

Nonspendable fund balance

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

Restricted fund balance

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

Committed fund balance

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

CALLOWAY COUNTY SCHOOL DISTRICT
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Assigned fund balance

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

Unassigned fund balance

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

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

N. 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.

O. 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.

P. Deferred Outflows and Inflows of Resources

During the year ended June 30, 2013, the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of the statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources, which are distinct from assets and liabilities and also renamed as net position, rather than net assets, the residual of all other elements presented

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in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011.

As of June 30, 2013, the District did not have any financial statement elements that meet the definition of deferred outflows of resources or deferred inflows of resources under GASB statement No. 63.

Q. Impact of Recently issued Accounting Pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the District's financial statements.

NOTE 2 - DETAILED NOTES ON ACCOUNTS

A. Deposits

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

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

At fiscal year-end, the carrying amount of the District's deposits was \$12,067,422 and the bank balance was \$13,500,393. Of the District's bank balance, \$13,129,046 was collateralized as discussed above because it was uninsured, while \$371,347 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	\$ 11,065,401
Private purpose trust cash, including time deposits (not included in government-wide statement)	314,223
Agency fund cash (not included in government-wide statement)	<u>687,798</u>
	<u>\$ 12,067,422</u>

**CALLOWAY COUNTY SCHOOL DISTRICT
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These amounts are reported in the financial statements, as follows:

Governmental activities	\$ 10,178,993
Business-type activities	886,408
Fiduciary funds	<u>1,002,021</u>
	<u>\$ 12,067,422</u>

B. Restricted Investments

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

The District sold a \$2,000,000 Qualified Zone Academy Bond (QZAB) on October 3, 2007 for the purpose of financing the cost of renovations to several school district instructional buildings. On the delivery date an initial cash payment in the amount of \$1,114,000 was required to be deposited in a Prefunded Escrow Account at Monticello Banking Company in Somerset, Kentucky, \$160,000 of which was for trustee fees. The trustee used the remaining prepayment to purchase a Federal Home Loan Mortgage Corporation (FHLMC) zero coupon bond in the amount of \$954,000, which will mature 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 \$40,900.

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>1,485,060</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.

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

June 30, 2013

C. Capital Assets

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

<u>Governmental Activities</u>	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Non-depreciable				
Land	\$ 585,145	\$ 429,875	\$ -	\$ 1,015,020
Totals	<u>585,145</u>	<u>429,875</u>	<u>-</u>	<u>1,015,020</u>
Depreciable				
Land improvements	1,721,752	-	-	1,721,752
Buildings and improvements	46,986,541	17,500	-	47,004,041
Technology equipment	2,006,930	44,541	(231,675)	1,819,796
Vehicles	4,372,421	376,781	(291,964)	4,457,238
General equipment	1,002,685	45,268	(4,908)	1,043,045
Totals	<u>56,090,329</u>	<u>484,090</u>	<u>(528,547)</u>	<u>56,045,872</u>
Less: Accumulated depreciation				
Land improvements	(1,363,393)	(35,038)	-	(1,398,431)
Buildings and improvements	(20,182,204)	(1,309,139)	-	(21,491,343)
Technology equipment	(1,460,790)	(175,784)	229,751	(1,406,823)
Vehicles	(2,898,902)	(261,527)	291,964	(2,868,465)
General equipment	(721,472)	(50,949)	4,456	(767,965)
Totals	<u>(26,626,761)</u>	<u>(1,832,437)</u>	<u>526,171</u>	<u>(27,933,027)</u>
Net Book Value	<u>29,463,568</u>	<u>(1,348,347)</u>	<u>(2,376)</u>	<u>28,112,845</u>
Governmental activities capital assets - net	<u>\$ 30,048,713</u>	<u>\$ (918,472)</u>	<u>\$ (2,376)</u>	<u>\$ 29,127,865</u>
 <u>Business-Type Activities</u>				
Depreciable				
Buildings and improvements	\$ 348,953	\$ -	\$ -	\$ 348,953
Technology equipment	40,945	-	(449)	40,496
General equipment	760,063	38,659	(8,285)	790,437
Totals	<u>1,149,961</u>	<u>38,659</u>	<u>(8,734)</u>	<u>1,179,886</u>
Less: Accumulated depreciation				
Buildings and improvements	(261,072)	(5,944)	-	(267,016)
Technology equipment	(18,881)	(6,305)	329	(24,857)
General equipment	(440,169)	(40,142)	2,452	(477,859)
Totals	<u>(720,122)</u>	<u>(52,391)</u>	<u>2,781</u>	<u>(769,732)</u>
Business-type activities capital assets - net	<u>\$ 429,839</u>	<u>\$ (13,732)</u>	<u>\$ (5,953)</u>	<u>\$ 410,154</u>

Amortization expense of \$47,714 related to bond issue costs and bond discounts was not allocated to governmental activities and appears on the statement of activities as "unallocated".

**CALLOWAY COUNTY SCHOOL DISTRICT
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Depreciation expense has been recorded as a direct expense in the applicable governmental activity functions, as follows:

Instruction	\$ 1,500,950
Support services:	
Student	2,568
Instructional staff	6,726
District administration	38,899
School administration	22,332
Business	1,323
Plant operations and management	38,775
Student transportation	<u>220,864</u>
	<u>\$ 1,832,437</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

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.

**CALLOWAY COUNTY SCHOOL DISTRICT
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Changes in the bond issues during the year are summarized below:

<u>Issue</u>	<u>Balance at July 1, 2012</u>	<u>New Issues</u>	<u>Retirements</u>	<u>Balance at June 30, 2013</u>
2002	\$ 440,000	\$ -	\$ 440,000	\$ -
2004	695,000	-	195,000	500,000
2007	2,000,000	-	-	2,000,000
2008	3,290,000	-	80,000	3,210,000
2009	878,003	-	180,372	697,631
2010	2,940,000	-	130,000	2,810,000
2010	955,000	-	65,000	890,000
2010	6,045,000	-	75,000	5,970,000
	<u>\$ 17,243,003</u>	<u>\$ -</u>	<u>\$ 1,165,372</u>	<u>\$ 16,077,631</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Calloway County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2014	\$ 884,820	\$ 375,439	\$ 295,553	\$ 114,692	\$ 1,670,504
2015	799,693	356,680	267,037	107,292	1,530,702
2016	820,598	335,203	274,320	100,006	1,530,127
2017	827,457	312,051	275,642	91,721	1,506,871
2018	854,220	290,009	326,955	83,042	1,554,226
2019-2023	5,941,113	1,046,617	1,195,223	266,164	8,449,117
2024-2028	1,970,085	462,184	589,915	99,013	3,121,197
2029-2030	653,518	40,972	101,481	2,474	798,445
	<u>\$ 12,751,504</u>	<u>\$ 3,219,155</u>	<u>\$ 3,326,126</u>	<u>\$ 864,404</u>	<u>\$ 20,161,189</u>

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

	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>	<u>Due in One Year</u>
Bonds	\$17,243,003	\$ -	\$1,165,372	\$16,077,631	\$1,180,373
Less unamortized call premium on refunding bond issue	<u>(39,624)</u>	<u>4,272</u>	<u>-</u>	<u>(35,352)</u>	<u>(4,273)</u>
	17,203,379	4,272	1,165,372	16,042,279	1,176,100
Accrued sick leave:					
Governmental activities	1,103,353	113,255	60,476	1,156,132	147,191
Business-type activities	<u>19,487</u>	<u>2,556</u>	<u>-</u>	<u>22,043</u>	<u>387</u>
	<u>\$18,326,219</u>	<u>\$ 120,083</u>	<u>\$1,225,848</u>	<u>\$17,220,454</u>	<u>\$1,323,678</u>

**CALLOWAY COUNTY SCHOOL DISTRICT
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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 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, 2013 were \$48,669.

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, 2012. The total amount of accumulated benefits for all employees eligible to retire at this date is \$535,286. A \$265,000 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, 2013 are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay</u>	<u>Building</u>	<u>Construction</u>	<u>Debt Service</u>
Restricted for:						
Sick leave	\$ 265,000	\$ -	\$ -	\$ -	\$ -	\$ -
SFCC escrow	-	-	1,113,065	249,357	-	-
Construction	-	-	-	-	160,401	-
Debt service	-	-	-	-	-	1,485,060
Other	-	-	-	-	-	-
	<u>265,000</u>	<u>-</u>	<u>1,113,065</u>	<u>249,357</u>	<u>160,401</u>	<u>1,485,060</u>
Committed for:						
SBDM	175,350	-	-	-	-	-
Construction	1,669,331	-	-	-	-	-
Vehicles	250,000	-	-	-	-	-
Maintenance equipment	150,000	-	-	-	-	-
Gear-up match	237,368	-	-	-	-	-
Salary increases	400,000	-	-	-	-	-
	<u>2,882,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned	<u>5,475,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>\$ 8,622,482</u>	<u>\$ -</u>	<u>\$ 1,113,065</u>	<u>\$ 249,357</u>	<u>\$ 160,401</u>	<u>\$ 1,485,060</u>

**CALLOWAY COUNTY SCHOOL DISTRICT
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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	\$ 520,496
Debt Service Fund	\$ 40,914

H. Transfers

The following transfers were made during the year:

From Fund	To Fund	Purpose	Amount
General	Special Revenue	KETS Match	\$ 46,189
General	Debt Service	Debt Service	108,140
Special Revenue	General	Preschool Utilities	143,788
Building	Debt Service	Debt Service	1,039,536
Capital Outlay	Debt Service	Debt Service	68,354

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	\$16,380
Fiscal Agent	<u>1,050</u>
	<u>\$17,430</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, 2013:

Contributions to Kentucky Teachers'	
Retirement System	\$1,674,810
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	3,289,451
Technology	58,592
Debt service	<u>427,476</u>
	<u>\$ 5,450,329</u>

The District does not include 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	\$4,845,192
Debt Service Fund	427,476
Food Service Fund	126,914
School Age Child Care Fund	<u>50,747</u>
	<u>\$5,450,329</u>

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

June 30, 2013

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 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 10.855% of their salaries to KTRS and the Commonwealth of Kentucky is required to contribute 14.105% of salaries. The Commonwealth of Kentucky is required to contribute 15.160% of salaries for KTRS members hired as critical shortage employees. The federal program for any salaries paid by that program pays the matching contribution. The District is required to contribute 1.00% 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 19.55% of all CERS salaries.

The District's total payroll for the year was \$17,596,362. The payroll for employees covered under KTRS was \$12,656,692 and for CERS was \$3,071,620.

The contribution requirement for CERS for the year ended June 30, 2013 was \$754,174 which consisted of \$600,573 from the District and \$153,601 from the employees. The Commonwealth contributed \$1,496,213 to KTRS for the benefit of participating employees. The District contributions to KTRS were \$285,022, which represents \$158,452 for those employees covered by federal programs and \$126,570 for all KTRS employees.

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

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
6/30/13	\$885,595	100%
6/30/12	\$870,165	100%
6/30/11	\$892,242	100%

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

June 30, 2013

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, 2013 are not yet available):

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded AAL	Funded Ratio	Covered Payroll	Underfunded Actuarial Liability as Percentage of Covered Payroll
KTRS	\$ 14,691,371	\$ 26,973,854	\$ 12,282,483	54.5%	\$ 3,479,567	353.0%
CERS	7,294,615	12,149,560	4,854,945	60.0%	2,700,775	179.8%

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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

The District has been notified by the Kentucky School Board Insurance Trust of a potential liability for workers compensation losses incurred by the Trust. The Trust estimates the District's liability to be between \$255,177 and \$322,317. As of June 30, 2013 the District had not received an indication of a final assessment or a process for payment of the potential liability.

C. Insurance and Related Activities

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

D. Litigation

The Board's legal counsel has advised that the District is not subject to any litigation or unasserted claims as of June 30, 2013.

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. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

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

CALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - GENERAL FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget (Positive Negative)
Revenues				
From local sources				
Taxes				
Property	\$ 4,544,541	\$ 4,953,151	\$ 4,996,903	\$ 43,752
Motor vehicle	865,000	925,663	964,292	38,629
Utilities	1,500,000	1,600,000	1,617,497	17,497
Other	410,000	410,000	416,124	6,124
Earnings on investments	140,000	140,000	161,693	21,693
Indirect cost reimbursements	15,100	20,139	17,430	(2,709)
Other local revenues	77,162	100,804	563,047	462,243
Intergovernmental - State	9,437,398	9,684,002	10,231,837	547,835
Total revenues	16,989,201	17,833,759	18,968,823	1,135,064
Expenditures				
Current				
Instruction	12,154,929	12,586,171	11,386,557	1,199,614
Support Services				
Student	752,330	793,246	775,959	17,287
Instructional staff	923,965	903,308	818,131	85,177
District administration	977,871	1,048,627	1,161,862	(113,235)
School administration	830,675	1,003,088	914,064	89,024
Business	482,767	487,391	403,597	83,794
Plant operation and management	2,721,429	2,888,153	2,340,450	547,703
Student transportation	2,062,043	2,012,373	1,678,158	334,215
Contingency	2,185,224	2,186,041	-	2,186,041
Total expenditures	23,091,233	23,908,398	19,478,778	4,429,620
Excess (deficit) of revenues over expenditures	(6,102,032)	(6,074,639)	(509,955)	5,564,684
Other Financing Sources (Uses)				
Transfers in	87,182	107,500	143,788	36,288
Transfers out	(180,140)	(180,140)	(154,329)	25,811
Total other financing sources (uses)	(92,958)	(72,640)	(10,541)	62,099
Net change in fund balances	(6,194,990)	(6,147,279)	(520,496)	5,626,783
Fund balances, beginning of year	6,194,990	6,192,279	9,142,978	2,950,699
Fund balances, end of year	\$ -	\$ 45,000	\$ 8,622,482	\$ 8,577,482
Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures				
Inflows/revenues:				
Actual amounts (budgetary basis)			\$ 18,968,823	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts			4,845,192	
Total revenues as reported on statement of revenues, expenditures and changes in fund balances - governmental funds			\$ 23,814,015	
Outflows/expenditures:				
Actual amounts (budgetary basis)			\$ 19,478,778	
Differences - budget to GAAP:				
On-behalf payments recorded under GAAP basis not included in budget amounts			4,845,192	
Total expenditures as reported on statement of revenues, expenditures and changes in fund balances - governmental funds			\$ 24,323,970	

See independent auditor's report.

ALLOWAY COUNTY SCHOOL DISTRICT
STATEMENT OF BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Year Ended June 30, 2013

	<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	\$ 396	\$ 820	\$ 2,851	\$ 2,031
Other local revenues	-	124,969	172,823	47,854
Intergovernmental - State	1,032,433	1,293,377	1,322,018	28,641
Intergovernmental - Direct Federal	-	125,000	145,287	20,287
Intergovernmental - Indirect Federal	<u>2,083,915</u>	<u>2,243,985</u>	<u>2,385,576</u>	<u>141,591</u>
Total revenues	<u>3,116,744</u>	<u>3,788,151</u>	<u>4,028,555</u>	<u>240,404</u>
Expenditures				
Current				
Instruction	2,574,882	3,076,991	3,224,974	(147,983)
Support Services				
Student	24,000	59,424	57,551	1,873
Instructional staff	105,803	196,954	223,567	(26,613)
School administration	22,510	23,051	29,812	(6,761)
Student transportation	131,287	149,175	152,137	(2,962)
Non-instructional services	229,030	230,146	226,535	3,611
Other	-	-	16,380	(16,380)
Total expenditures	<u>3,087,512</u>	<u>3,735,741</u>	<u>3,930,956</u>	<u>(195,215)</u>
Excess of revenues over expenditures	<u>29,232</u>	<u>52,410</u>	<u>97,599</u>	<u>45,189</u>
Other Financing Sources (Uses)				
Transfers in	72,000	72,000	46,189	(25,811)
Transfers out	<u>(101,232)</u>	<u>(124,235)</u>	<u>(143,788)</u>	<u>(19,553)</u>
Total other financing sources (uses)	<u>(29,232)</u>	<u>(52,235)</u>	<u>(97,599)</u>	<u>(45,364)</u>
Net change in fund balances	-	175	-	(175)
Fund balances, beginning of year	-	-	-	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ (175)</u>

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION SECTION

**CALLOWAY COUNTY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2013**

	Capital Outlay Fund	Building Fund	Construction Fund	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,113,065	\$ 249,357	\$ 160,401	\$ 1,522,823
Total assets	<u>\$ 1,113,065</u>	<u>\$ 249,357</u>	<u>\$ 160,401</u>	<u>\$ 1,522,823</u>
Liabilities and Fund Balances				
Fund Balances				
Restricted	\$ 1,113,065	\$ 249,357	\$ 160,401	\$ 1,522,823
Total fund balances	<u>1,113,065</u>	<u>249,357</u>	<u>160,401</u>	<u>1,522,823</u>
Total liabilities and fund balances	<u>\$ 1,113,065</u>	<u>\$ 249,357</u>	<u>\$ 160,401</u>	<u>\$ 1,522,823</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues				
From local sources				
Taxes				
Property	\$ -	\$ 817,781	\$ -	\$ 817,781
Earnings on investments	14,829	6,448	2,305	23,582
Intergovernmental - State	<u>288,910</u>	<u>229,517</u>	<u>-</u>	<u>518,427</u>
Total revenues	<u>303,739</u>	<u>1,053,746</u>	<u>2,305</u>	<u>1,359,790</u>
Expenditures				
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	<u>303,739</u>	<u>1,053,746</u>	<u>2,305</u>	<u>1,359,790</u>
Other Financing Sources (Uses)				
Transfers out	<u>(68,354)</u>	<u>(1,039,536)</u>	<u>-</u>	<u>(1,107,890)</u>
Total other financing sources (uses)	<u>(68,354)</u>	<u>(1,039,536)</u>	<u>-</u>	<u>(1,107,890)</u>
Net change in fund balances	235,385	14,210	2,305	251,900
Fund balances, beginning of year	<u>877,680</u>	<u>235,147</u>	<u>158,096</u>	<u>1,270,923</u>
Fund balances, end of year	<u>\$ 1,113,065</u>	<u>\$ 249,357</u>	<u>\$ 160,401</u>	<u>\$ 1,522,823</u>

See independent auditor's report.

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

For the Year Ended June 30, 2013

<u>Fund</u>	<u>July 1, 2012</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2013</u>
Activity Funds				
Calloway County High School:				
Academic Club	\$ 2,936	\$ 3,188	\$ 3,571	\$ 2,553
Accounting Class	915	434	41	1,308
Advance Wellness Class	482	20	-	502
Agricultural Class	861	2,276	2,045	1,092
Art Class	562	1,517	1,401	678
Arts & Humanities	1,000	489	346	1,143
Athletic Booster Club	80	-	80	-
Athletic Miscellaneous	3,629	55,160	9,985	48,804
Basketball Chair Seats	-	21,696	21,696	-
Baseball	1,419	4,281	5,243	457
Baseball Diamond Club	-	7,067	7,067	-
Band	1,837	3,040	4,724	153
Band Supply	13,000	10,765	13,285	10,480
Bank Trip	-	2,298	1,128	1,170
Beta Club	2,594	6,228	5,797	3,025
Biology Class	684	1,851	1,063	1,472
Boys' Basketball	18,705	23,845	16,985	25,565
Boys' Little League	270	-	-	270
Boys' Soccer	10,372	4,789	4,939	10,222
B/G Cross Country	1,755	1,523	2,921	357
B/G Tennis Boosters	-	8,904	1,252	7,652
Boys'-Girls' Tennis	4,042	1,140	2,169	3,013
Boys'-Girls' Track	2,440	-	2,304	136
Build. Part. Teachers	492	365	266	591
Business Economics	275	-	170	105
CCHS Bass Fishing Club	1,784	2,100	3,853	31
CCHS Book Rental	123	10,622	10,625	120
CCHS Course Fees	195	15,829	16,024	-
CCHS Dance Team	857	6,225	5,584	1,498
Cheerleader	2,525	15,135	16,501	1,159
Chemistry Class	1,256	1,693	1,303	1,646
Chess Club	37	-	-	37
Choir Class	589	628	407	810
Choir Sales	1,433	1,418	770	2,081
Choir Supply	4,590	5,181	5,221	4,550
Class of 2012	-	20	-	20
Class of 2013	497	18,223	15,776	2,944
Computer Class	835	690	1,195	330
Col Cowan Scholarship	600	-	-	600
Dist/Reg. Basketball	-	12,727	12,727	-
District Soccer	799	-	799	-
District Softball	-	915	915	-
Drama Club	896	-	-	896

See independent auditor's report.

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

For the Year Ended June 30, 2013

<u>Fund</u>	<u>July 1, 2012</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2013</u>
Drivers Education	\$ 2,012	\$ 4,250	\$ 3,585	\$ 2,677
Entrepreneurship Class	376	193	60	509
Electronic Office Class	1,547	834	579	1,802
FBLA Club	812	23,509	23,193	1,128
FBLA Trip	350	-	67	283
FEA	177	303	93	387
FFA Club	5,874	15,052	19,444	1,482
FCCLA Club	1,149	-	10	1,139
FCA	719	126	-	845
Football Alumni	3,078	3,650	1,564	5,164
Football Camp	1,319	-	1,319	-
Football	14,409	44,960	59,369	-
Football Touchdown Club	-	1,117	117	1,000
Football Playoffs	-	131,540	64,643	66,897
General	69,345	38,285	43,957	63,673
Girls' Basketball	2,302	19,840	13,314	8,828
Girls' Soccer	9,980	7,105	10,298	6,787
Girls' Softball	-	4,388	4,388	-
Girls' Softball Booster	-	965	965	-
Golf	2,477	727	3,204	-
Guidance Office	589	545	741	393
Home Ec Class	818	1,038	1,540	316
Homecoming Fund	46	544	590	-
Horticulture Class	4,246	8,274	8,772	3,748
Intro Physics/Chemistry	5,444	2,867	6,364	1,947
Instructional Fee	3,410	6,819	6,440	3,789
Japanese Club	327	951	979	299
Journalism Class	12,399	4,754	5,957	11,196
Jr. Beta	463	58	-	521
Keyboarding Class	1,407	1,560	963	2,004
KYA	-	7,080	7,080	-
KYAEA	-	761	715	46
Library	38	1,164	1,190	12
Life Skills Class	10	-	10	-
Little League Football	5,875	2,463	4,762	3,576
Multi Media Class	119	807	599	327
Math Class Fees	2,184	2,619	2,551	2,252
Memorial Fund/Josh	58	-	-	58
National Art Honor Soc	541	1,982	1,283	1,240
National Science	718	1,166	1,003	881
Pep Club	-	1,230	1,184	46
Physics Class	966	477	609	834
Prime Investment Fund	893	3,309	2,500	1,702
Principal's Discretionary	587	6,838	1,628	5,797
Project Graduation	531	-	250	281
Regional Baseball	-	12,529	12,529	-
Regional Basketball	250	5,759	6,009	-

See independent auditor's report.

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

For the Year Ended June 30, 2013

<u>Fund</u>	<u>July 1, 2012</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2013</u>
Robotics Team	\$ 11	\$ 3,542	\$ 3,356	\$ 197
Sign Language Club	2	-	-	2
Spanish Club	690	1,103	691	1,102
Speech Team	7,945	16,202	15,368	8,779
Social Studies Fund	3,647	1,418	1,036	4,029
Sound System Upgrade	1,841	-	-	1,841
Special Ed. Vocational	4,038	2,433	3,095	3,376
Sports & Marketing Club	166	-	-	166
Swim Team Fund	3,444	239	2,764	919
Swim Wave Club Booster	3,139	10,646	8,371	5,414
Student Activities	1,449	402	1,078	773
Student Council	1	-	-	1
Teachers' Room Fund	2,600	4,500	2,808	4,292
Teachers' Flower Club	312	10	240	82
Technology Education	510	1,854	1,411	953
Tech Ed Vinyl	38	1,999	2,037	-
Theft/Restitution	4,210	-	-	4,210
Travel & Tourism Club	688	225	277	636
TQI	83	-	-	83
TSA Club	785	-	-	785
T.V. Allotment	6,977	228	7,039	166
Usage Fee	137	-	-	137
USF Funds	11,467	2,964	4,033	10,398
Vending Fund	3,033	75	726	2,382
Vending/Teachers Fund	1,100	695	704	1,091
Vending/DTC Fund	499	975	975	499
Volleyball Team Fund	4,278	7,248	11,152	374
Volleyball Booster	8,312	27,736	35,908	140
Wrestling	14,768	9,663	18,383	6,048
Wrestling Boosters	2,589	6,486	5,575	3,500
Yearbook	22,757	28,455	26,371	24,841
Youth Service Center	3,366	1,817	2,452	2,731
Youth Service / CCCL	2	966	768	200
	<u>358,095</u>	<u>756,601</u>	<u>683,213</u>	<u>431,483</u>
Less: Inter-fund transfers	-	<u>81,432</u>	<u>81,432</u>	-
Total Calloway County High School	358,095	675,169	601,781	431,483
Calloway County Middle School	50,765	129,964	134,284	46,445
North Calloway County Elementary School	19,958	47,613	47,794	19,777

See independent auditor's report.

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

For the Year Ended June 30, 2013

<u>Fund</u>	<u>July 1, 2012</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>June 30, 2013</u>
East Calloway County Elementary School	\$ 14,544	\$ 40,158	\$ 39,631	\$ 15,071
Southwest Calloway County Elementary School	22,769	80,174	73,428	29,515
Calloway County Preschool	<u>22,800</u>	<u>8,175</u>	<u>7,672</u>	<u>23,303</u>
Total activity funds	<u>488,931</u>	<u>981,253</u>	<u>904,590</u>	<u>565,594</u>
Fiscal Agent Funds	120,624	170,701	168,071	123,254
Transfers out - indirect costs	<u>(1,050)</u>	<u>-</u>	<u>-</u>	<u>(1,050)</u>
Total fiscal agent funds	<u>119,574</u>	<u>170,701</u>	<u>168,071</u>	<u>122,204</u>
Total agency funds	<u>\$ 608,505</u>	<u>\$ 1,151,954</u>	<u>\$ 1,072,661</u>	<u>\$ 687,798</u>

See independent auditor's report.

CALLOWAY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

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	220-4500-3103	\$ 704,983	\$ 540,460
Title I Grants to Local Educational Agencies	84.010	220-4500-3103M	24,000	16,689
Title I Grants to Local Educational Agencies	84.010	220-4500-3102	638,584	145,860
Title I Grants to Local Educational Agencies	84.010	220-4500-3102D	73,622	23,738
Title I Grants to Local Educational Agencies	84.010	220-4500-3102M	24,000	5,458
Title I Grants to Local Educational Agencies	84.010	220-4500-3133	21,323	21,323
Title I Grants to Local Educational Agencies	84.010	220-4500-3133T	2,132	2,132
Title I Grants to Local Educational Agencies	84.010	220-4500-3201	61,633	3,465
Title I Grants to Local Educational Agencies	84.010	220-4500-3202	67,834	39,030
Total Title I Cluster			<u>1,618,111</u>	<u>798,155</u>
Special Education Cluster:				
Special Education_Grants to States	84.027	220-4500-3362	312,478	30,721
Special Education_Grants to States	84.027	220-4500-3363	312,478	249,493
Special Education_Grants to States	84.027	220-4500-3373	688,236	387,110
Special Education_Grants to States	84.027	220-4500-3372P	11,453	741
Special Education_Grants to States	84.027	220-4500-3372	669,979	285,112
Special Education_Grants to States	84.027	220-4500-3371P	8,179	7,049
		Sub-total	<u>2,002,803</u>	<u>960,226</u>
Special Education_Preschool Grants	84.173	220-4500-3432	63,364	2,968
Special Education_Preschool Grants	84.173	220-4500-3433	64,041	62,150
		Sub-total	<u>127,405</u>	<u>65,118</u>
Total Special Education Cluster			<u>2,130,208</u>	<u>1,025,344</u>
Career and Technical Education - Basic Grants to States	84.048	220-4500-3483	25,130	25,130
Rural Low Income Grants	84.358B	220-4500-3503	61,308	57,446
Improving Teacher Quality State Grants	84.367	220-4500-4012	148,426	1,137
Improving Teacher Quality State Grants	84.367	220-4500-4013	147,947	147,357
Improving Teacher Quality State Grants	84.367	220-4500-4011	178,714	77
			<u>475,087</u>	<u>148,571</u>
Race to the Top Incentive Grants, Recovery Act	84.395	220-4500-4521	29,688	19,019
Education Jobs Fund	84.410	220-4500-4411	636,123	117,141
Investing In Innovation	84.411	220-4500-4912	14,000	4,287
Investing In Innovation	84.411	220-4500-4913	5,500	5,500
			<u>19,500</u>	<u>9,787</u>
Total U.S. Department of Education			<u>4,995,155</u>	<u>2,200,593</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, 2013

<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	\$ 327,518	\$ 327,518
	10.555	510-4950	134,239	134,239
National School Lunch Program - Donated Commodities				
National School Lunch Program	10.555	510-4500	829,663	829,663
Summer Food Service Program for Children	10.559	510-4500	25,986	25,986
Total Child Nutrition Cluster			<u>1,317,406</u>	<u>1,317,406</u>
State Administrative	10.560	510-4500	<u>572</u>	<u>572</u>
Total U.S. Department of Agriculture			<u>1,317,978</u>	<u>1,317,978</u>
U.S. Department of Justice				
Drug Free Community Support	16.279	220-4300-5002	125,000	35,821
Drug Free Community Support	16.279	220-4300-5001	124,825	85,601
Total U.S. Department of Justice			<u>249,825</u>	<u>121,422</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	<u>50,175</u>	<u>23,865</u>
Passed Through Murray Independent School District:				
Head Start	93.600	220-4700-6552	173,382	34,901
Head Start	93.600	220-4700-6553	150,000	149,900
			<u>323,382</u>	<u>184,801</u>
Total U.S. Department of Health & Human Services			<u>373,557</u>	<u>208,666</u>
Total Federal Awards			<u>\$ 6,936,515</u>	<u>\$ 3,848,659</u>

Reconciliation of Expenditures of Federal Awards to Special Revenue Total Expenditures

Total expenditures of Federal awards	\$ 3,848,659
Total expenditures of State and Local awards	1,400,275
Expenditure of Federal awards in the Food Service Fund	<u>(1,317,978)</u>
Total expenditures as reported in the special revenue fund on statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,930,956</u>

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

CALLOWAY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013

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, 2013. 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. At June 30, 2013, the District had food commodities totaling \$62,256 in inventory.

INTERNAL CONTROL AND COMPLIANCE SECTION

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301 Maple St.
Murray, KY 42071

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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, 2013, 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 12, 2013.

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*.

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 12, 2013

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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards 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, 2013. 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, 2013.

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 12, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

June 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	<u>unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> x </u> no	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	<u> </u> yes	<u> x </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> x </u> none reported	

Type of auditor's report issued on compliance for major programs:	<u>unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> </u> yes	<u> x </u> no
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Identification of major programs:	Child Nutrition Cluster (CFDA #10.553, 10.555 and 10.559)
	Title I Cluster (CFDA #84.010)
	Education Jobs Fund (CFDA #84.410)

Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	<u> x </u> yes	<u> </u>
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FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

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November 12, 2013

Kennith Bargo, 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, 2013, 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.

During our audit we did not become aware of any matters, other than inconsequential matters, that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter reflects that result. This letter does not affect our report dated November 12, 2013, on the financial statements of Calloway County School District.

Sincerely,

Alexander Thompson Arnold PLLC

Murray, Kentucky

November 12, 2013

**CALLOWAY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS**
June 30, 2013

MANAGEMENT LETTER POINTS
None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

CALLOWAY COUNTY SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2013

FINANCIAL STATEMENT FINDINGS

None reported

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

MANAGEMENT LETTER POINTS

None