

Todd County School District

Financial Statements

June 30, 2013



Independent Auditor's Report	4
Required Supplementary Information:	
Management's Discussion and Analysis.....	8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	22
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet — Governmental Funds	26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	28
Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds.....	29
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	31
Statement of Net Position — Proprietary Funds	32
Statement of Revenues, Expenses and Changes in Fund Net Position — Proprietary Funds.....	33
Statement of Cash Flows — Proprietary Funds	34
Statement of Assets and Liabilities — Fiduciary Funds	36
Notes to the Financial Statements	37

Required Supplementary Information:

Budgetary Comparison Schedule for the General Fund	62
Budgetary Comparison Schedule for the Special Revenue Fund	64

Supplementary Information:

Combining Balance Sheet — Nonmajor Governmental Funds	67
Combining Statement of Revenues, Expenditures and Changes in Fund Balances — Nonmajor Governmental Funds.....	68
Combining Statement of Assets and Liabilities — All School Activity Funds.....	70
Statement of Assets and Liabilities — All Activity Funds — Todd County Central High School	71
Schedule of Expenditures of Federal Awards	73
Notes to the Schedule of Expenditures of Federal Awards	75
Summary Schedule of Prior Year Audit Findings	76
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	77
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	80
Schedule of Findings and Questioned Costs.....	83
Management Letter.....	86

Independent Auditor's Report

Kentucky State Committee for School District Audits
Members of the Board of Education
Todd County School District
Elkton, 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 the Todd County School District (the "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; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

• **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the 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.

• **Emphasis of Matter**

As described in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to these matters.

• **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 8 through 20 and 62 through 65 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 District's basic financial statements. The combining and individual nonmajor fund financial statements and other information 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 purpose 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 and individual nonmajor fund financial statements and other information, 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 basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

• Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013 on our consideration of Todd County School District's internal control over financial reporting and 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 the District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 1, 2013

Required Supplementary Information

Management's Discussion and Analysis

**TODD COUNTY SCHOOL DISTRICT
ELKTON, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2013**

As management of the Todd County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

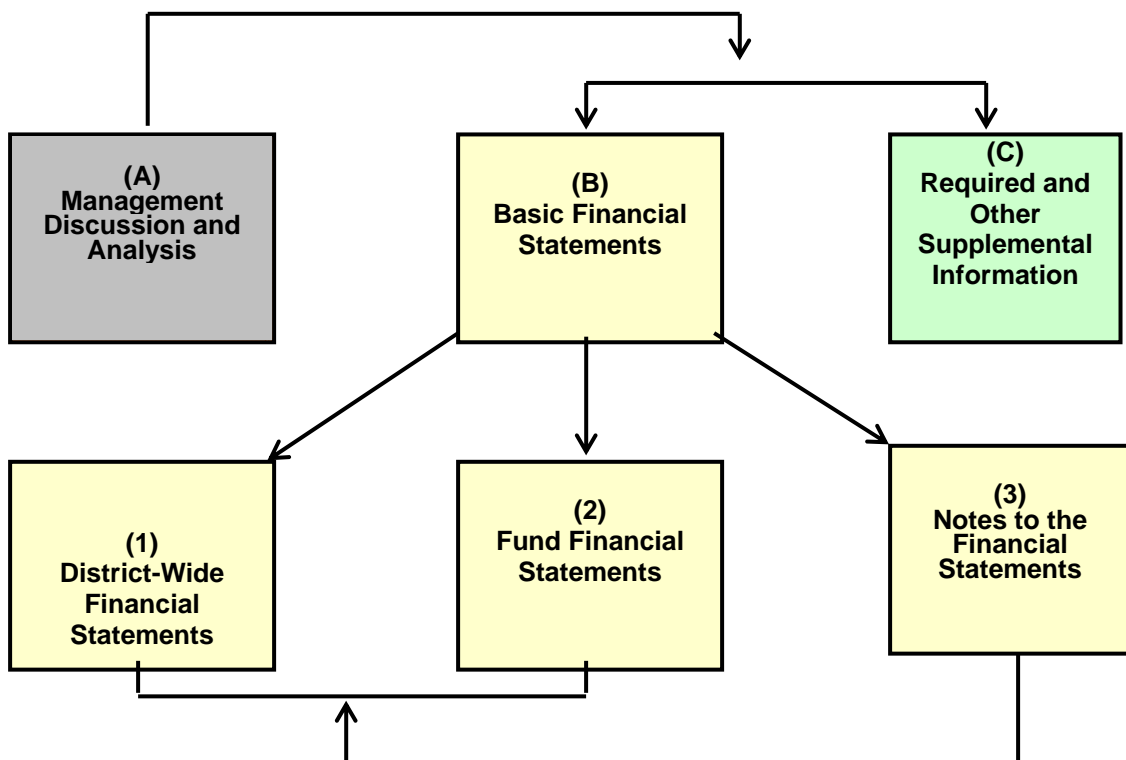
FINANCIAL HIGHLIGHTS

- The beginning General Fund balance for the District was \$3,111,090. The ending General Fund balance was \$3,457,105.
- The beginning Special Revenue Fund balance for the District was \$45,143. The ending Special Revenue Fund balance was \$33,705.
- The beginning balance for Other Governmental Funds was \$270,191. The ending balance for Other Governmental Funds was \$144,129.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Todd County School District as a financial whole, an entire operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (A) management's discussion and analysis (this section), (B) the basic financial statements, and (C) required and other supplemental information. The statements then proceed to provide an increasingly detailed look at specific financial activities. The District's basic financial statements comprise three components: (1) district-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 themselves.

Organization of the Annual Financial Report



The District-Wide Financial Statements have two sections (1) the *Statement of Net Position* and (2) the *Statement of Activities*. The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the

short-term as well as what remains for future spending. The fund financial statements also look at the School District's major funds with all other non-major funds presented in total in one column.

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 can be found on pages 37 through 60 of this report.

Reporting the School District as a Whole

One of the most important questions asked about the School District is "How did we do financially during the current fiscal year?" The *Statement of Net Position* and the *Statements of Activities*, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in that position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as Kentucky's SEEK funding formula and its adjustments, the School District's property tax base, required educational programs and other factors.

In the Statement of Net Position and the Statements of Activities, the School District is divided into two distinct kinds of activities:

- **Governmental Activities** – Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extra-curricular activities. The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). Fixed assets and related debt is also supported by taxes and intergovernmental revenues.
- **Business-Type Activities** – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The School District's food service is reported as business activities. These activities are funded through fees, federal grants, and federal commodities.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12,731,538 as of June 30, 2013. This was a decrease of \$428,369 over the previous year.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The amount of capital assets, net of related debt was \$9,861,514 (a decrease of \$58,859 over the previous year). 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.

Government-wide financial statements can be found on pages 22 through 25 of this report.

Reporting the School District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the School District's major funds follows. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. 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. Fund accounting 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. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are assets that belong to others. The school's activity funds are reported as fiduciary funds. The only proprietary fund is the school food fund. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. All other activities of the district are included in the governmental funds. The major governmental funds for the Todd County School District are the general fund and the special revenue (grants) fund.

Governmental Funds — Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which

measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Position and the Statements of Activities) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds — Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary fund will essentially match.

Fiduciary Funds — The District is fiduciary for assets that belong to others and is responsible for ensuring that assets reported in the fiduciary funds are used only for their intended purposes. The District's fiduciary funds consist of student activities funds and the fiscal agent fund for English as a Second Language. These funds are excluded from the government-wide financial statements because the assets cannot be used to finance the operations of the District.

The basic governmental fund financial statements can be found on pages 26 through 36 of this report.

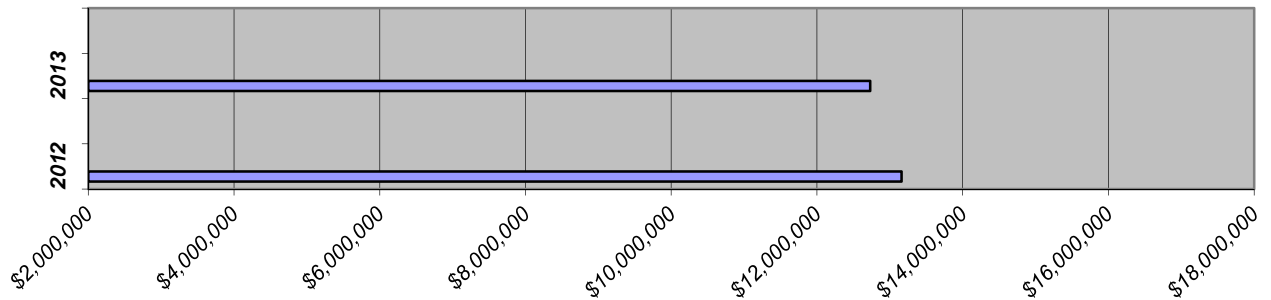
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position for the period ending June 30, 2012 and June 30, 2013

	Governmental Activities		Business-Type Activities		District Total		Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Current and Other Assets	\$3,766,500	\$4,106,816	\$349,262	\$419,464	\$4,115,762	\$4,526,280	10.0%
Capital Assets	\$30,326,793	\$28,737,124	\$439,155	\$392,444	\$30,765,948	\$29,129,568	-5.3%
Total Assets	\$34,093,293	\$32,843,940	\$788,417	\$811,908	\$34,881,710	\$33,655,848	-3.5%
Deferred Outflows of Resources	\$0	\$465,814	\$0	\$0	\$0	\$465,814	100.0%
Long Term Liabilities	\$19,593,814	\$18,726,204	\$0	\$0	\$19,593,814	\$18,726,204	-4.4%
Other Liabilities	\$2,126,453	\$2,158,302	\$1,536	\$45	\$2,127,989	\$2,158,347	1.4%
Total Liabilities	\$21,720,267	\$20,884,506	\$1,536	\$45	\$21,721,803	\$20,884,551	-3.9%
Contingency	\$0	\$505,573	\$0	\$0	\$0	\$505,573	100.0%
Net Position							
Investment in Capital Assets (net of debt)	\$9,481,218	\$9,469,070	\$439,155	\$392,444	\$9,920,373	\$9,861,514	-0.6%
Restricted	\$315,334	\$177,834			\$315,334	\$177,834	-43.6%
Unrestricted	\$2,576,474	\$2,272,771	\$347,726	\$419,419	\$2,924,200	\$2,692,190	-7.9%
Total Net Position	\$12,373,026	\$11,919,675	\$786,881	\$811,863	\$13,159,907	\$12,731,538	-3.3%

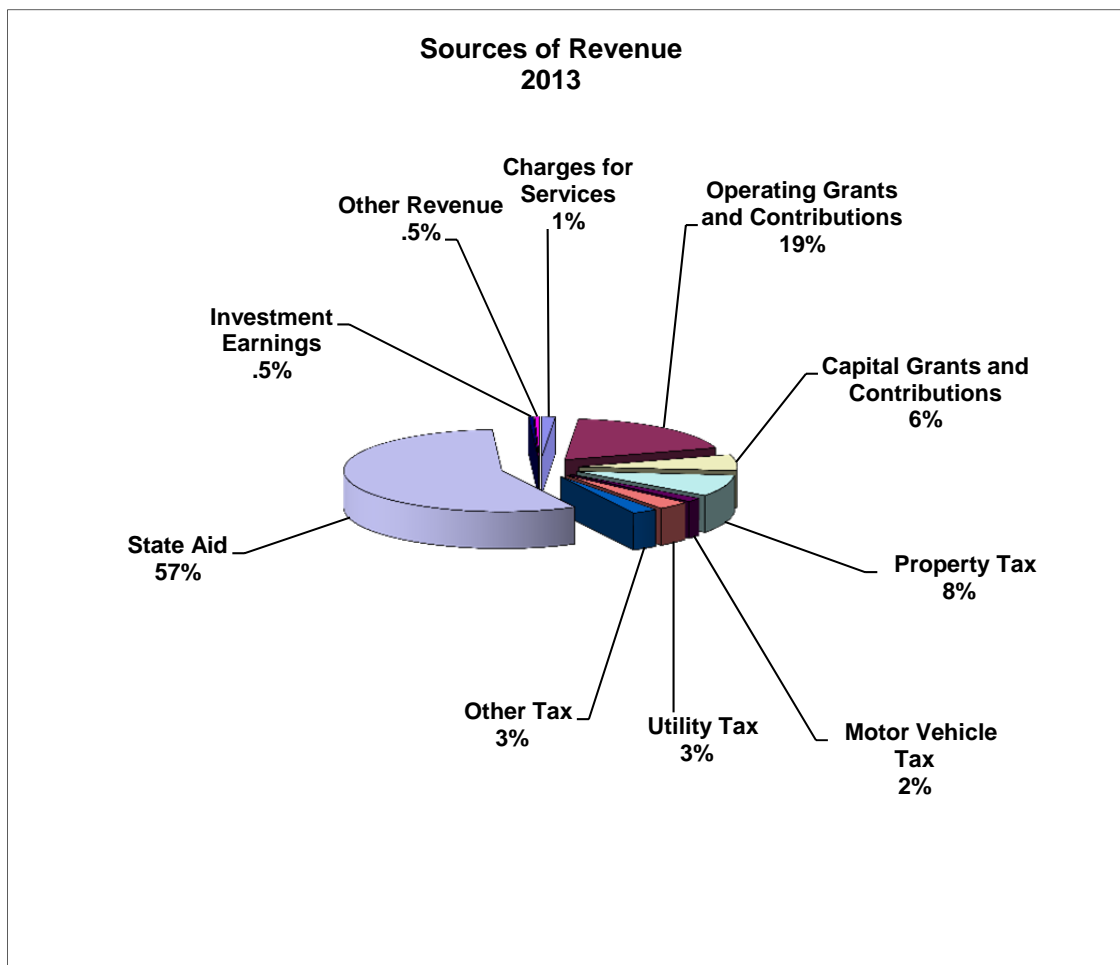
At year-end, assets exceeded liabilities by \$12,731,538.

Todd County Net Position Decreased by 3% or \$428,369

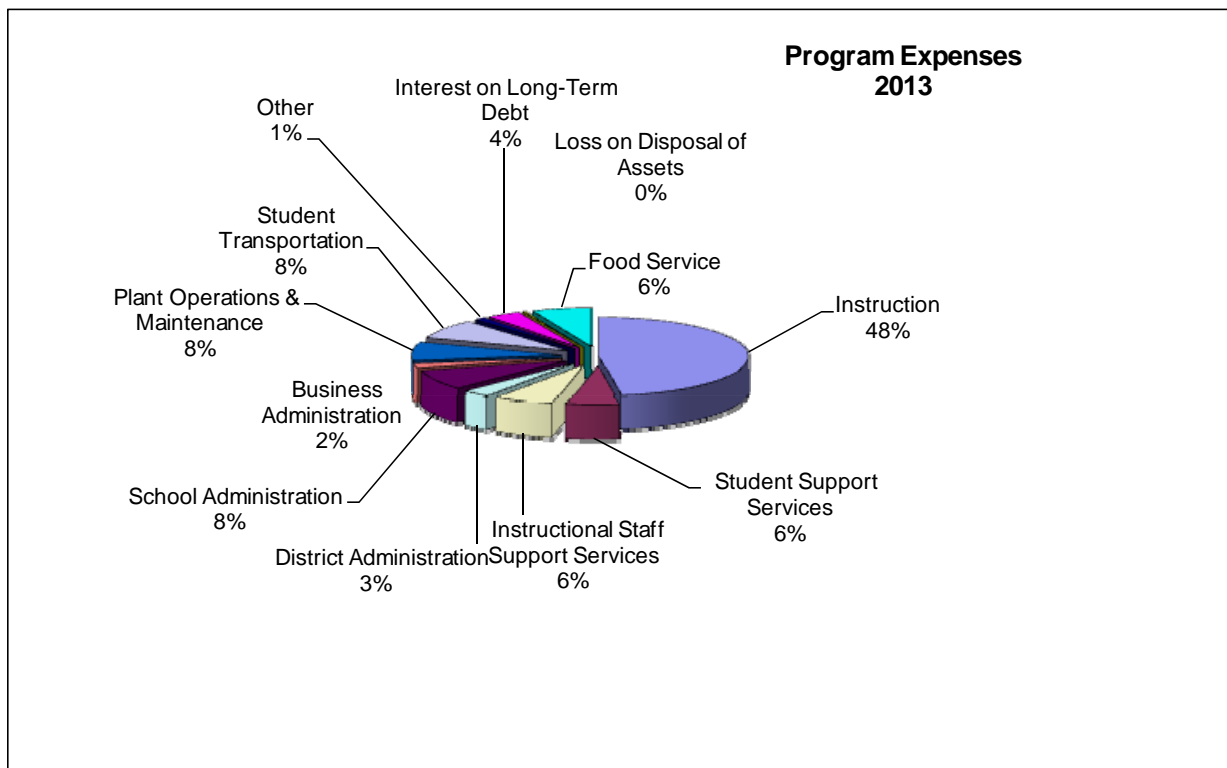


Changes in Net Position for June 30, 2012 and June 30, 2013

	Governmental Activities		Proprietary Business-Type Activities		District Total		District Total Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Program Revenues							
Charges for Services	\$4,453	\$4,283	\$410,932	\$297,698	\$415,385	\$301,981	-27.3%
Operating Grants and Contributions	\$3,089,521	\$3,031,285	\$1,042,355	\$1,096,381	\$4,131,876	\$4,127,666	-0.1%
Capital Grants and Contributions	\$1,373,408	\$1,365,092			\$1,373,408	\$1,365,092	-0.6%
General Revenue							
Taxes							
Property Tax	\$1,734,202	\$1,854,270			\$1,734,202	\$1,854,270	6.9%
Motor Vehicle Tax	\$330,282	\$348,246			\$330,282	\$348,246	5.4%
Utility Tax	\$708,419	\$711,650			\$708,419	\$711,650	0.5%
Other Tax	\$544,725	\$566,328			\$544,725	\$566,328	4.0%
State Aid	\$12,534,938	\$12,387,952			\$12,534,938	\$12,387,952	-1.2%
Investment Earnings	\$130,381	\$95,100	\$8,578	\$9,290	\$138,959	\$104,390	-24.9%
Other Revenue	\$98,605	\$104,138	\$100	\$2,928	\$98,705	\$107,066	8.5%
Extraordinary item - KSBIT Loss	\$0	-\$505,573	\$0	0	0	-\$505,573	100.0%
Total Revenues	\$20,548,934	\$19,962,771	\$1,461,965	\$1,406,297	\$22,010,899	\$21,369,068	-2.9%



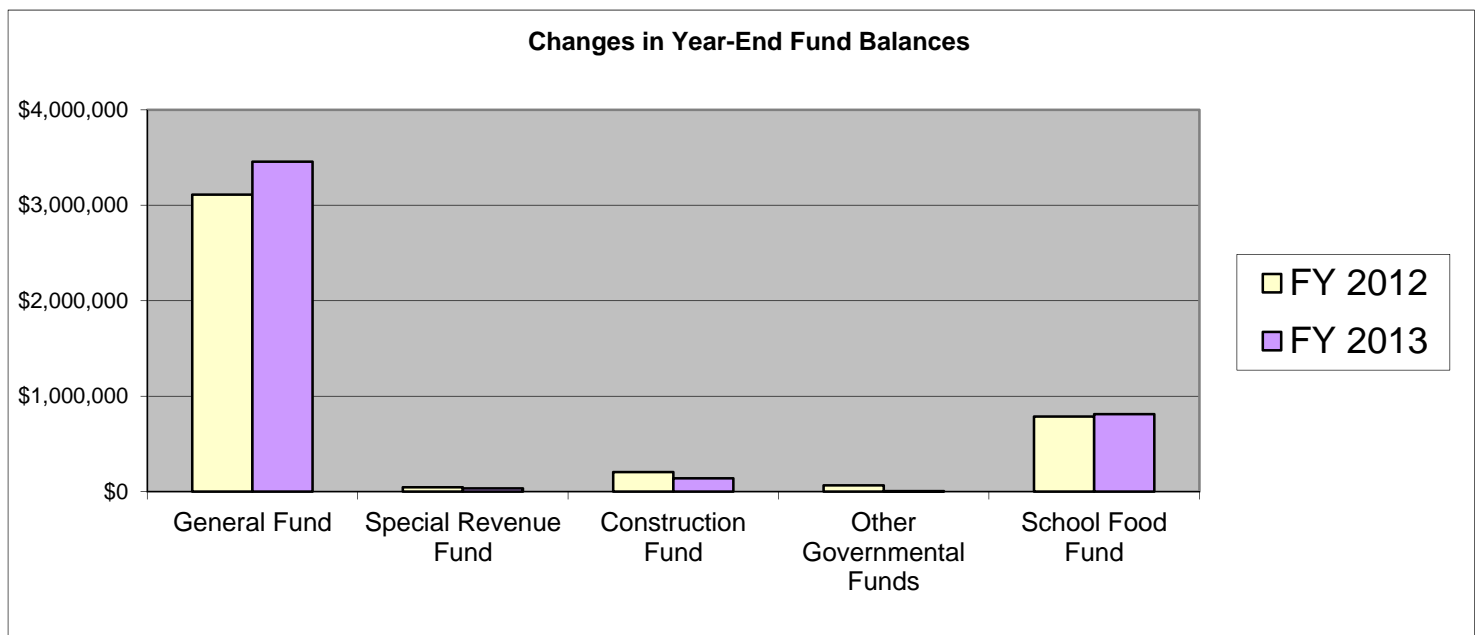
Expenses	Governmental Activities		Proprietary Business-Type Activities		District Total		District Total Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	2012-2013
Instruction	\$11,009,187	\$10,304,009			\$11,009,187	\$10,304,009	-6.4%
Support Services							
Student Support Services	\$1,274,528	\$1,241,791			\$1,274,528	\$1,241,791	-2.6%
Instructional Staff	\$1,619,511	\$1,408,149			\$1,619,511	\$1,408,149	-13.1%
District Administration	\$438,117	\$646,513			\$438,117	\$646,513	47.6%
School Administration	\$1,436,398	\$1,714,091			\$1,436,398	\$1,714,091	19.3%
Business Administration	\$372,058	\$416,485			\$372,058	\$416,485	11.9%
Plant Operations & Maintenance	\$1,792,523	\$1,666,013			\$1,792,523	\$1,666,013	-7.1%
Student Transportation	\$1,793,533	\$1,743,671			\$1,793,533	\$1,743,671	-2.8%
Other	\$210,962	\$260,562			\$210,962	\$260,562	23.5%
Interest on Long-Term Debt	\$947,599	\$791,409			\$947,599	\$791,409	-16.5%
Loss of disposal of assets	\$0	\$60,920			\$0	\$60,920	0.0%
Food Service			\$1,424,648	\$1,381,315	\$1,424,648	\$1,381,315	-3.0%
Total Expenses	\$20,894,416	\$20,253,613	\$1,424,648	\$1,381,315	\$22,319,064	\$21,634,928	-3.1%



- The District's total revenues were \$21,369,068 and the total expenditures were \$21,634,928. Expenses exceeded revenues by \$265,860.
- State revenues accounted for 57% and local taxes accounted for 16% of the revenue.
- Instruction was the major expense category and accounted for 48% of the total.
- Food service revenues exceeded expenses by \$24,982 and Governmental expenses exceeded revenues by \$290,842.

Financial Analysis of the District Funds

Changes in End-of-Year Fund Balances		FY 2012	FY 2013	Amount of Change	% Change
General Fund		\$3,111,090	\$3,457,105	\$346,015	11%
Special Revenue Fund		\$45,143	\$33,705	(\$11,438)	-25%
Construction Fund		\$204,930	\$138,940	(\$65,990)	-32%
Other Governmental Funds		\$65,261	\$5,189	(\$60,072)	-92%
School Food Fund		\$786,881	\$811,863	\$24,982	3%
Total		\$4,213,305	\$4,446,802	\$233,497	6%



- The General Fund's fund balance showed an increase of \$346,015.
- The Special Revenue fund had a decrease of \$11,438. The only fund left in the Special Revenue fund is technology at year end.
- The Construction fund showed a decrease in fund balance of \$65,990.
- Other Governmental funds showed a decrease of \$60,072.
- The School Food Service fund balance had an increase of \$24,982.

Comments on General Fund and Special Revenue Budget Comparisons

- The District's General Fund total revenues for the fiscal year ended June 30, 2013, net of interfund transfers, were \$12,463,224. This is \$339,242 more than was budgeted in the final working budget. The District budgets for its local revenues (taxes, earned interest, and tuition) in a conservative manner. Thus, local revenues were higher than budgeted \$237,474.
- Other expenditures show a \$1,193,668 surplus. The major reason is because in this category the district's contingency was budgeted. The contingency is not meant to be expended, but is to be used as the district's beginning balance for next year. The contingency budgeted was actually \$1,200,000.
- The Special Revenue fund budget compared to actual will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

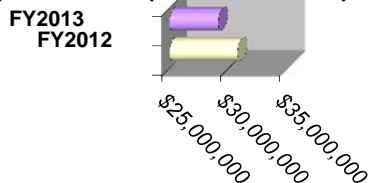
Capital Assets

By June 30, 2013 the district had invested \$29,129,568 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total initial cost of assets was \$45,991,588 with accumulated depreciation of \$16,862,020.

SUMMARY OF CAPITAL ASSETS

CAPITAL ASSETS (net of depreciation)	Government Activities		Proprietary Business-Type Activities		District Total	
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013
Land	\$4,359,823	\$4,333,666			\$4,359,823	\$4,333,666
Construction in Progress	\$0	\$0			\$0	\$0
Buildings	\$23,256,477	\$22,300,323	\$410,196	\$375,635	\$23,666,673	\$22,675,958
Equipment & Furniture	\$2,710,493	2,103,135	\$28,959	\$16,809	\$2,739,452	\$2,119,944
Total Assets	\$30,326,793	\$28,737,124	\$439,155	\$392,444	\$30,765,948	\$29,129,568

TCBOE Capital Assets (Decrease of 5%) or \$1,636,380



Long-Term Debt

The District's long-term general obligation bonds outstanding at June 30, 2013 were \$19,439,817. Of that amount, the Kentucky SFCC has agreed to make a portion of the principal and interest under agreements previously described. Though the District is liable for the full amount of the bonds and the full amount is recorded on the financial statements, the SFCC has agreed to repay \$1,644,138 of the bonds leaving the District to pay \$17,795,679.

Outstanding Debt at Year End

	Governmental Activities 2012	Governmental Activities 2013
General Obligation Bonds:		
Series 1999B Refinance TCMS Renovations	980,000	665,000
Series 2004 Energy Conservation Project	700,000	90,000
Series 2005 Central Office and Auditorium	2,320,000	305,000
Series 2009 Refinance 1998A and 1998B	3,540,000	3,250,000
KISTA 2005	177,658	112,869
KISTA 2008	456,087	381,948
Series 2010 Refunding Revenue	1,610,000	1,570,000
Taxable Series 2010 BAB's	8,360,000	8,235,000
Series 2011 Refunding Revenue	2,150,000	2,110,000
Series 2013 Refunding Revenue	0	2,720,000
Total	\$ 20,293,745	\$ 19,439,817

BUDGETARY IMPLICATIONS

It is extremely important that the district continue to budget very conservatively. The district receives approximately 79% of its new general fund revenue each year through the state funding formula (SEEK). On occasions, there have been adjustments that caused a very significant decrease in the funding. The SEEK forecasts from the state should be considered only an estimate of state revenue. If the state does not get the revenue from taxing sources, an adjustment will be made to the funding formula. The district should always be prepared for such reductions in funding.

Approximately 8% of the new general fund revenue is from local property tax. The major portion of the tax revenue does not come to the district until the fifth-seventh months. This means the general fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year. The district has an ending fund balance of \$3,457,105.

By law, the budget must have a minimum 2% contingency. The district adopted a budget with \$1,200,000 in contingency. Significant Board action that impacts finances include pay raises for all employees, additional spending on students and classroom technology needs and general fund matching dollars for other grants. The district currently participates in forty federal and state grants. The total budget for these grants is \$3,478,375. Many of these grants are funded on a reimbursement basis. This requires the district to pay the expenses of the grant and then apply for reimbursement. The district must continue to monitor the grants constantly and get reimbursements in a timely manner. The district must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges for Todd County Schools are to continue to improve the academic performance of our students and to improve the school climate and culture.

Todd County will continue to improve the curriculum so that it is rigorous, intentional and aligned to state standards. We are continually realigning the curriculum, not only by having communication within grade levels, but between the schools with focus on key transitions. We continue to analyze our test scores and student work to identify gaps and provide feedback not only to the students but staff as well. We will continue to implement professional development and instructional practices in all classrooms throughout the district to motivate and increase student achievement.

Another challenge for the future of Todd County Schools is to improve school culture and climate. The leadership believes all children can learn at high levels and supports a climate that is conducive to performance excellence. We continually strive to improve our learning community by working with families to remove barriers to learning to meet the needs of students. We will continue to use multiple communication strategies to disseminate information on things like student achievement.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, inquiries should be directed to the Todd County Board of Education, Makka Wheeler, Finance Officer.

Basic Financial Statements

Todd County School District
Statement of Net Position

	Governmental	Business-	
	Activities	Type	
June 30, 2013	Activities	Activities	Total
Assets			
Cash	\$ 3,509,281	\$ 317,453	\$ 3,826,734
Accounts receivable:			
Taxes	138,374	-	138,374
Accounts	79,478	3,631	83,109
Intergovernmental	373,347	73,946	447,293
Internal balances	6,336	-	6,336
Inventory	-	24,434	24,434
Non-depreciable capital assets	4,215,072	-	4,215,072
Depreciable capital assets	40,493,558	1,282,958	41,776,516
Less: accumulated depreciation	(15,971,506)	(890,514)	(16,862,020)
Total assets	32,843,940	811,908	33,655,848
Deferred Outflows of Resources			
Deferred amount on debt refundings	465,814	-	465,814
Total deferred outflows of resources	465,814	-	465,814
Liabilities			
Accounts payable	371,104	45	371,149
Accrued liabilities	10,714	-	10,714
Unearned revenue	90,059	-	90,059
Accrued interest	256,314	-	256,314
Long-term obligations:			
Due within one year:			
Outstanding bonds	1,201,945	-	1,201,945
Other	148,785	-	148,785
Compensated absences	79,381	-	79,381
Due beyond one year:			
Outstanding bonds	18,123,403	-	18,123,403
Other	259,735	-	259,735
Compensated absences	343,066	-	343,066
Total liabilities	20,884,506	45	20,884,551

June 30, 2013	Governmental Activities	Business- Type Activities	Total
Contingency			
Contingency - loss from KSBIT settlement	505,573	-	505,573
Total contingency	505,573	-	505,573
Net Position			
Invested in capital assets, net of related debt	9,469,070	392,444	9,861,514
Restricted for:			
Grant programs	33,705	-	33,705
Capital projects & debt service	144,129	-	144,129
Unrestricted	2,272,771	419,419	2,692,190
Total Net Position	\$ 11,919,675	\$ 811,863	\$ 12,731,538

See accompanying notes to the financial statements.

Todd County School District

Statement of Activities

Year Ended June 30, 2013	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities:							
Instruction	\$ 10,304,009	\$ 3,833	\$ 1,902,680	\$ 45,249	\$ (8,352,247)	\$ -	\$ (8,352,247)
Support Services:							
Student	1,241,791	-	36,815	-	(1,204,976)	-	(1,204,976)
Instructional staff	1,408,149	-	750,927	-	(657,222)	-	(657,222)
District administration	646,513	-	-	-	(646,513)	-	(646,513)
School administration	1,714,091	-	-	-	(1,714,091)	-	(1,714,091)
Business	416,485	-	-	-	(416,485)	-	(416,485)
Plant operations and maintenance	1,666,013	450	1,161	384,224	(1,280,178)	-	(1,280,178)
Student transportation	1,743,671	-	138,365	-	(1,605,306)	-	(1,605,306)
Other	210,764	-	189,219	-	(21,545)	-	(21,545)
Architectural & engineering services	12,118	-	12,118	-	-	-	-
Interest on long-term debt	791,409	-	-	935,619	144,210	-	144,210
Bond issuance cost	37,680	-	-	-	(37,680)	-	(37,680)
Loss on disposal of assets	60,920	-	-	-	(60,920)	-	(60,920)
Total governmental activities	20,253,613	4,283	3,031,285	1,365,092	(15,852,953)	-	(15,852,953)
Business-Type Activities:							
Food services	1,381,315	297,698	1,096,381	-	-	12,764	12,764
Total business-type activities	1,381,315	297,698	1,096,381	-	-	12,764	12,764
Total School District	\$ 21,634,928	\$ 301,981	\$ 4,127,666	\$ 1,365,092	(15,852,953)	12,764	(15,840,189)

General Revenues				
Taxes:				
Property	1,854,270	-		1,854,270
Motor vehicle	348,246	-		348,246
Utilities	711,650	-		711,650
Unmined minerals	922	-		922
Other	565,406	-		565,406
State aid	12,387,952	-		12,387,952
Investment earnings	95,100	9,290		104,390
Other	104,138	2,928		107,066
Extraordinary item - loss on KSBIT settlement	(505,573)	-		(505,573)
<hr/>				
Total general revenues and extraordinary item	15,562,111	12,218		15,574,329
<hr/>				
Change in Net Position	(290,842)	24,982		(265,860)
Net Position - Beginning of Year	12,373,026	786,881		13,159,907
Effect of Adotion of GASB 65	(162,509)	-		(162,509)
<hr/>				
Net Position-Beginning of Year, as restated	12,210,517	786,881		12,997,398
<hr/>				
Net Position - End of Year	\$ 11,919,675	\$ 811,863		\$ 12,731,538
<hr/>				

See accompanying notes to the financial statements.

Todd County School District
Balance Sheet
Governmental Funds

June 30, 2013	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 3,365,145	\$ 7	\$ 144,129	\$ 3,509,281
Accounts receivable:				
Taxes	138,374	-	-	138,374
Accounts	79,478	-	-	79,478
Intergovernmental	-	373,347	-	373,347
Due from other funds	255,397	-	-	255,397
Total Assets	\$ 3,838,394	\$ 373,354	\$ 144,129	\$ 4,355,877

Liabilities and Fund Balances

Liabilities					
Accounts payable	\$	370,575	\$	529	\$ - \$ 371,104
Accrued liabilities		10,714		-	- 10,714
Due to other funds		-		249,061	- 249,061
Unearned revenue		-		90,059	- 90,059
Total liabilities		381,289		339,649	- 720,938
Fund Balances					
Restricted		-		33,705	144,129 177,834
Committed		1,261,812		-	- 1,261,812
Unassigned		2,195,293		-	- 2,195,293
Total fund balances		3,457,105		33,705	144,129 3,634,939
Total Liabilities and Fund Balances					
	\$	3,838,394	\$	373,354	\$ 144,129 \$ 4,355,877

Todd County School District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position

June 30,	2013
Total Fund Balances – Governmental Funds	\$ 3,634,939
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$44,708,630 and the accumulated depreciation is \$15,971,506.	28,737,124
Governmental funds record losses on debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are included on the government-wide financial statements as a deferred outflow of resources.	465,814
Contingent liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(505,573)
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of:	
Bonds payable	(19,325,348)
Accrued interest on outstanding bonds	(256,314)
Other debt	(408,520)
Compensated absences	(422,447)
Total Net Position – Governmental Activities	\$ 11,919,675

See accompanying notes to the financial statements.

Todd County School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year Ended June 30, 2013	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources:				
Taxes:				
Property	\$ 1,290,778	\$ -	\$ 563,492	\$ 1,854,270
Motor vehicle	348,246	-	-	348,246
Utilities	711,650	-	-	711,650
Unmined minerals	922	-	-	922
Other	565,406	-	-	565,406
Tuition and fees	3,833	-	-	3,833
Earnings on investments	88,407	1,042	6,693	96,142
Other local revenue	236,989	-	-	236,989
Intergovernmental - state	12,387,952	1,076,999	1,170,106	14,635,057
Intergovernmental - federal	40,329	1,998,493	149,737	2,188,559
Total revenues	15,674,512	3,076,534	1,890,028	20,641,074
Expenditures				
Current:				
Instruction	7,737,791	1,986,282	-	9,724,073
Support services:				
Student	998,446	36,815	-	1,035,261
Instructional staff	1,040,018	750,927	-	1,790,945
District administration	786,369	-	-	786,369
School administration	1,417,651	-	-	1,417,651
Business	413,979	-	-	413,979
Plant operations and maintenance	1,512,824	1,161	-	1,513,985
Student transportation	1,487,819	138,365	-	1,626,184

Other	21,545	189,219	-	210,764
Debt service:				
Principal	-	-	1,128,928	1,128,928
Interest	-	-	776,293	776,293
Bond issuance cost	-	-	37,680	37,680
Architectural & engineering services	-	12,118	-	12,118
Total expenditures	15,416,442	3,114,887	1,942,901	20,474,230
Excess (Deficiency) of Revenues over Expenditures	258,070	(38,353)	(52,873)	166,844
Other Financing Sources (Uses)				
Proceeds of advance refunded bonds - net of discount	-	-	2,703,694	2,703,694
Payment to advance refunded bond escrow agent	-	-	(2,662,023)	(2,662,023)
Operating transfers-in	387,078	29,769	1,554,106	1,970,953
Operating transfers-out	(299,133)	(2,854)	(1,668,966)	(1,970,953)
Total other financing sources (uses)	87,945	26,915	(73,189)	41,671
Net Change in Fund Balances	346,015	(11,438)	(126,062)	208,515
Fund Balances - Beginning of Year	3,111,090	45,143	270,191	3,426,424
Fund Balances - End of Year	\$ 3,457,105	\$ 33,705	\$ 144,129	\$ 3,634,939

See accompanying notes to the financial statements.

Todd County School District
Reconciliation of the Governmental Funds
Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities

Year Ended June 30,	2013
Total Net Change in Fund Balances – Governmental Funds	\$ 208,515
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation, \$1,762,070, exceeds capital outlays, \$209,923, in the period.	(1,552,147)
Gains and losses are not presented in governmental funds because they do not provide or use current financial resources. However, they are presented on the statement of activities. The difference between proceeds from the sale of assets and the actual gain/loss from the sale net to this amount for the year.	(233,650)
Repayment of bond principal and other debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,860,920
The issuance of bonds is shown as an other financing source in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position. Correspondingly, the transfer to an escrow agent for the refunding of bonds is shown as an other financing use in the governmental funds, but the transfer reduces long-term liabilities in the statement of net position. The net of these other financing sources and uses is shown here for the period.	(41,671)
Expenditures reported in the fund financial statements are recognized when the current financial resource is used. However, expenses in the statement of activities are recognized when they are incurred.	(532,809)
Change in Net Position - Governmental Activities	\$ (290,842)

See accompanying notes to the financial statements.

Todd County School District
Statement of Net Position
Proprietary Funds

June 30, 2013	Enterprise Fund Food Service
Assets	
Current Assets	
Cash	\$ 317,453
Accounts receivable	
Accounts	3,631
Intergovernmental	73,946
Inventory	24,434
Total current assets	419,464
Noncurrent Assets	
Fixed assets - net	392,444
Total assets	811,908
Liabilities	
Liabilities	
Accounts payable	45
Total liabilities	45
Net Position	
Invested in capital assets	392,444
Unrestricted	419,419
Total Net Position	\$ 811,863

See accompanying notes to the financial statements.

Todd County School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service
Operating Revenues	
Lunchroom sales	\$ 297,698
Total operating revenues	297,698
Operating Expenses	
Salaries and wages	607,502
Contract services	23,088
Materials and supplies	697,285
Other operating expenses	4,252
Depreciation expense	49,056
Total operating expenses	1,381,183
Operating loss	(1,083,485)
Non-Operating Revenues (Expenses)	
State operating grants	117,028
Federal operating grants	907,254
Donated commodities	72,099
Interest revenue	9,290
Loss on disposal of assets	(132)
Other	2,928
Total non-operating revenues (expenses)	1,108,467
Change in Net Position	24,982
Net Position - Beginning of Year	786,881
Net Position - End of Year	\$ 811,863

See accompanying notes to the financial statements.

Todd County School District
Statement of Cash Flows
Proprietary Funds

Year Ended June 30, 2013	Enterprise Fund Food Service
Cash Flows from Operating Activities	
Cash received from user charges	\$ 221,066
Cash payments to employees for services	(503,869)
Cash payments for contract services	(23,088)
Cash payments to suppliers for goods and services	(619,077)
Cash payments for other operating expenses	(4,252)
Net cash used in operating activities	(929,220)
Cash Flows from Non-Capital Financing Activities	
Non-operating grants received	920,649
Other	2,928
Net cash provided by non-capital financing activities	923,577
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(2,477)
Net cash used in capital and related financing activities	(2,477)
Cash Flows from Investing Activities	
Interest on investments	9,290
Net cash provided by investing activities	9,290
Net Increase in Cash	1,170
Cash - Beginning of Year	316,283
Cash - End of Year	\$ 317,453

Year Ended June 30, 2013	Enterprise Fund Food Service
Reconciliation of Operating Loss to Net Cash Used In Operating Activities	
Operating loss	\$ (1,083,485)
Adjustments to reconcile operating income loss to net cash used in operating activities:	
Depreciation	49,056
Commodities used	72,099
On-behalf payments received	103,633
Changes in assets and liabilities:	
Receivables	(76,632)
Inventories	7,600
Accounts payable	(1,491)
Net Cash Used In Operating Activities	\$ (929,220)

Non-Cash Activities

The food service fund received \$72,099 of donated commodities from the federal government.

The food service fund received on-behalf payments of \$103,633 relating to insurance benefits.

See accompanying notes to the financial statements.

Todd County School District
Statement of Assets and Liabilities
Fiduciary Funds

June 30, 2013	Agency Fund
Assets	
Cash	\$ 237,582
Accounts receivable	7,779
Total Assets	\$ 245,361
Liabilities	
Accounts payable	\$ 1,023
Internal balances	6,336
Due to student groups	238,002
Total Liabilities	\$ 245,361

See accompanying notes to the financial statements.

Note 1: Summary of Significant Accounting Policies

• Reporting Entity

The Todd County Board of Education (the "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 Todd County School District (the "District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, 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 District, for financial purposes, includes all of the funds relevant to the operation of the Todd County School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc., except those funds administered as an activity in the agency funds.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units," the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization and there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements as a blended component unit:

Todd County School District Finance Corporation — The Todd County Board of Education resolved to authorize the establishment of the Todd 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 58.180)

Note 1: Summary of Significant Accounting Policies
(Continued)

as an agency of the Board for financing the costs of school building facilities. The Board Members of the Todd County Board of Education also comprise the Corporation's Board of Directors.

• ***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 District, except for fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

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

Fund Financial Statements — Fund financial statements report detailed information about the District's funds, including fiduciary funds. Separate statements for each fund category — governmental, proprietary and fiduciary — are presented. The focus of governmental and proprietary fund financial statements is on major funds rather than

Note 1: Summary of Significant Accounting Policies
(Continued)

reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type

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

► **Governmental Fund Types**

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 unassigned fund balances are considered as resources available for use. The general fund is a major fund.

The *Special Revenue Fund* accounts for proceeds of specific revenue sources that are restricted, committed, or assigned to expenditures for specified purposes other than debt service or capital projects. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the schedule of expenditures of federal awards. The special revenue fund is a major fund.

Capital Projects Funds are used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations or other governments.

Note 1: Summary of Significant Accounting Policies
(Continued)

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 and certain operating costs

The *Facility Support Program of Kentucky (FSPK) Fund* accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds are restricted for use in financing projects identified in the District's facility plan.

The *Construction Fund* accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

The *Debt Service Fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest and other debt related costs.

► **Proprietary Fund Types**

Enterprise Fund

The *Food Service Fund* is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. The food service fund is a major fund.

To the proprietary activities, the District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

► **Fiduciary Fund Types** (includes agency funds)

Fiduciary funds account for assets held by the District in a trustee's capacity or as an agent on behalf of others.

Note 1: Summary of Significant Accounting Policies
(Continued)

Agency Funds

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

• ***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.

The records of the District are maintained and the budgetary process is based on the modified accrual basis of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. The District is required by state law to adopt annual budgets for the general fund, special revenue fund and capital projects funds.

For financial purposes, the accounting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

The financial statements of the governmental fund types are prepared on the modified accrual basis of accounting. On this basis of accounting, revenues are recognized when they become measurable and available as assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability

Note 1: Summary of Significant Accounting Policies
(Continued)

is incurred. An exception to this general rule is interest on long-term debt, which is recognized as an expenditure when paid. The proprietary funds are accounted for using the accrual basis of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred.

• ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, 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.

• ***Inventory***

Supplies and materials are charged to expenditures when purchased (purchases method) with the exception of the proprietary funds, which record inventory at the lower of cost, determined by first-in first-out ("FIFO") method, or market.

• ***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 assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers, digital cameras and real property for which there is no threshold. 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 not capitalized.

Note 1: Summary of Significant Accounting Policies
(Continued)

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:

Description	Estimated Lives
Buildings and improvements	25–50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5–10 years
Audio-visual equipment	15 years
Food service equipment	10–12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets are not capitalized and related depreciation is not reported in the fund financial statements.

• ***Unearned Revenue***

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.

• ***Compensated Absences***

The District uses the vesting method to compute compensated absences for sick leave. Sick leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits at termination. The District records a liability for accumulated unused sick leave when earned for all employees with more than five years of service.

Note 1: Summary of Significant Accounting Policies
(Continued)

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

For governmental fund financial statements, compensated absences are reported as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account in the funds from which the employees will be paid.

• ***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. Bonds are recognized as a liability on the fund financial statements when due.

• ***Net Position***

The District classifies its net position into the following three categories:

Invested in capital assets - This represents the District's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted - The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted - The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Property Taxes***

Property taxes collected are recorded as revenues in the fund for which they were levied. The assessment date of the property taxes is January 1 of each year. The levy is normally set during the September board meeting. Assuming property tax bills are timely mailed, the collection date is the period from September 15 through December 31. Collections from the period September 15 through November 1 receive a two percent discount. The due date is the period from November 2 through December 31 in which no discount is allowed. Property taxes received subsequent to December 31 are considered to be delinquent and subject to a lien being filed by the County Attorney.

• ***Revenues — Exchange and Non-Exchange Transactions***

Revenues resulting from exchange transactions are where each party receives equal value. On the modified accrual basis of accounting, 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 60 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. Assets from property taxes are normally recognized when an enforceable legal claim arises. However, for the District, an enforceable legal claim arises after the period for which taxes are levied. Property taxes receivable are recognized in the same period that the revenues are recognized. The property taxes are normally levied in September.

On the modified accrual basis of accounting, assets and revenues from property taxes are recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Revenues from non-exchange transactions must also be available before they can be recognized.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***Interfund Activity***

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and as non-operating revenues/expenses in proprietary funds.

• ***Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances

• ***Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

• ***Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

• ***Subsequent Events***

The District has evaluated any recognized or unrecognized subsequent events for consideration in the accompanying financial statements through November 1, 2013, which was the date the financial statements were made available.

Note 1: Summary of Significant Accounting Policies
(Continued)

• ***New Accounting Pronouncements***

Recently Issued and Adopted Accounting Pronouncements

GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the District's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position."

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The District has early implemented the new requirements of this statement for the fiscal year ended June 30, 2013. The implementation of GASB 65 resulted in the write-off of bond issuance costs and the

Note 1: Summary of Significant Accounting Policies
(Continued)

effect of the adoption of GASB 65 is the reduction of beginning net position by \$162,509.

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections—2012: an Amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District plans to implement the new requirements for the fiscal year 2013–2014 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27* improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

Note 2: Cash

• ***Deposits***

At June 30, 2013, the carrying amounts of the District's deposits were \$ \$4,064,316 and the bank balances were \$4,669,435, which were covered by federal depository insurance or by collateral held by the bank's agent in the District's name.

The carrying amounts are reflected in the financial statements as follow:

June 30,	2013
Governmental funds	\$ 3,509,281
Proprietary fund	317,453
Fiduciary funds	237,582
	\$ 4,064,316

Todd County School District
Notes to the Financial Statements (Continued)

Note 2: Cash (Continued)

► *Custodial Credit Risk Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. However, the District is required by state statute that bank deposits must be collateralized. The District's bank balance of \$4,669,435 was not exposed to custodial credit risk as of June 30, 2013.

Note 3: Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital assets that are not depreciated:				
Land	\$ 4,215,072	\$ -	\$ -	\$ 4,215,072
Total non-depreciable historical cost	4,215,072	-	-	4,215,072
Capital assets that are depreciated:				
Land improvements	1,120,054	-	-	1,120,054
Buildings and improvements	31,849,992	-	8,656	31,841,336
Technology equipment	3,483,546	313,814	720,175	3,077,185
Vehicles	3,424,003	-	85,634	3,338,369
General	1,040,347	92,237	15,970	1,116,614
Total depreciable historical cost	40,917,942	406,051	830,435	40,493,558

Todd County School District
Notes to the Financial Statements (Continued)

Note 3: Capital Assets (Continued)

June 30, 2013	Capital Cost			
	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Less accumulated depreciation for:				
Land improvements	975,303	26,157	-	1,001,460
Buildings and improvements	8,593,515	950,002	2,504	9,541,013
Technology equipment	2,268,241	486,856	498,440	2,256,657
Vehicles	2,454,061	213,222	85,634	2,581,649
General	515,101	85,833	10,207	590,727
Total accumulated depreciation	14,806,221	1,762,070	596,785	15,971,506
Total depreciable historical cost, net	26,111,721	(1,356,019)	233,650	24,522,052
Governmental Activities, Capital Assets, Net	\$ 30,326,793	\$ (1,356,019)	\$ 233,650	\$ 28,737,124
Business-Type Activities:				
Buildings and improvements	\$ 930,627	\$ -	\$ -	\$ 930,627
Technology equipment	13,040	2,477	-	15,517
General	358,127	-	21,313	336,814
Total depreciable historical cost	1,301,794	2,477	21,313	1,282,958
Less accumulated depreciation for:				
Buildings and improvements	520,431	34,561	-	554,992
Technology equipment	11,243	1,850	-	13,093
General	330,965	12,645	21,181	322,429
Total accumulated depreciation	862,639	49,056	21,181	890,514
Total depreciable historical cost, net	439,155	(46,579)	132	392,444
Business-Type Activities, Capital Assets, Net	\$ 439,155	\$ (46,579)	\$ 132	\$ 392,444

Note 3: Capital Assets *(Continued)*

Depreciation expense was charged to governmental functions as follows:

Year ended June 30,	2013
Instruction	\$ 567,798
Support services:	
Student	209,524
Instructional staff	121,698
District administration	104,567
School administration	448,306
Business	2,506
Facilities operations	168,949
Student transportation	137,655
Other	1,067
Total Depreciation Expense	\$ 1,762,070

Note 4: Long-Term Obligations

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

Issue Date	Proceeds	Rates
1999-B	\$ 890,000	4.100% - 4.400%
2004	1,325,000	3.500% - 4.500%
2005	2,835,000	2.650% - 4.250%
2009	4,410,000	1.500% - 3.000%
2010	8,435,000	.700% - 5.750%
2010	1,675,000	2.000% - 3.250%
2012	2,150,000	1.100% - 2.250%
2005 KISTA	599,655	3.000% - 3.625%
2008 KISTA	756,945	3.000% - 3.750%
2013	2,720,000	.750% - 2.300%

Note 4: Long-Term Obligations *(Continued)*

On April 1, 2013, the District issued \$2,720,000 in Revenue Refunding Bonds with an average interest rate of .75% to advance refund \$520,000 of outstanding 2004 Series bonds with an average interest rate of 3.50% and \$1,925,000 of outstanding 2005 Series bonds with an average interest rate of 2.65% . The net proceeds of \$2,662,023 (after payment of \$57,977 in underwriting fees, insurance and other issuance costs) were transferred to an escrow agent to provide future debt service payments on the 2004 and 2005 Series bonds. As a result, the advance refunded bonds are considered to be defeased and the liability has been removed from the government-wide financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$249,840. This difference reported in the accompanying financial statements as deferred outflows of resources and is being charged to operations through the year 2025 using the effective-interest method. The District completed the advance refunding to reduce its total debt service payments over the next 13 years by \$193,069 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$159,872.

The District, through the General Fund, including utility taxes and the SEEK capital outlay fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Todd 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.

The District has entered into "participation agreements" with the School Facility Construction Commission (SFCC). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. In addition, the District has outstanding Build America General Obligation Bonds in which the U.S. Treasury will subsidize the District for 35% of the interest cost relating to the outstanding debt which is shown in the schedule below.

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 and U.S. Treasury, at June 30, 2013 for debt service (principal and interest) are as follow:

Todd County School District
Notes to the Financial Statements (Continued)

Note 4: Long-Term Obligations (Continued)

Year	Todd County School District		School Facility Construction Commission		US Treasury Build America Bonds	Total Debt Service
	Principal	Interest	Principal	Interest	Interest	
2013-2014	\$ 1,044,812	\$ 498,764	\$ 157,133	\$ 39,490	\$ 148,988	\$ 1,889,187
2014-2015	1,074,632	472,184	151,852	37,357	147,976	1,884,001
2015-2016	1,041,695	444,630	135,387	33,433	146,712	1,801,857
2016-2017	1,057,508	421,431	138,321	30,497	145,189	1,792,946
2017-2018	1,082,758	396,944	140,719	28,102	143,355	1,791,878
2018-2019	1,023,537	369,750	131,463	25,597	141,355	1,691,702
2019-2020	925,458	353,979	94,542	23,233	139,433	1,536,645
2020-2021	953,129	327,156	96,871	20,903	137,540	1,535,599
2021-2022	995,697	298,551	99,303	18,472	135,482	1,547,505
2022-2023	1,018,141	275,501	101,859	15,916	133,249	1,544,666
2023-2024	1,072,537	238,243	97,463	13,202	124,771	1,546,216
2024-2025	1,114,820	205,240	100,180	10,471	109,717	1,540,428
2025-2026	1,142,777	170,399	82,223	7,805	93,820	1,497,024
2026-2027	792,734	138,897	22,266	5,946	77,992	1,037,835
2027-2028	816,490	110,890	23,510	4,701	62,241	1,017,832
2028-2029	850,145	81,224	24,855	3,355	45,543	1,005,122
2029-2030	878,689	49,772	26,311	1,900	27,822	984,494
2030-2031	910,120	16,808	19,880	571	9,358	956,737
	\$ 17,795,679	\$ 4,870,363	\$ 1,644,138	\$ 320,951	\$ 1,970,543	\$ 26,601,674

Maturities of other debt are as follow for the fiscal years ending:

June 30,		
2014	\$	148,785
2015		139,942
2016		113,596
2017		5,020
Thereafter		1,177
	\$	408,520

Todd County School District
Notes to the Financial Statements (Continued)

Note 4: Long-Term Obligations (Continued)

Long-term liability activity for the year ended June 30, 2013 was as follows:

June 30, 2013	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and notes payable:					
Bonds	\$ 20,293,745	\$ 2,720,000	\$ (3,573,928)	\$ 19,439,817	\$ 1,201,945
Less discounts	(142,952)	(16,306)	44,789	(114,469)	-
Total bonds and notes payable	20,150,793	2,703,694	(3,529,139)	19,325,348	1,201,945
Other liabilities:					
Compensated absences	410,327	41,995	(29,875)	422,447	79,381
Other	944,384	196,128	(731,992)	408,520	148,785
Total other liabilities	1,354,711	238,123	(761,867)	830,967	228,166
Total Long-Term Liabilities	\$ 21,505,504	\$ 2,941,817	\$ (4,291,006)	\$ 20,156,315	\$ 1,430,111

Note 5: Fund Balances

The Board follows GASB Statement Number 54. Under this statement, fund balance is separated into five categories, as follows:

Non-spendable fund balances are amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$144,129 restricted in the nonmajor funds (\$138,940 restricted for capital projects in the construction fund and \$5,189 debt service) and \$33,705 restricted in the special revenue fund for grant programs.

Note 5: Fund Balances *(Continued)*

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following commitments in the general fund at June 30, 2013: \$1,261,812 for technology programs.

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amount assigned related to encumbrances at June 30, 2013 was \$0. Assigned fund balances also include (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations using restricted funds first, followed by committed funds, assigned funds and then unassigned funds. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically rebudgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance at June 30, 2013 in the governmental funds balance sheet.

Note 6: Pension Plans

• ***Plan Descriptions***

The Todd County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees Retirement System, a component unit of the Commonwealth of

Note 6: Pension Plans *(Continued)*

Kentucky (CERS). The CERS is a cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

• ***Funding Policy***

KTRS plan members are required to contribute 10.855% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and KTRS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.105% for the Commonwealth and 1.000% for the District of annual covered payroll. The rate for CERS is 19.55%, 18.96% and 16.93% for the years ended June 30, 2013, 2012 and 2011, respectively, of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$574,387, \$585,482 and \$528,398, respectively, equal to the required contributions for each year.

For the year ended June 30, 2013, the Commonwealth contributed \$953,649 to the KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2013 were \$221,231

• ***Medical Insurance Plan***

Plan Description — 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.

Note 6: Pension Plans *(Continued)*

To be eligible for medical benefits, the member must have retired 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.

Funding Policy — In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 0.5% of members' salary for the 2012–2013 fiscal year.

• ***Deferred Compensation Plans***

The District offers its employees to defer compensation in accordance with Internal Revenue Code Sections 457 and 401(k). The Plans, available to all employees, permit them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities in the financial statements.

Note 7: Contingencies

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

Note 8: Litigation

The District is a defendant in several lawsuits arising in the normal course of business. In the aggregate, these claims seek monetary damages. To the extent the outcome of such litigation has been determined to result in probable loss to the District, such loss will be accrued in the accompanying financial statements. Litigation where loss to the District is reasonably possible has not been accrued; therefore, the District's management and counsel estimate no such loss at this time.

Note 9: Risk Management

The District is exposed to various risk of loss of assets associated with the risks related to torts; theft of, damage to destruction of assets; fire, personal liability, vehicular accidents; errors and omissions, injuries to employees; fiduciary responsibility; and natural disasters. 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 workers' compensation insurance.

In prior years, to obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participated in the Kentucky School Boards Insurance Trust Liability Fund (KSBIT). 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 paid an annual premium to each fund for coverage.

Contributions to the Workers' Compensation Fund were 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.

KSBIT is now working under a corrective action plan with the Kentucky Department of Insurance (DOI) due to a large deficit fund balance. KSBIT has submitted a proposal to the DOI for a novation rather than a runoff. A novation will transfer all existing KSBIT claims to a highly rated reinsurer which will continue to make claim payments. The novation will shift the future risk to the reinsurer instead of leaving it on the members as would occur in a runoff. This plan is not yet approved by the DOI and will not go into effect nor will it result in any assessment to members until approved. The proposal will affect both current members and prior members.

Note 9: Risk Management (Continued)

The novation proposal sent to the DOI would result in a general liability assessment of \$260,820 and a workers' compensation liability of \$244,753 to the district. This amount may be paid as a onetime lump sum or spread over several periods. Even though the district does not currently participate in these KSBIT funds, the District will be liable for the assessment based on claims and losses previously filed on the District's behalf. The District believes it is probable an assessment will occur and that the estimate provided is reasonable. The District has recorded these assessments on the government-wide financial statements in accordance with the economic measurement focus. The amount of the assessment recorded as of June 30, 2013 was \$505,573. A liability is not shown on the governmental fund financial statement in accordance with GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* and GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as governmental funds follow the current financial resources measurement focus (modified accrual basis of accounting).

The District purchases unemployment insurance through KSBIT; 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.

Note 10: Excess Expenditures Over Appropriations

The District has no funds with a deficit fund balance. However, the following funds had excess current year expenditures over current year appropriated revenues:

Year ended June 30, 2013	
Fund	Amount
Special revenue	\$ 11,438
FSPK	62,506
Construction	65,990

Note 11: Fund Transfers

Fund transfers for the year ended June 30, 2013 consist of the following:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Matching	\$ 29,769
Operating	General	Debt Service	Debt Service	269,364
Operating	Special Revenue	General	Indirect Costs	2,854
Operating	FSPK	Debt Service	Debt Service	1,284,742
Operating	SEEK	General	Operating	186,057
Operating	FSPK	General	Operating	126,680
Operating	Construction	General	Operating	71,487

Note 12: On-behalf Payments

The District receives on-behalf payments from the State of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount received for the fiscal year ended June 30, 2013, was \$ 3,663,283 . These payments were recorded as follows:

Year Ended June 30, 2013	
Fund	Amount
General Fund	\$ 3,211,288
Food Service Fund	103,633
Debt Service Fund	348,362
Total	\$ 3,663,283

Required Supplementary Information

Todd County School District
Budgetary Comparison Schedule for the General Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (Budgetary Basis)	Variances Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues				
Local and intermediate sources	\$ 2,735,650	\$ 3,008,757	\$ 3,246,231	\$ 237,474
State programs	9,090,225	9,085,225	9,176,664	91,439
Federal programs	30,000	30,000	40,329	10,329
Total revenues	11,855,875	12,123,982	12,463,224	339,242
Expenditures				
Current:				
Instruction	5,771,356	5,736,091	5,681,467	54,624
Support services:				
Student	779,401	779,636	752,180	27,456
Instructional staff	647,328	617,153	899,746	(282,593)
District administration	725,575	757,809	717,013	40,796
School administration	1,107,328	1,107,603	1,097,585	10,018
Business	388,955	368,570	303,671	64,899
Plant operations and maintenance	1,535,267	1,592,068	1,412,254	179,814
Student transportation	1,505,865	1,413,515	1,321,416	92,099
Other	1,213,565	1,213,490	19,822	1,193,668
Debt service	119,700	281,065	-	281,065
Total expenditures	13,794,340	13,867,000	12,205,154	1,661,846

Excess (Deficiency) of Revenues over Expenditures	(1,938,465)	(1,743,018)	258,070	2,001,088
Other Financing Sources (Uses)				
Operating transfers - net	138,000	138,000	87,945	(50,055)
Total other financing sources (uses)	138,000	138,000	87,945	(50,055)
Net Change in Fund Balance	(1,800,465)	(1,605,018)	346,015	1,951,033
Fund Balance - Beginning of Year	1,800,465	1,605,018	3,111,090	1,506,072
Fund Balance - End of Year	\$ -	\$ -	\$ 3,457,105	\$ 3,457,105

Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Inflows/revenues:

Actual amounts (budgetary basis) \$ 12,463,224

Differences - budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 3,211,288

Total Revenues as Reported on Statement of Revenues, Expenditures and Changes in Fund

Balances - Governmental Funds **\$ 15,674,512**

Outflows/expenditures:

Actual amounts (budgetary basis) \$ 12,205,154

Differences - budget to GAAP:

On-behalf payments recorded under GAAP basis not included in budgeted amounts 3,211,288

Total Expenditures as Reported on Statement of Revenues, Expenditures and Changes in Fund

Balances - Governmental Funds **\$ 15,416,442**

Todd County School District
Budgetary Comparison Schedule for the Special Revenue Fund

Year Ended June 30, 2013	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)
	Original	Final		Final to Actual
Revenues				
Local and intermediate sources	\$ -	\$ 328	\$ 1,042	\$ 714
State programs	1,161,877	1,066,637	1,076,999	10,362
Federal programs	1,596,480	2,381,641	1,998,493	(383,148)
Total revenues	2,758,357	3,448,606	3,076,534	(372,072)
Expenditures				
Current:				
Instruction	1,763,428	1,971,735	1,986,282	(14,547)
Support services:				
Student	32,141	45,683	36,815	8,868
Instructional staff	580,321	869,988	750,927	119,061
Plant operations and maintenance	1,250	1,250	1,161	89
Student transportation	236,910	150,324	138,365	11,959
Other	189,307	189,395	189,219	176
Architectural & engineering services	-	250,000	12,118	237,882
Total expenditures	2,803,357	3,478,375	3,114,887	363,488
Excess (Deficiency) of Revenues over Expenditures	(45,000)	(29,769)	(38,353)	(8,584)

Other Financing Sources (Uses)				
Operating transfers- net	45,000	29,769	26,915	(2,854)
Total other financing sources (uses)	45,000	29,769	26,915	(2,854)
Net Change in Fund Balance	-	-	(11,438)	(11,438)
Fund Balance - Beginning of Year	-	-	45,143	45,143
Fund Balance - End of Year	\$ -	\$ -	\$ 33,705	\$ 33,705

Supplementary Information

Todd County School District
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2013	SEEK Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Other Governmental Funds
Assets					
Cash	\$ -	\$ -	\$ 138,940	\$ 5,189	\$ 144,129
Total Assets	\$ -	\$ -	\$ 138,940	\$ 5,189	\$ 144,129
Fund Balances					
Restricted	\$ -	\$ -	\$ 138,940	\$ 5,189	\$ 144,129
Total Fund Balances	\$ -	\$ -	\$ 138,940	\$ 5,189	\$ 144,129

Todd County School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended June 30, 2013	SEEK Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Other Governmental Funds
Revenues					
From local sources:					
Taxes:					
Property	\$ -	\$ 563,492	\$ -	\$ -	\$ 563,492
Earnings on investments	-	-	5,497	1,196	6,693
Intergovernmental - state	186,057	785,424	-	198,625	1,170,106
Intergovernmental - federal	-	-	-	149,737	149,737
Total revenues	186,057	1,348,916	5,497	349,558	1,890,028
Expenditures					
Debt service:					
Principal	-	-	-	1,128,928	1,128,928
Interest	-	-	-	776,293	776,293
Bond issuance cost	-	-	-	37,680	37,680
Total expenditures	-	-	-	1,942,901	1,942,901
Excess (Deficiency) of Revenues over Expenditures	186,057	1,348,916	5,497	(1,593,343)	(52,873)
Other Financing Sources (Uses)					
Proceeds of advance refunded bonds - net of discount	-	-	-	2,703,694	2,703,694

Payment to advance refunded bond escrow agent	-	-	-	(2,662,023)	(2,662,023)
Operating transfers-in	-	-	-	1,554,106	1,554,106
Operating transfers-out	(186,057)	(1,411,422)	(71,487)	-	(1,668,966)
Total other financing sources (uses)	(186,057)	(1,411,422)	(71,487)	1,595,777	(73,189)
Net Change in Fund Balances	-	(62,506)	(65,990)	2,434	(126,062)
Fund Balances - Beginning of Year	-	62,506	204,930	2,755	270,191
Fund Balances - End of Year	\$ -	\$ -	\$ 138,940	\$ 5,189	\$ 144,129

Todd County School District
Combining Statement of Assets and Liabilities
All School Activity Funds

Year Ended June 30, 2013	Cash July 1, 2012	Receipts	Disbursements	Cash June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
Todd Co. Central High	\$ 87,335	\$ 302,075	\$ 280,809	\$ 108,601	\$ 1,443	\$ 1,023	\$ 109,021
Todd Co. Middle	60,866	116,850	106,012	71,704			71,704
North Todd Elementary	30,315	58,326	61,488	27,153	-	-	27,153
South Todd Elementary	25,658	34,113	29,647	30,124	-	-	30,124
Total	\$ 204,174	\$ 511,364	\$ 477,956	\$ 237,582	\$ 1,443	\$ 1,023	\$ 238,002

Todd County School District
Statement of Assets and Liabilities
All Activity Funds
Todd County Central High School

									Due to Student
	Cash	Receipts	Disbursements	Cash	Accounts	Accounts			Groups
Year Ended June 30, 2013	July 1, 2012			June 30, 2013	Receivable	Payable			June 30, 2013
General Fund	\$ 9,178	\$ 6,886	\$ 5,991	\$ 10,073	\$ -	\$ -			\$ 10,073
Athletic Fund	19,745	49,579	50,292	19,032	1,105	-			20,137
Game Concessions	6,270	15,163	13,623	7,810	-	-			7,810
Ag/Greenhouse	4,115	5,304	5,266	4,153	160	-			4,313
Drama	1,488	7,733	5,865	3,356	-	-			3,356
Family/Consumer Sci	475	2,647	2,418	704	-	-			704
Academic Team	558	-	558	-	-	-			-
Buddy Boyd Memorial Fund	-	1,025	-	1,025	-	-			1,025
Band Account	475	7,366	5,437	2,404	-	-			2,404
Student Rewards	7,824	3,383	3,352	7,855	58	-			7,913
TCCHS Flower Fund	-	249	103	146	-	-			146
PE Fund	44	-	-	44	-	-			44
Golf	74	720	788	6	-	-			6
F.B.L.A.	1,674	-	-	1,674	-	-			1,674
Interact Club	-	50	-	50	-	-			50
FFA Club	12,128	58,896	57,982	13,042	-	-			13,042
GT Class	108	-	-	108	-	-			108
Beta Club	2,678	557	300	2,935	-	-			2,935
Football	-	4,000	2,694	1,306	-	-			1,306
Student Council Club	5,334	5,911	6,008	5,237	-	-			5,237
FCCLA Club	517	12,056	11,816	757	-	-			757
Spanish Club	60	132	156	36	-	-			36

Class of 2016	-	1,000	-	1,000	-	-	1,000
TCCHS Spirit Store	1,328	258	569	1,017	-	-	1,017
Yearbook Fund	3,416	17,545	20,821	140	65	-	205
Class of 2013	1,866	15,848	17,714	-	-	-	-
Library Fund	406	127	105	428	-	-	428
We Care Club	145	75	220	-	-	-	-
TC Pep Club	408	529	458	479	-	-	479
1st Priority Club	240	60	224	76	-	-	76
Dance Team	750	5,247	3,884	2,113	-	-	2,113
Science Club	-	2,316	935	1,381	-	-	1,381
HOSA Club	436	3,481	2,773	1,144	-	-	1,144
Cheerleader Fund	1,249	26,698	17,710	10,237	-	1,023	9,214
Future Educators of America	200	406	484	122	-	-	122
National Honor Society	20	380	270	130	-	-	130
Faculty Lounge	822	1,557	1,579	800	55	-	855
F.C.A.	831	-	-	831	-	-	831
Scholarships	875	2,050	2,300	625	-	-	625
YSC	322	380	32	670	-	-	670
2013 Parents/Project Graduation	-	20,719	20,719	-	-	-	-
RTV For Athletics	-	5,000	5,000	-	-	-	-
Girls Hardwood Club	1,276	4,709	5,985	-	-	-	-
Class of 2012	-	400	400	-	-	-	-
Class of 2014	-	16,908	11,253	5,655	-	-	5,655
Inter-fund Transfers	-	(5,275)	(5,275)	-	-	-	-
	\$ 87,335	\$ 302,075	\$ 280,809	\$ 108,601	\$ 1,443	\$ 1,023	\$ 109,021

Todd County School District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster			
Food Distribution Program - non-cash	10.555	-	\$ 72,099
Passed-Through State Department of Education:			
School Breakfast Program	10.553	7760005 13	238,654
National School Lunch Program	10.555	7750002 13	668,600
Total U.S. Department of Agriculture			979,353
U.S. Department of Transportation			
Passed-Through State Department of Education:			
Safe Routes To School	20.205	6063	12,118
Total U.S. Department of Transportation			12,118
U.S. Department of Education			
Passed-Through State Department of Education:			
ARRA Education Jobs Fund	84.410	EJOB00 10	4,677
Race to the Top	84.413	3960002 11	11,283
Title I, Part A Cluster			
Title I to Local Educational Agencies - 2012	84.010	3100002 11	152,799
Title I to Local Educational Agencies - 2013	84.010	3100002 12	662,682
Title I - School Improvement Funds - 2012	84.010	3100202 11	2,546
Subtotal			818,027
Migrant Education - 2012	84.011	3110002 11	71,707
Migrant Education - 2013	84.011	3110002 12	15,636
Subtotal			87,343
Special Education Cluster			
IDEA - Part B Special Education - 2011	84.027	3810002 10	9,306
IDEA - Part B Special Education - 2012	84.027	3810002 11	31,052
IDEA - Part B Special Education - 2013	84.027	3810002 12	483,939
IDEA - Part B Preschool - 2012	84.173	3800002 11	32,568
IDEA - Part B Preschool - 2013	84.173	3800002 12	67,351
Subtotal			624,216

Year Ended June 30, 2013

Federal Grantor Pass-Through Grantor Program Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
English Language Acquisition Grants - 2012	84.365	3300002 11	5,055
English Language Acquisition Grants - 2013	84.365	3300002 12	<u>3,866</u>
Subtotal			8,921
Vocational Education - 2013	84.048	4621232 12	23,875
Improving Teacher Quality - 2012	84.367	3230002 11	2,293
Improving Teacher Quality - 2013	84.367	3230002 12	<u>111,878</u>
Subtotal			114,171
Title VI - Rural Education Achievement - 2012	84.358	3140002 11	14,568
Title VI - Rural Education Achievement - 2013	84.358	3140002 12	<u>39,723</u>
Subtotal			54,291
21st Century	84.287	5503	1,699
Innovative Approaches to Literacy	84.215G	5683	184,288
Passed-Through State Workforce Cabinet:			
Adult Education - Federal Basic - 2012	84.002	3733	48,583
Adult Education - Professional/Staff Development	84.002	3733S	1,000
Recruitment, Retention, and Results	84.002	3653	<u>4,001</u>
Subtotal			53,584
Total U.S. Department of Education			<u>1,986,375</u>
Total Expenditures of Federal Awards			\$ 2,977,846

See accompanying notes to the schedule of federal awards.

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Todd County School District (the "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 Office of Management and Budget (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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Nonmonetary assistance is reported in the schedule of fair value of the goods received.

Note 3: Subrecipients

There were no subrecipients during the fiscal year.

Todd County School District
Summary Schedule of Prior Year Audit Findings

None

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Todd County School District
Elkton, 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, and the audit requirements prescribed by the Kentucky State Committee for School District Audits as defined in the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Todd County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Todd County School District's basic financial statements and have issued our report thereon dated November 1, 2013.

• Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item number 13-01 that we consider to be a significant deficiency.

- **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Independent Auditor's Contract – State Compliance Requirements*.

- **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

• **Purpose of this Report**

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

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 1, 2013

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Todd County School District
Elkton, Kentucky

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

We have audited Todd County School District's (the "District") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The 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 the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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 the 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 the District's compliance.

- **Opinion on Each Major Federal Program**

In our opinion, the District complied, in all material respects, with the 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 the 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, we considered the 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 the 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 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.

Carr, Riggs & Ingram, LLC

Section I — Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified
that are not considered to be material
weakness(es)? ☒ Yes ☐ None reported

Noncompliance material to financial
statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ☐ Yes ☒ No

Significant deficiency(ies) identified
that are not considered to be material
weakness(es)? ☐ Yes ☒ None reported

Type of auditors' report issued on
compliance for major programs: unqualified

Any audit findings disclosed that are required
to be reported in accordance with section
510(a) of Circular A-133? ☐ Yes ☒ No

Todd County School District
Schedule of Findings and Questioned Costs

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.215G	Innovative Approaches to Literacy
84.01	Title I

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

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II — Financial Statement Findings

▪ 13-01 Financial Reporting

Criteria and Condition: The internal control structure should be such that misstatements in the District's financial statements are prevented or detected and corrected on a timely basis. Material audit adjustments were made to debt service and related transfers.

Cause: Certain internal controls were not in place to prevent or detect and correct misstatements.

Effect: Financial statements could contain undetected errors.

Recommendation: We recommend controls over the financial close process be reviewed to ensure significant amounts are reported correctly and timely in the District's financial statements.

Views of Responsible Officials and Planned Corrective Actions: The Accounting Guidance for Debt Service on Bonds and Capital Leases issued by Kentucky Department of Education is dated April 24, 2013. The Finance Officer was aware of the guidance and the requirement, however, due to the time of the year it was received and the other time constraints on the finance department at that time of year, the transfer of the bond payments from Fund 320 to Fund 400 was not accomplished in a timely manner in what was left of the 2013 year. Three new accounts for each bond have been added to the Chart of Account in MUNIS and budgeted figures have already been set up for the 2013 budget. As bond payments are made during 2014, they are being posted directly to Fund 400.

Section III — Federal Award Findings and Questioned Costs

None reported.



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Management Letter

Kentucky State Committee for School District Audits
Members of the Board of Education
Todd County School District
Elkton, Kentucky

In planning and performing our audit of the financial statements of Todd County School District (the "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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. Any uncorrected comments from the prior year have been listed in this letter. A separate report dated November 1, 2013 contains our report on the District's internal control. This letter does not affect our report dated November 1, 2013 on the financial statements of the District.

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

Carr, Riggs & Ingram, LLC

Carr, Riggs & Ingram, LLC
Bowling Green, Kentucky
November 1, 2013

Prior & Current Year Comments

- **Food Service**

- ▶ In our procedures for inventory, we noted the pricing of some inventory items did not agree to support vendor invoices. We recommend the individual inventory prices on the inventory sheets be reviewed and updated monthly to ensure accurate inventory prices are used in valuing inventory.

Current Year Comments

- **South Todd Elementary**

- ▶ In our procedures over deposits, we noted bookfair monies are not deposited on a daily basis consistently. We recommend all monies be deposited on a daily basis.

- **Todd County Middle School**

- ▶ In our procedures over disbursements, we noted prior approval of credit card purchases is not consistently obtained. Approval for all purchases should be obtained prior to any purchase and be documented on the purchase order.

- **Todd County Central High School**

- ▶ In our procedures over deposits, we noted receipts are not deposited on a daily basis consistently. We recommend all monies be deposited on a daily basis.

**TODD COUNTY SCHOOL DISTRICT
ELKTON, KENTUCKY
MANAGEMENT'S RESPONSES
YEAR ENDED JUNE 30, 2013**

November 1, 2013

**Carr, Riggs & Ingram, LLC
167 South Main Street
Russellville, KY 42276**

Dear Sirs:

Regarding the comments noted during the June 30, 2013 audit of our financial statements, we have the following responses.

Food Service

Condition and Criteria: In our procedures for inventory, we noted the pricing of some inventory items did not agree to support vendor invoices.

Auditor Recommendation: We recommend the individual inventory prices on the inventory sheets be reviewed and updated monthly to ensure accurate inventory prices are used in valuing inventory.

Management Response: The Food Service Director will ensure the year end prices agree to current invoice prices on all inventory items. The Finance Officer will assist, especially at year end.

South Todd Elementary

Condition and Criteria: In our procedures over deposits, we noted book fair monies are not deposited on a daily basis consistently.

Auditor Recommendation: We recommend all monies be deposited on a daily basis.

Management Response: The Finance Officer reviewed deposit procedures with the Principal and Bookkeeper at the school. All deposits will be deposited on a daily basis each day, especially book fair monies.

Todd County Middle School

Condition and Criteria: In our procedures over disbursements, we noted prior approval of credit card purchases is not consistently obtained.

Auditor Recommendation: Approval for all purchases should be obtained prior to any purchase and be documented on the purchase order.

Management Response: The Finance Officer reviewed disbursement procedures with the Principal and Bookkeeper. Approval for all purchases, including those with a credit card, will be obtained prior to any purchase and be documented by a purchase order.

Todd County Central High School

Condition and Criteria: In our procedures over deposits, we noted receipts are not deposited on a daily basis consistently.

Auditor Recommendation: We recommend all monies be deposited on a daily basis.

Management Response: The Finance Officer reviewed deposit procedures with the Principal and Bookkeeper at the school. All deposits will be deposited on a daily basis each day.

I would like to take this opportunity to thank you for the suggestions for improving our internal controls. The school district is always open to suggestions for improvement especially in the area of internal control and safeguarding the assets of the school district.

Sincerely,

Makka Wheeler, Finance Officer