DAVIESS COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

(With Independent Auditor's Report Thereon)

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Riney Hancock CPAs
PSC

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Daviess County School District
Owensboro, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

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 Daviess County School District (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; 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 *Appendices I through IV of 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Daviess County School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-11 and 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Riney Hancock CPAs PSC

Owensboro, Kentucky
October 4, 2013

The discussion and analysis of Daviess County School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the School District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

- In total, net position increased $1,564,034. Net position of governmental activities increased by $1,439,385, while net position of business-type activities increased by $124,649.

- General revenues accounted for $88,918,658 in revenue or 85.3% of all governmental revenues. Program specific revenues in the form of grants and contributions accounted for $15,263,581 or 14.7% of total governmental revenues of $104,182,239.

- Total assets of governmental activities decreased by $1,144,756. Capital assets decreased by $2,973,576 due to depreciation expense, while cash and investments increased by $2,060,650 due to bond issues for construction projects in progress.

- The School District had $102,742,854 in expenses related to governmental activities; only $15,263,581 of these expenses were offset by program specific charges for services, grants, and contributions. General revenues (primarily local taxes and state SEEK allocations), were adequate to provide for these programs.

- Construction continued during fiscal year 2013. Projects include roof replacements at Tamarack Elementary and Apollo High and HVAC upgrades at Highland Elementary. HVAC modification, roof replacement and brick and insulation renovations were started at Burns Middle.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Daviess County School District as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The **Statement of Net Position** and the **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. The major funds for the Daviess County School District are the General Fund and Special Revenue Fund.

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 2013?" The **Statement of Net Position** and the **Statement 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 and 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 the School District's property tax base, current property tax laws in Kentucky restricting revenue growth, required educational programs and other factors.

In the **Statement of Net Position** and the **Statement 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 other activities.

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 and after school programs are reported as business activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. 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. However, these fund financial statements focus on the School District's major funds.

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 basis of 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

Reporting the School District's Most Significant Funds, Continued

near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statement 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.

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 23 - 44 of this report.

Government-Wide Financial Analysis

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 $49,244,205 for Governmental Activities and $3,052,557 for Business-Type Activities as of June 30, 2013.

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 is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Reporting the School District's Most Significant Funds, Continued

Government-Wide Financial Analysis, Continued

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current and other assets	$ 24,098,542	$ 22,269,722	$2,209,200	$2,033,363	$ 26,307,742	$ 24,303,085
Capital assets	94,540,982	97,514,558	927,195	1,014,543	95,468,177	98,529,101
Total assets	118,639,524	119,784,280	3,136,395	3,047,906	121,775,919	122,832,186
Liabilities						
Long-term liabilities	62,885,260	65,328,729	-	-	62,885,260	65,328,729
Other liabilities	6,510,059	6,650,731	83,838	119,998	6,593,897	6,770,729
Total liabilities	69,395,319	71,979,460	83,838	119,998	69,479,157	72,099,458
Net Position						
Net investment in capital assets	34,207,604	34,703,137	927,195	1,014,543	35,134,799	35,717,680
Restricted	3,577,421	2,619,465	-	-	3,577,421	2,619,465
Unrestricted	11,459,180	10,482,218	2,125,362	1,913,365	13,584,542	12,395,583
Total net position	$ 49,244,205	$ 47,804,820	$3,052,557	$2,927,908	$ 52,296,762	$ 50,732,728

Total assets decreased $1,056,267 primarily due to depreciation. Total net position increased by $1,564,034.

(Table 2)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Charges for services	$ 406,338	$ 499,077	$3,507,562	$3,509,619	$ 3,913,900	$ 4,008,696
Operating grants and contributions	10,660,675	11,162,547	4,459,944	4,413,094	15,120,619	15,575,641
Capital grants and contributions	4,196,568	4,619,658	-	-	4,196,568	4,619,658
General revenues:						
Taxes	32,392,340	30,054,167	-	-	32,392,340	30,054,167
State aid formula grants	39,158,627	41,047,693	-	-	39,158,627	41,047,693
Investment earnings	124,129	383,992	13,425	17,812	137,554	401,804
Miscellaneous	326,425	365,476	-	-	326,425	365,476
State on behalf payments	16,840,725	16,809,627	-	-	16,840,725	16,809,627

Reporting the School District's Most Significant Funds, Continued

Government-Wide Financial Analysis, Continued

(Table 2)
Net Position, Continued

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Program revenues:						
Transfers	76,412	52,620	(76,412)	(52,620)	-	-
Total revenues and transfers	104,182,239	104,994,857	7,904,519	7,887,905	112,086,758	112,882,762
Program expenses:						
Instruction	65,690,129	67,232,230	-	-	65,690,129	67,232,230
Support services:						
Student	3,936,132	3,703,499	-	-	3,936,132	3,703,499
Instructional staff	3,722,836	4,465,423	-	-	3,722,836	4,465,423
District administration	863,380	666,396	-	-	863,380	666,396
School administration	6,402,489	6,660,260	-	-	6,402,489	6,660,260
Business	1,836,424	1,744,190	-	-	1,836,424	1,744,190
Facility operations/ maintenance	8,689,178	8,355,926	-	-	8,689,178	8,355,926
Student transportation	7,854,344	7,661,548	-	-	7,854,344	7,661,548
Non-instructional	833,960	823,370	-	-	833,960	823,370
Facility acquisition/ construction	260,716	591,516	-	-	260,716	591,516
After school program	-	-	1,040,681	994,329	1,040,681	994,329
Interest on long-term debt	2,653,266	2,807,429	-	-	2,653,266	2,807,429
Food service	-	-	6,739,189	6,688,342	6,739,189	6,688,342
Total expenses and transfers	102,742,854	104,711,787	7,779,870	7,682,671	110,522,724	112,394,458
Increase in net position	$ 1,439,385	$ 283,070	$ 124,649	$ 205,234	$ 1,564,034	$ 488,304

Governmental Activities

Instruction comprises 63.9% of governmental program expenses. Support services expenses make up 32.4% of governmental expenses. Non-instructional expenses for community services total .8% of governmental expenses. Facilities acquisition/construction and interest accounts for the remaining 2.9% of the total governmental expense.

Reporting the School District's Most Significant Funds, Continued

Governmental Activities, Continued

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements. The total cost of services includes state on-behalf payments in the amount of $16,840,725 for 2013.

(Table 3)
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2013	2012	2013	2012
Instruction	$ 65,690,129	$ 67,232,230	$58,037,680	$59,782,158
Support services	33,304,783	33,257,242	30,675,215	29,794,063
Non-instructional	833,960	823,370	346	667
Facilities acquisition/construction	260,716	591,516	(3,674,923)	(3,715,226)
Interest on long-term debt	2,653,266	2,807,429	2,440,955	2,568,843
Total expenses	$102,742,854	$104,711,787	$87,479,273	$88,430,505

Business-Type Activities

The business-type activities are food service and after school programs. These programs had revenues of $7,980,931 and expenses of $7,779,870 for fiscal year 2013. Of the revenues, $3,507,562 was charges for services, $4,459,944 was from state and federal grants, and $13,425 was from investment earnings. Indirect cost transfers and other transfers totaled $76,412. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of these activities. If it becomes necessary, the School District will increase the charges for these activities.

The School District's Funds

Information about the School District's major funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of $107,529,320 and expenditures of $105,594,286. Net changes in fund balances for the year were most significant for the Construction Fund totaling $977,750. The General Fund's fund balance increased by $1,041,692.

The increase in General Fund was due to an increase in transfers from Capital Outlay for maintenance expenses. The increase in Construction Fund was due to bond issues for construction projects in progress at year end.

Reporting the School District's Most Significant Funds, Continued

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

A variance comparison is presented between the final budgeted amounts and the actual (GAAP Basis) amounts. The General Fund revenues were budgeted at $84,419,954, with actual amounts of $84,839,867. Budgeted expenditures of $98,291,970 compare, with actual expenditures of $86,236,080, a difference of $12,055,890. The source of both the expense budget variances is related to amounts budgeted for contingencies. Budgeted other financing sources was $1,139,050, with actual financing sources of $2,437,905. The net increase in the General Fund balance is $1,041,692.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013, the School District had $95,468,177 invested in land, buildings, equipment and construction in progress, $94,540,982 in governmental activities, and $927,195 in business-type activities. Table 4 shows fiscal year 2013 balances compared to 2012.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 3,484,809	$ 3,495,105	$ -	$ -	$ 3,484,809	$ 3,495,105
Land improvements	871,386	958,152	9,269	10,042	880,655	968,194
Buildings and improvements	80,234,378	83,850,935	-	-	80,234,378	83,850,935
Technology equipment	3,571,896	3,357,466	59,285	73,572	3,631,181	3,431,038
Vehicles	4,115,797	4,380,530	-	-	4,115,797	4,380,530

Capital Assets and Debt Administration, Continued

Capital Assets, Continued

(Table 4)
Capital Assets at June 30
(Net of Depreciation), Continued

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
General equipment	1,409,465	1,472,370	858,641	930,929	2,268,106	2,403,299
Construction in progress	853,251	-	-	-	853,251	-
Total	$94,540,982	$97,514,558	$927,195	$1,014,543	$95,468,177	$98,529,101

The decrease in capital assets is primarily due to depreciation.

Debt

At June 30, 2013, the School District had $60,980,000 in bonds outstanding, of which $191,812 are to be paid from the KSFCC funding provided by the State of Kentucky. A total of $4,940,000 is due within one year.

At June 30, 2012, the School District had $63,500,000 in bonds outstanding, of which $240,430 was to be paid from the KSFCC funding provided by the State of Kentucky.

District Challenges for the Future

Daviess County School District's overall financial status improved during the last year. The District is financially stable, but at risk due to continued, inadequate state funding. This is the result of three factors: the general decrease in the percentage of state funding for K-12 public education; the rising cost of employer retirement expense; and the related state pension fund financial challenge.

A challenge facing our School District is that of inadequate state funding. In recent years, the state has placed an assortment of mandates on Kentucky school districts, yet adequate funding for those mandates has not been provided. This practice, over time, will place a severe strain on the District's resources. The District maintains a contingency plan to deal with state funding shortfalls, but this will only be effective for the short-term. A long-term solution at the state level must be determined and enacted by the state legislature to ensure adequate funding for Kentucky's public school districts. State revenues have not regained pre-recession levels, largely due to sustained high unemployment and a tax structure that is in need of systemic change. To balance state funding shortfalls, increased pressure has been placed on local boards of education to increase taxes, placing an unfair hardship on local school districts. Kentucky's constitution clearly directs public education as the State's responsibility. Fiscally speaking, the State must address inadequate school funding. Should the State fail to proactively respond to this

District Challenges for the Future, Continued

issue, the potential exists for a state-wide lawsuit as evidenced by the Kentucky Education Reform Act (KERA) that occurred in 1990. While KERA ushered in sweeping reform for school accountability, the lawsuit was based on the premise of inadequate state funding for Kentucky's public schools. The Kentucky Supreme Court sided with the school districts in that case, ordering the Legislature to remedy inadequate and inequitable school funding.

A second financial risk facing Daviess County Public Schools is the rising retirement/pension costs and the financial instability in the state pension fund. The employer matching percentage has more than doubled over the last five-year period for the support personnel and is scheduled to increase at a rapid rate over the next ten-year period. Additionally, Kentucky school boards began contributing to the Kentucky Teachers Retirement System (KTRS) for the first time ever in FY 2011 and this continued to increase in FY 2013. School boards began contributing at a rate of 0.25% up to a maximum of 3.0%, phased-in over a six-year period in an effort to stabilize the KTRS medical fund. Legislation was approved in the General Assembly that forbids the state from continuing to borrow from the KTRS pension fund to meet the state's pension obligation. No additional state funding has been appropriated to offset this rising cost and the District has been forced to increase local funding to provide the necessary revenue to offset the unavoidable cost increases. Further, instability in the state pension fund is a large financial concern for the state's budget and the resulting negative financial impact this could have on school districts should the problem remain unresolved.

With careful planning and monitoring of our finances, the Daviess County School District's goals are to continue to provide a quality education for our students and to secure a positive financial future for the School District.

Contacting the School District's Financial Management

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, contact Matthew Robbins, Assistant Superintendent of Finance and Operations, at Daviess County Public Schools, 1622 Southeastern Parkway, P.O. Box 21510, Owensboro, KY 42304-1510, or email at mrobbins@dcps.org.

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 16,525,122	$ 1,688,765	$ 18,213,887
Investments	4,956,274	-	4,956,274
Accounts receivable:			
Taxes	1,136,484	-	1,136,484
Other	105,188	6,881	112,069
Due from other governments	530,032	370,411	900,443
Due from fiduciary funds	4,400	-	4,400
Inventory	322,678	143,143	465,821
Prepaids and other current assets	33,056	-	33,056
Capital assets, net	94,540,982	927,195	95,468,177
Deferred debt issuance costs	485,308	-	485,308
Total assets	118,639,524	3,136,395	121,775,919
LIABILITIES			
Accounts payable	300,439	3,204	303,643
Accrued salaries and benefits	3,885,955	-	3,885,955
Payroll withholdings	830,798	-	830,798
Accrued interest payable	543,597	-	543,597
Deferred revenue	949,270	80,634	1,029,904
Long-term liabilities:			
Due within one year	6,196,256	-	6,196,256
Due in more than one year	56,689,004	-	56,689,004
Total liabilities	69,395,319	83,838	69,479,157
NET POSITION			
Net investment in capital assets	34,207,604	927,195	35,134,799
Restricted for:			
Capital projects	3,544,093	-	3,544,093
Technology	33,328	-	33,328
Unrestricted	11,459,180	2,125,362	13,584,542
Total net position	$ 49,244,205	$ 3,052,557	$ 52,296,762

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities	Net (Expense) Revenue and Change in Net Position: Business-Type Activities	Net (Expense) Revenue and Change in Net Position: Total
Governmental activities:							
Instruction	$ 65,690,129	$ 126,206	$ 7,477,625	$ 48,618	$ (58,037,680)		$ (58,037,680)
Support services:							
Student	3,936,132	-	980,519	-	(2,955,613)		(2,955,613)
Instructional staff	3,722,836	-	948,185	-	(2,774,651)		(2,774,651)
District administration	863,380	-	-	-	(863,380)		(863,380)
School administration	6,402,489	-	5,315	-	(6,397,174)		(6,397,174)
Business	1,836,424	-	-	-	(1,836,424)		(1,836,424)
Plant operation and maintenance	8,689,178	25,048	-	-	(8,664,130)		(8,664,130)
Student transportation	7,854,344	255,084	415,417	-	(7,183,843)		(7,183,843)
Community services	833,960	-	833,614	-	(346)		(346)
New building construction	150,241	-	-	-	(150,241)		(150,241)
Building renovations / additions	110,475	-	-	3,935,639	3,825,164		3,825,164
Interest on long-term liabilities	2,653,266	-	-	212,311	(2,440,955)		(2,440,955)
Total governmental activities	102,742,854	406,338	10,660,675	4,196,568	(87,479,273)		(87,479,273)
Business-type activities:							
Food service	6,739,189	2,483,105	4,415,212	-		$ 159,128	159,128
After school program	1,040,681	1,024,457	44,732	-		28,508	28,508
Total business-type activities	7,779,870	3,507,562	4,459,944	-		187,636	187,636
Total district	$ 110,522,724	$ 3,913,900	$ 15,120,619	$ 4,196,568	(87,479,273)	187,636	(87,291,637)
General revenues:							
Property taxes					28,311,653	-	28,311,653
Utility taxes					4,080,687	-	4,080,687
State aid formula grants					39,158,627	-	39,158,627
On-behalf payments					16,840,725	-	16,840,725
Investment earnings					124,129	13,425	137,554
Miscellaneous					326,425	-	326,425
Transfers					76,412	(76,412)	-
Total general revenues and transfers					88,918,658	(62,987)	88,855,671
Change in net position					1,439,385	124,649	1,564,034
Net position, June 30, 2012					47,804,820	2,927,908	50,732,728
Net position, June 30, 2013					$ 49,244,205	$ 3,052,557	$ 52,296,762

DAVIESS COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Current assets:				
Cash and cash equivalents	$ 12,359,748	$ 559,738	$ 3,605,635	$ 16,525,121
Investments	4,956,274	-	-	4,956,274
Accounts receivable:				
Taxes	1,136,484	-	-	1,136,484
Other	105,188	-	-	105,188
Due from other governments	81,346	423,900	-	505,246
Due from other funds	4,400	-	-	4,400
Inventory	322,678	-	-	322,678
Prepaid expenses	993	-	-	993
Total assets	$ 18,967,111	$ 983,638	$ 3,605,635	$ 23,556,384
LIABILITIES AND FUND BALANCES				
Current liabilities:				
Accounts payable	$ 172,866	$ 66,031	$ 61,542	$ 300,439
Due to other funds	-	-	-	-
Accrued salaries and benefits	3,885,955	-	-	3,885,955
Payroll withholdings	830,798	-	-	830,798
Deferred revenue	302,834	884,279	-	1,187,113
Total current liabilities	5,192,453	950,310	61,542	6,204,305
Fund Balances:				
Nonspendable	322,678	-	-	322,678
Restricted	-	33,328	3,544,093	3,577,421
Committed	157,230	-	-	157,230
Assigned	24,485	25,926	-	50,411
Unassigned	13,270,265	(25,926)	-	13,244,339
Total fund balances	13,774,658	33,328	3,544,093	17,352,079
Total liabilities and fund balances	$ 18,967,111	$ 983,638	$ 3,605,635	$ 23,556,384

DAVIESS COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2013

Total fund balances - governmental funds			$ 17,352,079
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds:			
Cost	$	163,527,312	
Accumulated depreciation		(68,986,330)	94,540,982
Certain assets not available to pay for current period expenditures:			
BAB interest subsidy receivable	$	24,786	
Accrued interest receivable		32,064	
Deferred bond issuance costs		485,308	
Taxes receivable		237,843	780,001
Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in governmental funds:			
Bonds payable	$	(60,980,000)	
Issuance premiums		(39,387)	
Issuance discounts		858,579	
Deferred refunding charges		1,701,382	
Capital lease obligations		(1,873,952)	
Compensated absences		(2,551,882)	
Accrued interest payable		(543,597)	(63,428,857)
Net position of governmental activities			$ 49,244,205

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 23,634,694	$ -	$ 4,702,433	$ 28,337,127
Utility taxes	4,080,687	-	-	4,080,687
Tuition and fees	91,657	-	-	91,657
Earnings on investments	112,506	-	12,191	124,697
Other local revenue	542,622	950,395	-	1,493,017
State aid	56,127,296	4,189,438	3,573,163	63,889,897
Federal aid	250,405	5,660,387	205,467	6,116,259
Total revenues	84,839,867	10,800,220	8,493,254	104,133,341
Expenditures:				
Instruction	56,465,346	8,501,919	-	64,967,265
Support services:				
Student	3,203,251	730,115	-	3,933,366
Instructional staff	3,240,836	504,519	-	3,745,355
District administration	782,886	5,315	-	788,201
School administration	6,424,455	-	-	6,424,455
Business	1,835,601	-	-	1,835,601
Plant operation and maintenance	7,113,019	-	-	7,113,019
Student transportation	7,170,686	415,418	-	7,586,104
Community services	-	833,614	-	833,614
New building construction	-	-	150,241	150,241
Building renovations / additions	-	-	963,726	963,726
Debt service:				
Principal	-	-	4,935,000	4,935,000
Interest	-	-	2,261,144	2,261,144
Bond issuance costs	-	-	57,195	57,195
Total expenditures	86,236,080	10,990,900	8,367,306	105,594,286
Excess (deficiency) of revenues over expenditures	(1,396,213)	(190,680)	125,948	(1,460,945)
Other financing sources (uses):				
Proceeds from sale of capital assets	63,673	-	-	63,673
Proceeds from issuance of bonds	-	-	2,060,000	2,060,000
Proceeds from issuance of capital leases	1,192,214	-	-	1,192,214
Refunding bonds issued	-	-	3,515,000	3,515,000
Payment to bond refunding escrow	-	-	(3,470,915)	(3,470,915)
Discount on bonds issued	-	-	(50,959)	(50,959)
Premium on bonds issued	-	-	10,554	10,554
Operating transfers in	1,341,412	159,394	6,929,933	8,430,739
Operating transfers out	(159,394)	-	(8,194,933)	(8,354,327)
Total other financing sources (uses)	2,437,905	159,394	798,680	3,395,979
Net change in fund balances	1,041,692	(31,286)	924,628	1,935,034
Fund balance, June 30, 2012	12,732,966	64,614	2,619,465	15,417,045
Fund balance, June 30, 2013	$ 13,774,658	$ 33,328	$ 3,544,093	$ 17,352,079

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in fund balances - total governmental funds		$ 1,935,034
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense :		
Capital outlays	$ 3,057,958	
Depreciation expense	(5,581,825)	(2,523,867)
Governmental funds report the disposal of capital assets to the extent proceeds are received. However, the statement of activities reports the gain or loss.		(449,709)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Decrease in taxes receivable	$ (25,474)	
Decrease in BAB interest subsidy receivable	(1,472)	
Decrease in accrued interest receivable	(568)	(27,514)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:		
Principal payments on bonds	$ 4,935,000	
Principal payments on lease obligations	1,109,608	
Bonds defeased	3,160,000	
Proceeds from issuance of bonds	(5,575,000)	
Proceeds from issuance of capital leases	(1,188,039)	
Discount on bonds issued	50,959	
Premium on bonds issued	(10,554)	
Deferred amounts on refunding	310,915	
Bond issuance costs	57,195	
Amortization of discounts on debt	(75,076)	
Amortization of premiums on debt	3,114	
Amortization of deferred refunding charges	(242,884)	
Amortization of deferred issuance costs	(47,115)	2,488,123
Certain expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported as expenditures in governmental funds:		
Increase in accrued sick leave liability	$ (34,574)	
Decrease in accrued interest payable	51,892	17,318
Change in net position of governmental activities		$ 1,439,385

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2013

	Enterprise Funds		
	Food Service Fund	After School Fund	Total
ASSETS			
Current assets:			
Cash	$ 1,297,705	$ 391,060	$ 1,688,765
Accounts receivable:			
Operating	-	6,881	6,881
Due from other governments	370,411	-	370,411
Inventory	143,143	-	143,143
Total current assets	1,811,259	397,941	2,209,200
Noncurrent assets:			
Capital assets	2,920,653	195,603	3,116,256
Less accumulated depreciation	(2,084,368)	(104,693)	(2,189,061)
Total noncurrent assets	836,285	90,910	927,195
Total assets	2,647,544	488,851	3,136,395
LIABILITIES			
Current liabilities:			
Accounts payable	3,160	44	3,204
Deferred revenue	69,249	11,385	80,634
Total current liabilities	72,409	11,429	83,838
NET POSITION			
Net investment in capital assets	836,285	90,910	927,195
Unrestricted	1,738,850	386,512	2,125,362
Total net position	$ 2,575,135	$ 477,422	$ 3,052,557

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2013

	Enterprise Funds		
	Food Service Fund	After School Fund	Total
Operating revenues:			
Charges for services	$ 2,468,979	$ 1,024,257	$ 3,493,236
Other operating revenues	14,126	200	14,326
Total operating revenues	2,483,105	1,024,457	3,507,562
Operating expenses:			
Salaries and wages	2,008,365	681,657	2,690,022
Employee benefits	574,130	131,235	705,365
Professional and technical services	22,653	6,100	28,753
Property services	50,946	647	51,593
Other purchased services	186,271	1,372	187,643
Supplies and materials	3,726,933	149,528	3,876,461
Property	29,276	49,460	78,736
Miscellaneous	12,200	-	12,200
Depreciation	128,415	20,682	149,097
Total operating expenses	6,739,189	1,040,681	7,779,870
Operating income (loss)	(4,256,084)	(16,224)	(4,272,308)
Nonoperating revenues (expenses):			
Government grants	3,620,415	44,732	3,665,147
Donated commodities	794,797	-	794,797
Interest income	10,180	3,245	13,425
Total nonoperating revenues (expenses)	4,425,392	47,977	4,473,369
Income before transfers	169,308	31,753	201,061
Transfers out	(76,412)	-	(76,412)
Change in net position	92,896	31,753	124,649
Net position, June 30, 2012	2,482,239	445,669	2,927,908
Net position, June 30, 2013	$ 2,575,135	$ 477,422	$ 3,052,557

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2013

	Enterprise Funds		
	Food Service Fund	After School Fund	Total
Cash flows from operating activities:			
Cash received from:			
Charges for services	$ 2,472,749	$ 1,023,476	$ 3,496,225
Other operating revenues	14,126	200	14,326
Cash paid to / for:			
Employees	(2,582,495)	(812,892)	(3,395,387)
Supplies	(2,926,756)	(149,528)	(3,076,284)
Other services	(335,289)	(57,748)	(393,037)
Net cash provided by (used in) operating activities	(3,357,665)	3,508	(3,354,157)
Cash flows from noncapital financing activities:			
Government grants	3,346,052	44,732	3,390,784
Transfers out	(76,412)	-	(76,412)
Net cash provided by noncapital financing activities	3,269,640	44,732	3,314,372
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(51,228)	(10,522)	(61,750)
Net cash used in capital and related financing activities	(51,228)	(10,522)	(61,750)
Cash flows from investing activities:			
Interest income	10,180	3,245	13,425
Net cash provided by investing activities	10,180	3,245	13,425
Net increase (decrease) in cash and cash equivalents	(129,073)	40,963	(88,110)
Cash and cash equivalents:			
Beginning of year	1,426,777	350,098	1,776,875
End of year	$ 1,297,704	$ 391,061	$ 1,688,765
Reconciliation of operating loss to net cash used in operating activities:			
Operating income (loss)	$ (4,256,084)	$ (16,224)	$ (4,272,308)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense	128,415	20,683	149,098
Commodities used	794,797	-	794,797
Changes in assets and liabilities:			
Accounts receivable - operating	-	(2,105)	(2,105)
Inventory	12,521	-	12,521
Accounts payable	(41,084)	(170)	(41,254)
Deferred revenue	3,770	1,324	5,094
Net cash provided by (used in) operating activities	$ (3,357,665)	$ 3,508	$ (3,354,157)
Noncash noncapital financing activities:			
Food commodities from the U.S. Department of Agriculture	$ 794,797		

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2013

	Private Purpose Trust Fund	Activity Funds
ASSETS		
Cash	$ -	$ 1,518,726
Accounts receivable	-	2,170
Inventory	-	27,364
Total assets	-	1,548,260
LIABILITIES		
Accounts payable	-	15,075
Due to General Fund	-	4,400
Due to student groups	-	1,528,785
Total liabilities	-	1,548,260
NET POSITION	$ -	$ -

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2013

	Private Purpose Trust Fund
Additions:	
Contributions	$ 1,500
Deductions:	
Student support services	1,500
Change in net position	-
Net position, June 30, 2012	-
Net position, June 30, 2013	$ -

See Notes to Financial Statements

1. Reporting Entity

The Daviess County Board of Education (Board) 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 Daviess County School District (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 and account groups relevant to the operation of the Daviess 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 District itself, such as band boosters and parent-teacher associations. The District is not involved in budgeting or managing these organizations, is not responsible for any debt of the organizations, and has no influence over the operation of the organizations.

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

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

Daviess County School District Finance Corporation – The Daviess County School District Finance Corporation (Corporation) serves as an agent of the Board in financing the acquisition, construction, and equipping of school buildings and related facilities, including the issuance of bonds. Members of the Board serve as the board of directors for the Corporation. The Corporation has no financial activity, and transactions related to bond issues in which the Corporation acts as an agent are recorded in the District's government-wide financial statements.

2. Summary of Significant Accounting Policies

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

2. Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and 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. The focus of governmental and enterprise fund financial statements is on major funds rather than 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 net total assets.

Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances the cash flow needs of its proprietary activities.

2. Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

The District has the following funds:

Governmental Fund Types

The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

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

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

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.

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

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

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

2. Summary of Significant Accounting Policies, Continued

Basis of Presentation, Continued

Proprietary Fund Types (Enterprise Funds)

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. This is a major fund of the District.

The After School Fund is used to account for after school programs established to provide supervised activities for students after dismissal.

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals and childcare provided at the various schools.

Fiduciary Fund Types

Private Purpose Trust Fund accounts for assets held by the District in a trustee capacity.

The Activity Funds are agency funds which primarily account for activities of student groups. These funds are accounted for in accordance with the Accounting Procedures for Kentucky School Activity Funds. These funds are custodial in nature and thus do not present results of operations or have a measurement focus.

Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year end.

2. Summary of Significant Accounting Policies, Continued

Basis of Accounting, Continued

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

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the costs have been earned and eligibility requirements are met, are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District's policy is to first apply restricted resources.

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

Budgetary Principles

The District's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

2. Summary of Significant Accounting Policies, Continued

Budgetary Principles, Continued

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

Expenditures are recorded when paid in cash (budgetary), as opposed to when the obligation is incurred (GAAP).

Encumbrance Accounting

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are included in assigned fund balance. For budgetary purposes, appropriations lapse at fiscal year-end and do not constitute expenditures or liabilities because the commitments will be reappropriated in the next year.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Accounts Receivable

Receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectable accounts are based upon historical trends. Major receivable balances for the governmental activities include federal and state funding and taxes. Amounts on the statements are net of allowance for doubtful accounts.

Inventories

Inventory in the General Fund consists of maintenance, instructional, and transportation supplies, stated at cost using the first-in, first-out (FIFO) method. Inventory in the Food Service Fund consists of purchased food valued at cost, and donated commodities valued by the U.S. Department of Agriculture at fair market value on the date of donation, using the FIFO method.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds and generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of

2. Summary of Significant Accounting Policies, Continued

Capital Assets, Continued

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 assets 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 fair market value as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers 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.

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
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	10-20 years
Food service equipment	12 years

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and personal property in the District. Taxes are due in one installment on December 1 and become delinquent by January 1 following the levy date.

The assessed value of the roll on January 1, 2012, on which the levy for the 2013 fiscal year was based, totaled $4,702,433,040. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The tax rates assessed for the year ended June 30, 2013, to finance General Fund and FSPK Building Fund operations were 49.3 cents and 11.6 cents per $100 valuation, respectively, for a total of 60.9 cents per $100 valuation. In addition, the tax rate assessed for motor vehicles totaled 49.0 cents per $100 valuation.

2. Summary of Significant Accounting Policies, Continued

Property Taxes, Continued

The District also levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishing within the county of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

Interfund Receivables and Payables

Each fund is a distinct fiscal and accounting entity, and thus interfund transactions are recorded in each fund affected by a transaction. During the year, the General Fund receives and disburses funds that relate to other funds or activities. Transfers are then made between the various funds to more properly reflect the nature of the transactions.

Net Position

The District classifies net position in the government-wide financial statements as follows:

- Net investment in capital assets includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- Unrestricted net position typically includes unrestricted liquid assets. The Board of Education has the authority to revisit or alter this designation.

Fund Balance Classification

The District reports fund balances in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

2. Summary of Significant Accounting Policies, Continued

Fund Balance Classification, Continued

- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance—amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Education delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Board of Education through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The District would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

In the General Fund, the District strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 15% of the actual GAAP basis expenditures and other financing sources and uses.

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, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. Deposits and Investments

Deposits

Kentucky Revised Statutes authorize the District to invest money subject to its control in obligations of the United States and of its agencies and instrumentalities; certificates of deposit or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity, providing such institutions pledge as security obligations, as permitted by KRS 41.240 (4), having a current quoted market value at least equal to uninsured deposits; commercial paper rated in the highest category by a nationally recognized rating agency; bonds or certificates of indebtedness of the State of Kentucky and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality or agency thereof in the United States, and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds as more fully described in KRS 66.480.

The District maintains a common checking account for all governmental funds and the trust fund. The Food Service Fund and After School Fund (proprietary funds) each maintain separate bank accounts.

At June 30, 2013, the District's bank balances were collateralized by irrevocable, unconditional, nontransferable letters of credit issued by the Federal Home Loan Bank and FDIC Insurance. The letters of credit expire in January of 2014.

Due to the nature of the accounts and limitations imposed by the purposes of the various funds, all cash balances are considered to be restricted except for the General Fund.

Investments

At June 30, 2013, the District had the following investments and maturities:

		Maturities in Years				
Type	Fair Value	Less Than 1	1-5	6-10	10+	None
U.S Treasury bonds and notes	$ 1,738,146	$ 502,580	$ 969,471	$ 266,095	$ -	$ -
U.S. agencies obligations	1,406,863	1,030,790	64,047	98,616	213,410	-
Corporate bonds and notes	100,609	-	100,609	-	-	-
Bank certificates of deposit	402,576	150,439	252,137	-	-	-
Mutual funds – fixed income	1,308,080	-	-	-	-	1,308,080
	$ 4,956,274	$ 1,683,809	$ 1,386,264	$ 364,711	$ 213,410	$ 1,308,080

3. Deposits and Investments, Continued

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty, a government may not be able to recover the value of its investments that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law. The mutual funds were rated three stars by Morningstar. Investments of the District held in U.S. government agency obligations carry the explicit guarantee of the U.S. government and, therefore, are not subject to custodial credit risk.

Concentration of Credit Risk

The District, in accordance with KRS 66.480, limits the amount that may be invested at any time in uncollateralized certificates of deposit, bankers acceptances, commercial paper, and securities issued by a state or local government or any instrumentality or agency thereof, to 20% of the total amount of funds invested by the District. At June 30, 2013, the District did not exceed this limit. In addition, amounts invested in any one issuer did not exceed 5% of total investments at fiscal year-end.

Investment Earnings

Investment earnings for the year ended June 30, 2013, consisted of:

Governmental activities:	
Interest and dividend income	$ 295,293
Net decrease in fair value of investments	(164,856)
Realized gain on sale of investments	4,064
Investment expenses	(10,372)
	124,129
Business-type activities:	
Interest and dividend income	13,425
	$ 137,554

Realized gains or losses on investments that had been held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in prior years and the current year.

4. Capital Assets

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

	Balance June 30, 2012	Increase	Decrease	Balance June 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 3,495,105	$ -	$ (10,296)	$ 3,484,809
Construction in progress	-	853,251	-	853,251
Total capital assets, not being depreciated	3,495,105	853,251	(10,296)	4,338,060
Capital assets, being depreciated:				
Land improvements	2,788,280	-	(13,000)	2,775,280
Buildings and improvements	131,781,893	-	(1,050,905)	130,730,988
Technology equipment	10,569,257	1,508,595	(840,661)	11,237,191
Vehicles	9,980,058	467,521	(259,149)	10,188,430
General equipment	4,345,147	228,591	(316,375)	4,257,363
Totals capital assets, being depreciated	159,464,635	2,204,707	(2,480,090)	159,189,252
Less accumulated depreciation:				
Land improvements	(1,830,128)	(86,766)	13,000	(1,903,894)
Buildings and improvements	(47,930,958)	(3,220,183)	654,531	(50,496,610)
Technology equipment	(7,211,791)	(1,264,419)	810,915	(7,665,295)
Vehicles	(5,599,528)	(732,254)	259,149	(6,072,633)
General equipment	(2,872,777)	(278,203)	303,082	(2,847,898)
Total accumulated depreciation	(65,445,182)	(5,581,825)	2,040,677	(68,986,330)
Total capital assets, being depreciated, net	94,019,453	(3,377,118)	(439,413)	90,202,922
Governmental activities:				
Capital assets, net	$ 97,514,558	$ (2,523,867)	$ (449,709)	$ 94,540,982

4. Capital Assets, Continued

	Balance June 30, 2012	Increase	Decrease	Balance June 30, 2013
Business-type activities:				
Capital assets, being depreciated:				
Land improvements	$ 15,452	$ -	$ -	$ 15,452
Technology equipment	353,481	4,543	(16,311)	341,713
Vehicles	18,557	-	-	18,557
General equipment	2,897,504	57,207	(214,177)	2,740,534
Total capital assets, being depreciated	3,284,994	61,750	(230,488)	3,116,256
Less accumulated depreciation:				
Land improvements	(5,410)	(773)	-	(6,183)
Technology equipment	(279,909)	(18,830)	16,311	(282,428)
Vehicles	(18,557)	-	-	(18,557)
General equipment	(1,966,575)	(129,495)	214,177	(1,881,893)
Total accumulated depreciation	(2,270,451)	(149,098)	230,488	(2,189,061)
Business-type activities: Capital assets, net	$ 1,014,543	$ (87,348)	$ -	$ 927,195

Depreciation expense was charged to governmental functions as follows:

Instructional	$ 3,032,057
Support services:	
Student	-
Instructional staff	1,617
District administration	82,775
School administration	1,133
Business support	477
Plant operations and maintenance	1,753,736
Student transportation	710,030
Total depreciation expense	$ 5,581,825

5. Long-Term Liabilities

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

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
Governmental activities:					
Long-term debt:					
School building revenue bonds	$ 63,500,000	$ 5,575,000	$ (8,095,000)	$ 60,980,000	$ 4,940,000
Deferred amounts:					
For issuance premiums	31,947	10,554	(3,114)	39,387	-
For issuance discounts	(882,696)	(50,959)	75,076	(858,579)	-
On refunding	(1,633,351)	(310,915)	242,884	(1,701,382)	-
Capital lease obligations	1,795,521	1,188,039	(1,109,608)	1,873,952	824,283
Total long-term debt	62,811,421	6,411,719	(8,889,762)	60,333,378	5,764,283
Compensated absences:					
Accrued sick leave	2,517,308	478,780	(444,206)	2,551,882	431,973
Total long-term liabilities	$ 65,328,729	$ 6,890,499	$ (9,333,968)	$ 62,885,260	$ 6,196,256

Compensated absences are generally liquidated by the General Fund.

School Building Revenue Bonds

The District is obligated to make lease payments in amounts equal to annual debt service requirements on bonds issued by the Daviess County Fiscal Court, the Daviess County School District Finance Corporation and the Kentucky School Facility Construction Commission (Commission) to construct or renovate school facilities. The Board has an option to purchase the properties at any time by retiring the bonds outstanding. These lease payments are recorded in the Debt Service Funds.

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

5. Long-Term Liabilities, Continued

School Building Revenue Bonds, Continued

A summary of District and Commission bond activity for the year ended June 30, 2013, is as follows:

	District	Commission	Total
Balance, June 30, 2012	$ 63,259,570	$ 240,430	$ 63,500,000
Issued	5,575,000	-	5,575,000
Defeased	(3,160,000)	-	(3,160,000)
Retired	(4,886,382)	(48,618)	(4,935,000)
Balance, June 30, 2013	$ 60,788,188	$ 191,812	$ 60,980,000

A summary of the interest rates, maturities, and balances as of June 30, 2013, is as follows:

	Range of Interest Rates	Final Maturity	Balance, June 30, 2013		
			District	Commission	Total
2002B Issue	2.00 – 3.750%	2014	$ 585,000	$ -	$ 585,000
2003 Issue	1.65 – 4.000%	2023	395,000	-	395,000
2004A Issue	2.00 – 3.625%	2015	370,178	44,822	415,000
2004B Issue	2.00 – 3.625%	2016	3,625,000	-	3,625,000
2004C Issue	2.00 – 5.000%	2024	600,000	-	600,000
2005A Issue	3.00 – 4.400%	2025	235,000	-	235,000
2005B Issue	3.50 – 3.750%	2017	1,108,010	146,990	1,255,000
2006 Issue	4.21%	2026	795,000	-	795,000
2007A Issue	4.21%	2027	3,100,000	-	3,100,000
2007B Issue	4.00 – 4.500%	2027	10,055,000	-	10,055,000
2008A Issue	3.00 – 3.400%	2020	2,360,000	-	2,360,000
2008B Issue	3.00 – 3.750%	2028	5,110,000	-	5,110,000
2010A Issue	1.70 – 5.500%	2030	2,115,000	-	2,115,000
2010B Issue	0.80 – 5.500%	2030	11,085,000	-	11,085,000
2011 Issue	0.75 – 2.125%	2023	9,835,000	-	9,835,000
2012 Issue	2.00 – 2.500%	2024	3,840,000	-	3,840,000
2013A Issue	1.50 – 3.25%	2033	2,060,000	-	2,060,000
2013B Issue	1.000 – 2.00%	2026	3,515,000	-	3,515,000
			$ 60,788,188	$ 191,812	$ 60,980,000

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 and amounts to be paid by the Commission, at June 30, 2013, for debt service (principal and interest) are as follows:

5. Long-Term Liabilities, Continued

School Building Revenue Bonds, Continued

	Daviess County School District			Kentucky School Facility Construction Commission			
Year Ending June 30,	Principal	Interest	District Total	Principal	Interest	Commission Total	Total
2014	4,889,730	2,055,991	6,945,721	50,270	6,665	56,935	7,002,656
2015	4,417,941	1,908,242	6,326,183	52,059	4,876	56,935	6,383,118
2016	4,551,528	1,758,277	6,309,805	48,472	3,089	51,561	6,361,366
2017	3,838,989	1,606,495	5,445,484	41,011	1,538	42,549	5,488,033
2018	3,960,000	1,484,674	5,444,674	-	-	-	5,444,674
2019–2023	21,555,000	5,524,311	27,079,311	-	-	-	27,079,311
2024–2028	15,035,000	2,241,968	17,276,968	-	-	-	17,276,968
2029–2033	2,540,000	220,030	2,760,030	-	-	-	2,760,030
	$ 60,788,188	$ 16,799,988	$ 77,588,176	$ 191,812	$ 16,168	$ 207,980	$ 77,796,156

Generally, all bonds issued are secured by a statutory mortgage lien on the respective school buildings and appurtenant properties, including any subsequent additions thereto. The amount of interest expense on bonds payable for the year ended June 30, 2013, totaled $2,566,845, of which $2,354,534 was paid by the District, $8,316 was paid by the Commission, and $203,995 subsidized under the Build America Bond program discussed below.

In May 2013, the District issued $3,515,000 in Refunding Revenue Bonds to advance refund $1,510,000 and $1,650,000 of outstanding Series 2005A and 2006 bonds, respectively. The proceeds, less a net discount of $13,746 and issuance costs of $30,339, were used to purchase $3,470,915 in U.S. government securities and cash. Those securities and cash were deposited in an irrevocable trust with an escrow agent to provide for partial defeasance of the 2005A and 2006 series bonds scheduled to begin maturity on April 1, 2016, and April 1, 2019, respectively. As a result, the 2005A and 2006 series bonds are considered to be partially defeased and the liability for the defeased balances has been removed from long-term liabilities.

The District advance refunded the 2005A and 2006 series bonds to reduce its total debt service payments over the next 12 years by approximately $298,921 and to obtain an economic gain (difference between present values of the debt service payments on the old and new debt) of approximately $270,479.

5. Long-Term Liabilities, Continued

School Building Revenue Bonds, Continued

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On June 30, 2013, $23,955,000 of bonds outstanding are considered defeased.

In connection with the American Recovery and Reinvestment Act of 2009 (Act), the District issued the Series 2010A and Series 2010B General Obligation Build America Bonds. Under the Act, state and local governments were authorized to issue taxable bonds to finance capital expenditures for which they could otherwise issue tax-exempt bonds, and receive from the IRS a direct interest subsidy totaling 35% of the total coupon interest paid to investors. The interest subsidy for fiscal year 2013 totaled $203,995, net of a reduction of $7,803, due to sequestration. Remaining interest subsidies through maturity of the bonds, assuming no further sequestration reductions, are as follows:

Year Ending June 30:	
2014	$ 208,998
2015	203,950
2016	197,928
2017	191,028
2018	182,392
2019-2023	754,564
2024-2028	425,536
2029-2030	56,212
	$ 2,220,608

Capital Lease Obligations

The District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2013, totaled $1,655,281, net of accumulated depreciation of $2,070,659. Amortization of these capital leases included in depreciation expense totaled $616,278 for the year ended June 30, 2013. The following is a schedule by year of future minimum lease payments under capital lease obligations including interest at rates of 3.224% to 7.474%, together with the present value of the future minimum lease payments as of June 30, 2013:

5. Long-Term Liabilities, Continued

Capital Lease Obligations, Continued

2014	$ 888,773
2015	653,008
2016	368,777
2017	75,055
Total minimum lease payments	1,985,613
Less amount representing interest	111,661
Present value of future minimum lease payments	$ 1,873,952

Interest expense on capital lease obligations for the year ended June 30, 2013, totaled $86,421.

Compensated Absences

Upon retirement, as defined by the Kentucky Teachers' Retirement System or the County Employees Retirement System, certified and classified employees received an amount equal to 30% of the value of accumulated sick leave based on the individual final salary. This liability totaled $2,551,882 at June 30, 2013, and is recorded as a long-term liability in the district-wide financial statements.

For governmental fund financial statements, the amount of compensated absences recorded as a liability would be the amount expected to be paid using expendable available resources. These obligations for June 30, 2013, were paid prior to fiscal year end and, therefore, no amount has been accrued in the governmental fund financial statements.

6. Interfund Receivables and Payables

Interfund balances at June 30, 2013, consisted of the following:

Fund	Receivable	Payable
General Fund	$ 4,400	$ -
Activity Funds	-	4,400
	$ 4,400	$ 4,400

7. Leases

The Daviess County School District leases equipment under cancelable operating leases. Commitments under operating lease agreements described above provide for minimum future rental payments as of June 30, 2013, as follows:

Year ending June 30:	
2014	$ 123,809
2015	57,863
2016	31,065
2017	9,477
Total minimum rentals	$ 222,214

7. Leases, Continued

Rental expense for operating leases, including contingent rentals on a per copy basis of $125,626, totaled $263,391 for the year ended June 30, 2013.

8. Defined Benefit Retirement Plans

KTRS Plan Description: Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Commonwealth of Kentucky. KTRS provides retirement and post-retirement healthcare benefits to plan members. Kentucky Revised Statutes Chapter 161, sections 220 through 900, assigns the authority to establish and amend benefit provisions to the Board of Trustees of the Teachers' Retirement System of the State of Kentucky. KTRS issues a publicly available financial report that includes financial statements and required supplementary information for KTRS. That report may be obtained by writing to KTRS, 479 Versailles Road, Frankfort, KY 40601-3800, or by calling 502-573-3266.

KTRS Funding Policy: Required contributions as a percentage of annual creditable compensation are as follows:

Plan members	10.855%
Commonwealth of Kentucky:	
Employees not working in federal programs	14.105%
District:	
Employees working in federal programs	14.105%
Employees not working in federal programs	1.0%

Amounts contributed by the District for the years ended June 30, 2013, 2012, and 2011, totaled $901,141, $620,431, and $627,025, respectively, and equaled the required contributions for each year. The contribution requirements of plan members and the Commonwealth of Kentucky are established and may be amended by the Board of Trustees of the Teachers' Retirement System of the State of Kentucky.

KTRS On-behalf Payments: The District has recorded the 14.105% contributions made by the Commonwealth of Kentucky totaling $6,009,096 in the district-wide financial statements.

CERS Plan Description: Classified personnel participate in the County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan administered by Kentucky Retirement Systems. CERS provides retirement, disability, and death benefits to plan

8. Defined Benefit Retirement Plans, Continued

members, and under certain circumstances, to beneficiaries. Kentucky Revised Statue section 61.645 assigns the authority to establish and amend benefit provisions to the Board of Trustees of Kentucky Retirement Systems. Kentucky Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by calling 502-564-4646.

CERS Funding Policy: Plan members participating in CERS on or before August 31, 2008, are required to contribute 5% of their annual creditable compensation. For plan members who began participating in CERS on or after September 1, 2008, this contribution rate is 6%. The District is required to contribute at an actuarially determined rate. The current rate is 19.55% of each employee's creditable compensation. The contribution requirements of plan members and the District are established and may be amended by the Board of Trustees of Kentucky Retirement Systems. Contributions to CERS for the years ended June 30, 2013, 2012, and 2011 totaled $2,913,976, $2,814,788, and $2,549,281, respectively, and equaled the required contributions for each year.

9. On-Behalf Payments

Payments are made by the Commonwealth of Kentucky for fringe benefits on behalf of District employees. As directed by the Kentucky Department of Education, these on-behalf payments are not budgeted in the governmental funds by the District, but have been recorded as revenue and expense in the governmental funds, and are as follows:

Health insurance	$ 9,650,328
KTRS contributions	6,009,096
Flex spending	978,091
State life insurance	25,943
Technology	177,267
	$ 16,840,725

10. Fund Balance Classifications

The composition of the fund balance classifications at June 30, 2013, is as follows:

	Major Governmental Funds		Nonmajor Governmental Funds			
	General Fund	Special Revenue Fund	FSPK Building Fund	Construction Fund	Total Nonmajor Governmental Funds	Total
Fund balances:						
Nonspendable:						
Inventory	$ 322,678	$ -	$ -	$ -	$ -	$ 322,678
Restricted for:						
Future capital needs	-	-	1,721,530	688,493	2,410,023	2,410,023
Other	-	-	-	1,134,070	1,134,070	1,134,070
Technology	-	33,328	-	-	-	33,328
	-	33,328	1,721,530	1,822,563	3,544,093	3,577,421
Committed:						
Site-based carryforward	157,230	-	-	-	-	157,230
Assigned:						
Purchase obligations	24,485	25,926	-	-	-	50,411
Unassigned	13,270,265	(25,926)	-	-	-	13,244,339
Total fund balances	$ 13,774,658	$ 33,328	$ 1,721,530	$ 1,822,563	$ 3,544,093	$ 17,352,079

The District has $1,184,481 of encumbrances of operating funds in major and nonmajor funds at June 30, 2013, rolled over into the next fiscal year, reflected above as restricted for other and assigned for purchase obligations, as direct by the Kentucky Department of Education.

11. Transfers

Interfund transfers for the year ended June 30, 2013, consisted of the following:

	Transfers in:			
	Major Governmental Funds		Nonmajor Governmental Funds	
	General Fund	Special Revenue Fund	Debt Service Fund	Total
Transfers out:				
Major Governmental Funds:				
General Fund	$ -	$ 159,394	$ -	$ 159,394
Nonmajor Funds:				
SEEK Capital Outlay Fund	996,201	-	-	996,201
FSPK Building Fund	268,799	-	6,929,933	7,198,732
				8,194,933
Enterprise Fund:				
Food Service Fund	76,412	-	-	76,412
	$ 1,341,412	$ 159,394	$ 6,929,933	$ 8,430,739

11. Transfers, Continued

Transfers are used to: 1) move revenues from the fund with collection authorization to the funds where budgetary authorizations exist for disbursement; 2) reimburse the General Fund for costs incurred to support proprietary fund activity; and 3) to move unrestricted General Fund revenues to programs accounted for in other funds for which the General Fund provides subsidies or matching funds.

12. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. Contingencies

The District receives funding from Federal, state and local government agencies and from private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantors' review, the funds are considered not to have 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.

14. Commitments

During fiscal year 2013, the District entered into construction contracts totaling $1,570,779 for various facility improvements. Remaining commitments under these contracts totaled $1,011,148 at June 30, 2013, of which $54,448 was included in accounts payable in the Construction Fund.

15. Impact of Recently Issued Accounting Principles

In fiscal year 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. Under this guidance, the statement of net assets has been renamed the statement of net position and include the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. The District had no deferred outflows or inflows of resources for the fiscal year ended June 30, 2013.

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2013

	Budget			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
Property taxes	$ 21,887,578	$ 23,282,394	$ 23,634,694	$ 352,300
Utility taxes	3,600,000	3,880,000	4,080,687	200,687
Tuition and fees	100,000	91,500	91,657	157
Earnings on investments	250,000	250,000	112,506	(137,494)
Other local revenue	680,500	538,800	542,622	3,822
State aid	40,204,824	56,127,260	56,127,296	36
Federal aid	130,000	250,000	250,405	405
Total revenues	66,852,902	84,419,954	84,839,867	419,913
Expenditures:				
Instruction	46,414,737	56,894,523	56,465,346	429,177
Support services:				
Student	2,482,156	3,249,939	3,203,251	46,688
Instructional staff	3,071,652	3,381,326	3,240,836	140,490
District administration	8,694,427	10,305,402	782,886	9,522,516
School administration	5,178,142	6,596,789	6,424,455	172,334
Business	1,535,620	2,060,836	1,835,601	225,235
Plant operation and maintenance	6,157,726	8,284,905	7,113,019	1,171,886
Student transportation	6,270,511	7,518,250	7,170,686	347,564
Community services	-	-	-	-
Building renovations / additions	-	-	-	-
Total expenditures	79,804,971	98,291,970	86,236,080	12,055,890
Excess (deficiency) of revenues over expenditures	(12,952,069)	(13,872,016)	(1,396,213)	12,475,803
Other financing sources (uses):				
Proceeds from sale of capital assets	15,000	63,600	63,673	73
Proceeds from issuance of capital leases	-	4,100	1,192,214	1,188,114
Operating transfers in	107,069	1,341,350	1,341,412	62
Operating transfers out	(270,000)	(270,000)	(159,394)	110,606
Total other financing sources (uses)	(147,931)	1,139,050	2,437,905	1,298,855
Excess (deficit) of revenue and other financing sources over expenditures and other financing sources (uses)	(13,100,000)	(12,732,966)	1,041,692	13,774,658
Fund balance, June 30, 2012	12,732,966	12,732,966	12,732,966	-
Fund balance, June 30, 2013	$ (367,034)	$ -	$ 13,774,658	$ 13,774,658

NOTE 1: A reconciliation between the budgetary basis of accounting and generally accepted accounting principles is presented on page 47.

DAVIESS COUNTY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND

Year Ended June 30, 2013

	Budget			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues:				
Other local revenue	$ 368,205	$ 394,038	$ 950,395	$ 556,357
State aid	3,706,416	4,066,217	4,189,438	123,221
Federal aid	5,206,905	5,540,389	5,660,387	119,998
Total revenues	9,281,526	10,000,644	10,800,220	799,576
Expenditures:				
Instruction	7,355,436	8,171,656	8,501,919	(330,263)
Support services:				
Student	665,480	595,503	730,115	(134,612)
Instructional staff	240,381	122,758	504,519	(381,761)
District administration	9,552	9,328	5,315	4,013
Plant operation and maintenance	5,731	5,597	-	5,597
Student transportation	409,000	379,250	415,418	(36,168)
Community services	833,877	844,870	833,614	11,256
Total expenditures	9,519,457	10,128,962	10,990,900	(861,938)
Excess (deficiency) of revenues over expenditures	(237,931)	(128,318)	(190,680)	(62,362)
Other financing sources (uses):				
Operating transfers in	270,000	159,394	159,394	-
Operating transfers out	(32,069)	(31,809)	-	31,809
Total other financing sources (uses)	237,931	127,585	159,394	31,809
Excess (deficit) of revenue and other financing sources over expenditures and other financing sources (uses)	-	(733)	(31,286)	(30,553)
Fund balance, June 30, 2012	64,614	64,614	64,614	-
Fund balance, June 30, 2013	$ 64,614	$ 63,881	$ 33,328	$ (30,553)

DAVIESS COUNTY SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

Reconciliation Between the Budgetary Basis of Accounting and GAAP

A basis difference exists in the General Fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District, relating to on-behalf payments for fringe benefits. Although required by GAAP, on-behalf payments are not budgeted in the governmental funds of the District, as directed by the Kentucky Department of Education. Line item differences are as follows:

	General Fund		
	Budget Basis	GAAP Basis	Difference
Revenues:			
State aid	$ 56,127,260	$ 72,967,985	$ (16,840,725)
Expenditures:			
Instruction	$ 56,894,523	$ 68,841,737	$ (11,947,214)
Support services:			
Student	3,249,939	3,900,169	(650,230)
Instructional staff	3,381,326	3,982,705	(601,379)
District administration	10,305,402	10,372,355	(66,953)
School administration	6,596,789	7,878,477	(1,281,688)
Business	2,060,836	2,476,218	(415,382)
Plant operations and maintenance	8,284,905	9,173,625	(888,720)
Student transportation	7,518,250	8,507,409	(989,159)
	$ 98,291,970	$ 115,132,695	$ (16,840,725)

DAVIESS COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2013

	SEEK Capital Outlay Fund	FSPK Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ -	$ 1,721,530	$ 1,884,105	$ -	$ 3,605,635
Accounts receivable:					
Other	-	-	-	-	-
Total assets	$ -	$ 1,721,530	$ 1,884,105	$ -	$ 3,605,635
LIABILITIES AND FUND BALANCES					
Current liabilities:					
Accounts payable	$ -	$ -	$ 61,542	$ -	$ 61,542
Due to other funds	-	-	-	-	-
Total liabilities	-	-	61,542	-	61,542
Fund balances:					
Restricted	-	1,721,530	1,822,563	-	3,544,093
Assigned	-	-	-	-	-
Total fund balances	-	1,721,530	1,822,563	-	3,544,093
Total liabilities and fund balances	$ -	$ 1,721,530	$ 1,884,105	$ -	$ 3,605,635

DAVIESS COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	SEEK Capital Outlay Fund	FSPK Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:					
Property taxes	$ -	$ 4,702,433	$ -	$ -	$ 4,702,433
Earnings on investments	-	5,000	7,191	-	12,191
Other local revenue	-	-	-	-	-
State aid	996,201	2,520,028	-	56,934	3,573,163
Federal aid	-	-	-	205,467	205,467
Total revenues	996,201	7,227,461	7,191	262,401	8,493,254
Expenditures:					
Business	-	-	-	-	-
Plant operation and maintenance	-	-	-	-	-
New building construction	-	78,041	72,200	-	150,241
Building renovations / additions	-	-	963,726	-	963,726
Debt service:					
Principal	-	-	-	4,935,000	4,935,000
Interest	-	3,810	-	2,257,334	2,261,144
Bond issuance costs	-	-	26,856	30,339	57,195
Total expenditures	-	81,851	1,062,782	7,222,673	8,367,306
Excess (deficiency) of revenues over expenditures	996,201	7,145,610	(1,055,591)	(6,960,272)	125,948
Other financing sources (uses):					
Refunding bonds issued	-	-	-	3,515,000	3,515,000
Payment to bond refunding escrow	-	-	-	(3,470,915)	(3,470,915)
Proceeds from the issuance of bonds	-	-	2,060,000	-	2,060,000
Discount on bonds issued	-	-	(26,659)	(24,300)	(50,959)
Premium on bonds issued	-	-	-	10,554	10,554
Operating transfers in	-	-	-	6,929,933	6,929,933
Operating transfers out	(996,201)	(7,198,732)	-	-	(8,194,933)
Total other financing sources (uses)	(996,201)	(7,198,732)	2,033,341	6,960,272	798,680
Net change in fund balances	-	(53,122)	977,750	-	924,628
Fund balance, June 30, 2012	-	1,774,652	844,813	-	2,619,465
Fund balance, June 30, 2013	$ -	$ 1,721,530	$ 1,822,563	$ -	$ 3,544,093

DAVIESS COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Apollo High	$ 325,447	$ 894,862	$ 839,336	$ 380,973	$ 1,760	$ 19,902	$ 13,235	$ 389,400
Audubon Elementary	35,012	82,246	74,647	42,611	-	-	-	42,611
Beacon Central	11,642	13,037	15,059	9,620	-	-	-	9,620
Burns Elementary	22,143	80,686	75,683	27,146	-	46	-	27,192
Burns Middle	156,393	245,476	263,458	138,411	-	1,424	-	139,835
College View Middle	86,722	286,087	285,233	87,576	-	57	165	87,468
Country Heights Elementary	46,909	105,005	116,669	35,245	-	-	-	35,245
Daviess County High	280,158	1,257,490	1,230,076	307,572	410	3,147	5,673	305,456
Daviess County Middle	77,953	254,363	246,973	85,343	-	-	374	84,969
Deer Park Elementary	60,435	58,136	59,375	59,196	-	-	-	59,196
East View Elementary	17,135	62,056	57,500	21,691	-	762	28	22,425
Highland Elementary	92,881	160,866	169,480	84,267	-	1,950	-	86,217
Meadow Lands Elementary	33,756	127,173	127,300	33,629	-	-	-	33,629
Sorgho Elementary	64,158	138,322	121,469	81,011	-	-	-	81,011
Southern Oaks Elementary	48,297	67,270	85,468	30,099	-	-	-	30,099
Tamarack Elementary	18,103	94,248	76,070	36,281	-	-	-	36,281
West Louisville Elementary	31,487	43,131	38,598	36,020	-	-	-	36,020
Whitesville Elementary	33,417	92,804	104,186	22,035	-	76	-	22,111
	$ 1,442,048	$ 4,063,258	$ 3,986,580	$ 1,518,726	$ 2,170	$ 27,364	$ 19,475	$ 1,528,785

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

APOLLO HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
General Fund	$ 1,326	$ 211	$ 39	$ 18	$ 1,516	$ -	$ -	$ -	$ 1,516
Office	-	108	10,186	12,238	2,160	-	-	-	2,160
AHS Alumni	10	-	-	-	10	-	-	-	10
DCPS Foundation Grants	-	1,109	620	-	489	-	-	-	489
Ap Exams	2,653	31,183	30,285	135	3,686	-	-	-	3,686
Banquet	-	2,194	1,155	(1,039)	-	-	-	-	-
Band Uniforms	107	-	-	-	107	-	-	-	107
Graduation	-	156	8,899	8,743	-	-	-	-	-
Prom	-	9,760	9,647	-	113	-	-	-	113
Computer	1,251	-	-	-	1,251	-	-	-	1,251
Contingency	39,118	5,083	19,653	11,765	36,313	-	-	-	36,313
Fundraiser	3,357	10,360	2,557	(11,160)	-	-	-	-	-
Guidance	6,329	1,449	2,280	1,733	7,231	-	-	-	7,231
Intramural	12	738	-	-	750	-	-	-	750
Interest	-	3,580	-	(3,580)	-	-	-	-	-
Locks	369	45	491	77	-	-	-	-	-
Necessities	226	10	-	-	236	-	-	-	236
Over Your Head	1,721	285	683	(295)	1,028	-	1,554	-	2,582
Project Graduation	77	3,830	4,104	197	-	-	-	-	-
Renaissance	-	1,852	3,488	1,970	334	-	-	-	334
Challenger	2,734	1,608	1,850	479	2,971	-	-	-	2,971
Student Exam Fee Reimbursement	-	2,657	2,657	-	-	-	-	-	-
Video Yearbook	1,202	1,397	1,089	(30)	1,480	-	-	-	1,480
Career Options	388	-	-	(388)	-	-	-	-	-
Yearbook	26,010	18,911	9,518	175	35,578	-	-	6,900	28,678
Student Assistance	3,485	1,886	2,506	(140)	2,725	-	-	-	2,725
Student Vending	683	2,354	1,512	-	1,525	51	-	-	1,576
Adult Vending	-	2,372	1,050	182	1,504	20	-	-	1,524
Adult Scrip	-	2,840	3,283	443	-	-	-	-	-
Athletic Director	131	-	1,067	1,150	214	-	-	-	214
Boys Basketball	2,314	11,287	24,841	11,476	236	-	-	-	236
Athletic Booster	512	67,646	43,061	(22,960)	2,137	-	3,511	-	5,648
Baseball/Lt	11,682	32,810	9,021	(23,839)	11,632	-	-	4,400	7,232
Baseball	59	2,258	33,533	31,216	-	1,474	-	-	1,474
Boys Cross Country	2,502	2,174	4,960	2,115	1,831	-	-	-	1,831
Boys CC L/T	849	-	-	-	849	-	-	-	849
Girls Cross Country	2,725	316	1,556	1,433	2,918	-	-	-	2,918
Girls CC L/T	467	-	-	-	467	-	-	-	467
Cheerleaders	7,581	39,889	46,965	3,624	4,129	-	-	-	4,129
E-Gals	5,457	18,474	12,109	(4,064)	7,758	-	-	-	7,758
Eaglettes	5,484	50,677	50,220	1,834	7,775	-	-	-	7,775

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

APOLLO HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Football	-	28,621	36,661	19,521	11,481	-	-	-	11,481
Field Maintenance	362	-	-	(350)	12	-	-	-	12
General Athletics	942	4,015	18,169	27,793	14,581	-	-	-	14,581
Girls Basketball	2,737	741	16,995	14,017	500	-	-	-	500
Girls Golf	110	-	1,295	1,441	256	-	-	-	256
Boys Golf	83	910	1,740	1,446	699	-	-	-	699
Gate	-	96,928	7,844	(89,084)	-	-	-	-	-
Girls Track	468	3,165	6,264	3,217	586	-	-	-	586
Softball	1,173	9,445	16,699	6,210	129	-	-	-	129
Softball L/T	1,184	-	-	-	1,184	-	-	-	1,184
Girls Soccer	-	2,592	6,461	3,893	24	-	-	-	24
Girls Soccer L/T	-	535	-	(450)	85	-	-	-	85
Boys Soccer	-	198	4,620	4,512	90	-	-	-	90
Sports Programs Sales	-	218	169	(49)	-	-	-	-	-
AA Sports Prog. Ads	1,048	3,150	75	(2,323)	1,800	-	-	-	1,800
Supply Store	500	14,255	14,883	1,128	1,000	-	14,837	-	15,837
Swim Team/G&B	1,111	2,022	4,410	2,023	746	-	-	-	746
Tennis/B&G	672	4,856	6,061	3,583	3,050	-	-	-	3,050
District Tourney Boys	-	8,192	6,353	(1,839)	-	-	-	-	-
Boys Track	-	3,807	6,341	3,547	1,013	-	-	-	1,013
Athletic Vending	-	1,443	-	(1,443)	-	115	-	-	115
Volleyball	1,126	22,356	18,946	1,379	5,915	-	-	-	5,915
Wrestling	2,542	-	1,975	4,270	4,837	-	-	-	4,837
AA V Slamdown Tourney	875	6,895	6,315	-	1,455	-	-	-	1,455
Art Club	88	-	-	-	88	-	-	-	88
Beta	275	1,290	1,036	-	529			-	529
Drama	1,537	7,145	5,989	(7)	2,686	-	-	-	2,686
Council For Ex Child	2,525	4,631	3,895	(90)	3,171	-	-	-	3,171
FFA Alumni	4,959	1,327	2,360	-	3,926	-	-	-	3,926
FBLA	2,366	4,780	4,662	-	2,484	-	-	-	2,484
FCA	3	50	-	-	53	-	-	-	53
Future Ed Of America	193	-	-	-	193	-	-	-	193
FFA	-	35,381	37,258	1,877	-	100	-	-	100
FCCLA	290	45	193	-	142	-	-	-	142
Strategic Gaming	517	745	793	-	469	-	-	-	469
Musical/Chorus/Drama	-	9,936	9,676	1,065	1,325	-	-	-	1,325
Thespian Society	-	3,016	2,696	-	320	-	-	-	320
Habitat	20	-	-	-	20	-	-	-	20
AYL Academy Young Leaders	84	-	-	-	84	-	-	-	84
Academic Team	663	65	710	-	18	-	-	-	18
Spanish Club	361	249	379	-	231	-	-	-	231
Latin Dance Club	164	-	-	-	164	-	-	-	164

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

APOLLO HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Key Club	1,170	3,320	1,815	(50)	2,625	-	-	-	2,625
National Honor Society	746	900	1,176	(7)	463	-	-	-	463
PTSO	232	470	500	-	202	-	-	-	202
Student Council	6,228	8,723	6,287	(215)	8,449	-	-	-	8,449
Stand	263	410	325	-	348	-	-	-	348
Project 88 Fitness	713	400	1,346	233	-	-	-	-	-
Spirit Club	-	-	48	48	-	-	-	-	-
KYA	133	3,850	4,110	165	38	-	-	-	38
Young Democrats	18	-	-	(18)	-	-	-	-	-
Young Republicans	-	68	-	-	68	-	-	-	68
TSA	1,528	3,882	4,206	5	1,209	-	-	-	1,209
STLP	952	170	434	20	708	-	-	-	708
AFJROTC Activities	3,883	32,193	32,069	1,804	5,811	-	-	-	5,811
AFJROTC Scholarship Fund	700	-	300	-	400	-	-	-	400
Archery Club	-	1,475	1,334	-	141	-	-	-	141
WKSLS	749	-	431	-	318	-	-	-	318
Ag	2,563	-	3,206	4,138	3,495	-	-	-	3,495
Art	-	-	1,913	2,879	966	-	-	-	966
Band	3,807	31,481	37,474	5,273	3,087	-	-	-	3,087
Business	1,689	224	2,018	2,260	2,155	-	-	-	2,155
Chorus	2,530	6,005	7,852	428	1,111	-	-	-	1,111
Career Netwking (Dotp)	478	-	-	191	669	-	-	-	669
Driver Ed	-	-	277	277	-	-	-	-	-
English	280	60	827	1,484	997	-	-	-	997
Freshman Team	-	150	1,606	1,456	-	-	-	-	-
Sophomore Team	-	-	1,710	1,710	-	-	-	-	-
Junior Team	-	-	2,724	2,724	-	-	-	-	-
Fine Arts	1,047	1,755	2,942	335	195	-	-	-	195
Senior Team	-	-	2,201	2,201	-	-	-	-	-
Foreign Language	462	-	895	2,178	1,745	-	-	-	1,745
Stamp Test-World Lang.	-	1,725	908	(817)	-	-	-	-	-
Fmd Ss Christmas Play	318	601	750	(22)	147	-	-	-	147
Greenhouse	2,005	7,474	7,311	210	2,378	-	-	-	2,378
Consumer Science	1,262	-	843	1,810	2,229	-	-	-	2,229
Math	3,695	285	1,945	835	2,870	-	-	-	2,870
MMD/Head	56	60	423	307	-	-	-	-	-
MMD/Bullington	61	-	-	-	61	-	-	-	61
MMD/Blandford	823	11	382	280	732	-	-	-	732
Orchestra	473	2,367	2,299	479	1,020	-	-	-	1,020
MMD/D. Higdon	566	13	456	134	257	-	-	-	257
Health/PE	1,397	2,445	3,124	1,704	2,422	-	-	-	2,422
AFJROTC-School Budget	209	-	617	480	72	-	-	-	72

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

APOLLO HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Science	8,655	-	2,119	7,089	13,625	-	-	-	13,625
MMD/Gilbreath	363	-	758	497	102	-	-	-	102
Special Services	367	-	253	537	651			-	651
MMD/Roberts	61	-	190	129	-	-	-	-	-
Social Studies	2,958	-	261	869	3,566	-	-	-	3,566
Gov't Class DC Trip	-	4,614	4,888	424	150	-	-	-	150
Tech-Ed	3,126	-	3,890	764	-	-	-	-	-
Library Copy Machine	1,426	65	2,207	1,160	444	-	-	-	444
Library Fines	254	708	344	5	623	-	-	-	623
Audio Visual	730	-	798	567	499	-	-	-	499
Poster Printer	911	78	-	213	1,202	-	-	-	1,202
Student Fees	-	142,168	66,437	(75,694)	37	-	-	-	37
Lost/Damaged Books	-	131	131	-	-	-	-	-	-
Book Rental	-	-	-	-	-	-	-	-	-
Elearning Repair Fines	189	10,307	10,350	-	146	-	-	-	146
Laptop Purchases	-	1,550	1,550	-	-	-	-	-	-
Latham Scholarship	7,202	-	1,000	53	6,255	-	-	-	6,255
Nunn Scholarship	-	400	400	-	-	-	-	-	-
Stewart Family Eagle Scholarship	176	1,000	1,000	1	177	-	-	-	177
Coke Scholarship	32,116	2,040	1,500	239	32,895	-	-	-	32,895
Pruden Scholarship	29,850	3,025	800	228	32,303	-	-	-	32,303
Satterly Scholarship	25,928	751	1,000	(804)	24,875	-	-	-	24,875
Soaring Eagle Scholarship	132	-	-	1	133	-	-	-	133
Stefanie M. Memorial Scholarship	961	325	-	8	1,294	-	-	-	1,294
Eagle High Trust	9,207	2,670	3,568	-	8,309	-	-	1,935	6,374
	$ 325,447	$ 894,862	$ 839,336	$ -	$ 380,973	$ 1,760	$ 19,902	$ 13,235	$ 389,400

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

DAVIESS COUNTY HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
General Fund	$ 4,227	$ 10,685	$ 30,583	$ 17,291	$ 1,620	$ -	$ -	$ 179	$ 1,441
Student ID's	382	1,889	1,935	-	336	-	-	-	336
Office Supplies	4,816	310	6,580	9,974	8,520	-	-	-	8,520
Jacob Helwig Fund	-	186	2,086	1,900	-	-	-	-	-
Driver Ed Fee	3	4,875	4,878	-	-	-	-	-	-
Activity Fees	291	231,561	150,456	(81,396)	-	-	-	-	-
Laptop	-	6,354	5,678	50	726	-	-	-	726
Misc. Maintenance Supp.	534	-	2,265	1,731	-	-	-	-	-
Student Fees/$24	5,962	115	5,496	5,118	5,699	-	-	4,242	1,457
Textbooks/State	-	639	1,177	538	-	-	-	-	-
Shelton-Walmart	799	-	-	-	799	-	-	-	799
Vending	-	2,591	3,983	1,392	-	37	-	-	37
Faculty Vending	1,018	2,790	2,009	(250)	1,549	373	-	-	1,922
Staffulty Fund	1,200	2,521	2,538	(25)	1,158	-	-	-	1,158
Picture Commission	-	6,281	-	-	6,281	-	-	-	6,281
Magazine	4,642	34,206	21,345	(12,793)	4,710	-	-	-	4,710
Nickel War	6,551	4,326	3,849	(170)	6,858	-	-	-	6,858
Athletics General	345	107,246	50,833	(56,364)	394	-	-	225	169
Game Officials	-	-	(60)	(60)	-	-	-	-	-
Athletic Training	954	-	4,217	3,360	97	-	-	-	97
Athletic Boosters	2,500	83,343	56,349	(26,674)	2,820	-	3,147	-	5,967
Baseball Signs	-	2,175	1,636	(539)	-	-	-	-	-
Baseball	-	16,457	14,000	(2,438)	19	-	-	-	19
Baseball Tournament	-	2,567	1,080	(1,487)	-	-	-	-	-
BKBall Regional Tournament	-	16,933	4,662	(12,271)	-	-	-	-	-
BKB Tournament-Girls	-	5,815	4,698	(1,117)	-	-	-	-	-
Basketball-Boys	4,934	8,602	15,771	3,947	1,712	-	-	-	1,712
Basketball-Girls	1,746	5,272	13,581	12,027	5,464	-	-	-	5,464
BKB Gym Signs	3,000	5,100	400	(7,700)	-	-	-	-	-
CC/TR Invitationals	4,208	10,852	8,869	(276)	5,915	-	-	-	5,915
Softball-Regionals	-	-	(49)	(49)	-	-	-	-	-
XC Boys	1,312	11,822	17,968	8,242	3,408	-	-	-	3,408
XC Girls	3,889	6,904	9,264	(95)	1,434	-	-	-	1,434
Track Girls	3,358	-	3,146	3,754	3,966	-	-	-	3,966
Cheerleaders	24,083	75,032	75,310	(11,692)	12,113	-	-	-	12,113
Field Maintenance	-	-	3,148	3,148	-	-	-	-	-
Football Boosters	704	10,509	10,142	1,000	2,071	-	-	-	2,071
Football	17,675	29,021	61,360	20,034	5,370	-	-	-	5,370
Golf Tournament	-	2,080	1,530	(550)	-	-	-	-	-

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

DAVIESS COUNTY HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Golf Boys	389	910	2,405	2,170	1,064	-	-	-	1,064
Golf Girls	2,009	550	2,376	1,602	1,785	-	-	-	1,785
Intramural Sports	95	1,151	797	(400)	49	-	-	-	49
Pantherettes	-	51,101	48,377	1,292	4,016	-	-	-	4,016
Soccer Boys Sub Sectional	-	-	-	-	-	-	-	-	-
Soccer Tournament	-	2,192	1,460	(732)	-	-	-	-	-
Soccer Regional	-	5,320	3,218	(2,102)	-	-	-	-	-
Soccer Boys	1,089	3,347	10,133	7,256	1,559	-	-	-	1,559
Soccer Tourn Girls	-	4,417	2,503	(1,914)	-	-	-	-	-
Soccer Girls	621	23,702	31,188	6,865	-	-	-	-	-
Softball	3,720	6,620	10,581	6,170	5,929	-	-	-	5,929
Softball Tourney	-	1,161	420	(741)	-	-	-	-	-
Baseball Florida	-	6,749	9,599	2,850	-	-	-	-	-
Soccer Signs-Boys	1,520	2,600	210	(848)	3,062	-	-	-	3,062
State Tournament Exp.	-	560	9,027	8,467	-	-	-	-	-
Team Lauren/Cancer Aware	4,091	3,456	4,148	(1,500)	1,899	-	-	-	1,899
Swimming	56	1,690	3,899	2,913	760	-	-	-	760
Softball District Tournament	-	3,438	2,056	-	1,382	-	-	-	1,382
Tennis Boys	1,155	-	1,019	929	1,065	-	-	-	1,065
Tennis Girls	425	2,067	2,711	958	739	-	-	-	739
Volleyball	-	4,457	6,189	3,162	1,430	-	-	-	1,430
Volleyball Tournament	-	7,260	5,217	(2,043)	-	-	-	-	-
Wrestling	-	4,067	4,046	(21)	-	-	-	-	-
Michael Cable Fund	-	3,903	220	-	3,683	-	-	-	3,683
Anime Club	144	34	105	-	73	-	-	-	73
Art Club	30	300	123	(207)	-	-	-	-	-
Beta Club	179	1,476	1,024	-	631	-	-	-	631
Christian Stu. Union	127	-	-	-	127	-	-	-	127
Chess Club	5	422	320	-	107	-	-	-	107
Robotics	256	1,950	546	-	1,660	-	-	-	1,660
Drama Club	2,127	6,722	7,025	-	1,824	-	-	150	1,674
Drama/Music Storage	914	975	1,140	300	1,049	-	-	-	1,049
FBLA	6,257	1,038	3,146	(25)	4,124	-	-	-	4,124
FCCLA	616	2,441	2,624	-	433	-	-	-	433
Fellow Christian Athletes	127	268	450	55	-	-	-	-	-
FFA	217	36,900	39,287	2,170	-	-	-	-	-
French Club	351	3,130	3,010	(25)	446	-	-	-	446
Future Educators	-	192	221	29	-	-	-	-	-
Habitat For Humanity	117	801	817	-	101	-	-	-	101
Key Club	15	2,586	2,384	-	217	-	-	-	217

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

DAVIESS COUNTY HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Jr Classical League	71	2,465	2,341	-	195	-	-	-	195
Lifesavers Club	-	310	202	-	108	-	-	-	108
National Honor Society	602	3,147	2,934	(25)	790	-	-	-	790
One Club	10	-	-	-	10	-	-	-	10
Pep Club	1,363	5,116	6,340	985	1,124	-	-	-	1,124
Quill & Scroll Club	170	155	63	-	262	-	-	-	262
Quiz Bowl Recycle Club	216	614	608	-	222	-	-	-	222
SADD	444	-	-	(444)	-	-	-	-	-
Spanish Club	496	200	521	-	175	-	-	-	175
Spanish Nat Honor Society	1,019	811	1,014	-	816	-	-	-	816
Student Council	1,815	5,072	3,115	(235)	3,537	-	-	-	3,537
Young Democrats	36	120	75	(48)	33	-	-	-	33
STLP	10	590	558	150	192	-	-	-	192
Teenage Republicans	207	325	-	(25)	507	-	-	-	507
Co-Ed Y Club	198	10,578	10,654	-	122	-	-	-	122
Ag Mechanics	-	3,980	6,653	3,905	1,232	-	-	-	1,232
AG/IND Tech Academy	1,523	-	4,168	3,218	573	-	-	-	573
Business Ed Academy	1,190	-	133	1,058	2,115	-	-	-	2,115
Multimedia Publishing	413	1,000	585	(100)	728	-	-	-	728
Career Prep	134	-	-	-	134	-	-	-	134
Fine Arts/Mass Comm.	9,640	10,203	23,471	16,056	12,428	-	-	481	11,947
Guidance	4,997	26,922	25,575	(52)	6,292	-	-	-	6,292
Health Wellness Academy	233	9,204	19,378	10,240	299	-	-	-	299
Weights	784	-	784	-	-	-	-	-	-
Horticulture	5,608	5,989	6,549	(4,487)	561	-	-	-	561
Liberal Arts Academy	9,326	6,130	14,244	2,111	3,323	-	-	-	3,323
Library	6,123	629	469	156	6,439	-	-	-	6,439
Science Academy	2,161	-	6,569	5,642	1,234	-	-	-	1,234
Math Academy	1,710	973	486	(4)	2,193	-	-	-	2,193
JRROTC Alt/Pur/Ori	6,265	2,918	1,457	(7,726)	-	-	-	-	-
JRROTC Unit Support Maint	1,758	-	989	-	769	-	-	-	769
JRROTC Boosters	4,680	29,632	27,377	6,754	13,689	-	-	140	13,549
Miller Mmd	-	888	982	100	6	-	-	-	6
Academic Team	2,463	1,110	6,860	3,290	3	-	-	-	3
Band Uniforms	9,013	20,000	-	-	29,013	-	-	-	29,013
Band Boosters	16,495	113,176	122,680	(281)	6,710	-	-	-	6,710
Band Winterguard	-	2,786	433	150	2,503	-	-	-	2,503
Big Red Machine	3,287	4,230	5,256	-	2,261	-	-	-	2,261
Class Of 2014	23	-	49	50	24	-	-	-	24
Class Of 2012	626	128	-	(754)	-	-	-	-	-

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITY FUND RECEIPTS, DISBURSEMENTS, AND DUE TO

DAVIESS COUNTY HIGH SCHOOL

Year Ended June 30, 2013

	Cash June 30, 2012	Receipts	Disbursements	Transfers	Cash June 30, 2013	Accounts Receivable	Inventory	Accounts Payable	Due to Student Groups June 30, 2013
Class Of 2013	-	1,580	1,590	10	-	-	-	-	-
Class Of 2015	10	-	35	50	25	-	-	-	25
Drama	2,851	7,837	6,239	(10)	4,439	-	-	-	4,439
Class Of 2016	-	-	49	50	1	-	-	-	1
Drama Musical	-	6,330	7,040	710	-	-	-	-	-
Dance Studio	-	101	-	-	101	-	-	-	101
GRAD/Sr. Activities	116	1,385	10,623	9,400	278	-	-	-	278
DC Wishes	1,624	-	-	-	1,624	-	-	-	1,624
Chamber Choir	131	10,322	9,858	(505)	90	-	-	-	90
Target Donation	-	578	-	-	578	-	-	-	578
Prom	9,096	8,175	9,368	-	7,903	-	-	-	7,903
Renaissance Rewards	8,001	2,115	19,847	9,731	-	-	-	-	-
FCS Business	-	216	-	-	216	-	-	-	216
T-Shirts/Dc Printing	2,081	9,051	10,336	875	1,671	-	-	256	1,415
Yearbook-Echoes	3,222	28,287	19,670	55	11,894	-	-	-	11,894
Nick Brown Scholarship	1,759	-	1,000	-	759	-	-	-	759
Brad Smith Scholarship	1,735	-	500	-	1,235	-	-	-	1,235
Fulkerson Scholarship	500	-	500	500	500	-	-	-	500
Robin Sweeney Scholarship	5,273	-	-	-	5,273	-	-	-	5,273
Contingency Fund	19,750	-	-	25,260	45,010	-	-	-	45,010
Petty Cash	100	100	100	-	100	-	-	-	100
Athletic Cash Boxes	3,000	3,000	3,000	-	3,000	-	-	-	3,000
First County High Bank	15	-	15	-	-	-	-	-	-
	$ 280,158	$ 1,257,490	$ 1,230,076	$ -	$ 307,572	$ 410	$ 3,147	$ 5,673	$ 305,456

See Notes to Financial Statements

DAVIESS COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

Grantor / Program Title	CFDA Number	Pass-Through Entity Identifying Number	Fund Number	Project Number	Federal Expenditures
U.S. Department of Agriculture					
Passed through Kentucky Department of Agriculture:					
Food Donation	10.555	057502-13	51	N/A	$ 794,797
Passed through Kentucky Department of Education:					
Child Nutrition Cluster:					
School Breakfast Program	10.553	7760005-13	51	N/A	872,920
National School Lunch Program	10.555	7750002-13	51	N/A	2,507,444
Summer Food Service Program for Children	10.559	7740023-13	51	2093	176,999
					3,557,363
Total U.S. Department of Agriculture					$ 4,352,160
U. S. Department of Defense					
Direct Program:					
ROTC	12.000	5043	2	5043	$ 119,777
Total U. S. Department of Defense					$ 119,777
U. S. Department of Education					
Passed through Kentucky Department of Education:					
Title I, Part A Cluster:					
Title I - Local Educational Agencies	84.010	3100002-13	2	3103	$ 1,481,453
Title I - Parent Involvement	84.010	3100002-13	2	3103M	17,040
Title I - Local Educational Agencies	84.010	3100002-12	2	3102	515,385
Title I - Parent Involvement	84.010	3100002-12	2	3102M	3,969
Title I - School Improvement	84.010	3100002-13	2	3203	132,467
Title I - Part D, Subpart 2	84.010A	3100102	2	3143	81,050
					2,231,364
Migrant Education - State Grant Program	84.011	3110002-13	2	3113	133,236
Migrant Education - State Grant Program	84.011	3110002-12	2	3112	158,869
					292,105
Special Education Cluster:					
Special Education - Grants to States:					
IDEA, Part B	84.027	3810002-13	2	3373	2,192,482
IDEA, Part B	84.027	3810002-12	2	3372	48,862
IDEA Discretionary - GRR Educational Co-op	84.027	3810004-12	2	3362	80,148
Special Education - Preschool Grants:					
IDEA Preschool	84.173	3800002-13	2	3433	81,640
					2,403,132
Career and Technical Education - Basic Grants to States:					
Perkins - Part C	84.048	4620932-12	2	3483	96,569
Perkins - Career Camps	84.048	3592A	2	3592A	5,310
Perkins - Career Camps	84.048	3593A	2	3593A	2,907
					104,786

DAVIESS COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

Year Ended June 30, 2013

Grantor / Program Title	CFDA Number	Pass-Through Entity Identifying Number	Fund Number	Project Number	Federal Expenditures
U. S. Department of Education, Continued					
Passed through Kentucky Department of Education, Continued:					
English Language Acquisition Grants:					
Title III Limited English Proficiency	84.365	3300002-11	2	3453	34,774
Title III English Language Acq.	84.365A	3451I	2	3451I	7,334
					42,108
Improving Teacher Quality State Grants:					
Title II	84.367	3230002-13	2	4013	360,800
Title II	84.367	3230002-12	2	4012	15,160
					375,960
Education Technology - State Grants:					
Enhancing Ed. Thru Technology	84.318	4210002-09	2	4251	405
Education Jobs Fund	84.410	4411	2	4411	16,981
Race to the Top (RTTT)	84.413A	4521	2	4521	37,888
Passed through Kentucky Workforce Development Cabinet:					
Adult Education State Grant Program	84.002	3713	2	3713	4,791
Passed through Kentucky Department of Juvenile Justice:					
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	3132	2	3133	39,315
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	4100102-12	2	3133T	3,932
					43,247
Total U. S. Department of Education					$ 5,552,767
Total Federal Awards					$ 10,024,704

Note A: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Daviess County School District under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to be and does not present the financial position, changes in net assets, or cash flows of the District.

Note B: 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-122, *Cost Principles for Non-Profit Organizations,* wherein certain tupes of expenditures are not allowable or are limited as to reimbursement.

Note C: Food Donation

Nonmonetary assitrance is reported in the Schedule at the fair market value of the commodities received.

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*

Members of the Board of Education
Daviess County School District
Owensboro, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendices I through IV of 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 the Daviess County School District (District) as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 4, 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Finding 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 with specific state statutes or regulations identified in *Appendix II of the Independent Auditors' Contract – State Audit Requirements.*

We noted certain matters other than significant deficiencies and material weaknesses that we reported to management of the District in a separate letter dated October 4, 2013.

Daviess County School District's Response to Findings

The District's response to the finding 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.

Riney Hancock CPAs PSC

Owensboro, Kentucky
October 4, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education
Daviess County School District
Owensboro, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Daviess County School District's (District) compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of 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 of compliance, 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Riney Hancock CPAs PSC

Owensboro, Kentucky
October 4, 2013

DAVIESS COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements of the Daviess County School District (District).

2. A significant deficiency disclosed during the audit of the financial statements is reported in the 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*. No material weaknesses are reported.

3. No instances of noncompliance material to the financial statements of the District, which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs were reported in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

5. The auditor's report on compliance for the major federal award programs for the District expresses an unmodified opinion on all major federal programs.

6. As indicated in Part C of this schedule, there were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The programs tested as major programs include:

   Child Nutrition Cluster
   - 10.553 School Breakfast Program
   - 10.555 National School Lunch Program
   - 10.559 Summer Food Service Program for Children

   84.413A Race to the Top

8. The threshold used for distinguishing between Type A and B programs was $300,741.

9. The District was determined to be a low-risk auditee.

DAVIESS COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

B. Findings - Financial Statements Audit

Significant Deficiency:

Finding 13-01
Segregation of Duties

Due to a limited number of personnel employed in the accounting area, incompatible work functions are often performed by the same individual and a high degree of trust is necessitated. Specifically, bookkeepers at individual schools perform most accounting functions for the activity funds and after school program directors have responsibility for student attendance records and for billing and collection of student fees. This lack of segregation of duties increases the opportunity for misappropriation of District assets, and weakens the District's ability to detect possible misappropriations.

Recommendation

Job responsibilities within the accounting area should be continually reviewed and, where feasible, duties should be switched to provide better segregation of incompatible work functions. For the after school program, revenues should be reviewed analytically using attendance data.

Management Response

In the area of school bookkeepers and after school program directors, it is not practical or cost effective to hire additional staff to separate accounting functions at all locations. Adequate internal control procedures as defined by local policy and state law are available and enforced in these areas. Fidelity bond coverage was carried during the fiscal year.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

DAVIESS COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2013

There were no audit findings relative to federal awards reported in the schedule of findings and questioned costs for the year ended June 30, 2012.

MANAGEMENT LETTER

Members of the Board of Education
Daviess County School District
Owensboro, Kentucky

Kentucky State Committee for School District Audits
Frankfort, Kentucky

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Daviess County School District (District) as of and for the year ended as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding these matters. A separate report dated October 4, 2013, contains our report on a significant deficiency in the District's internal control. This letter does not affect our report dated October 4, 2013, on the financial statements of the District.

FY 2013 Comments

Summer Feeding Program:

For the month of July 2012, meal counts were misclassified in breakfast, lunch, and snack reimbursement categories, resulting in an over-reimbursement in the amount of $133, due to differing reimbursement rates for each category. A check was written to the state for the amount of the error prior to June 30, 2013, resulting in the correct reporting of federal expenditures for this program for FY 2013. We recommend that someone other than the preparer review meal claims prior to submission.

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FY 2013 Comments, Continued

Activity Funds:

Findings noted and frequency of occurrence are as follows:

Deposits:

Deposit slips not always initialed by second person (1).

Disbursements / Payables:

Payable not identified prior to detection by auditor (1);
No supporting documentation for disbursement (1); and
A purchase of athletic supplies did not adhere to the bid (1).

Transfers:

Transfer form lacked principal signature (1).

We recommend that Activity Fund bookkeepers be reminded of the importance of adhering to the "Red Book" and performing generally accepted practices which enhance internal control for the District.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with 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.

Management Response:

Management will add a second review by the food service bookkeeper to all counts provided by the summer feeding staff. This reviewer will verify the clerical accuracy of the counts, ensure the counts are correctly categorized, and verify the totals submitted prior to filing the reimbursement claim.

Management conducted a Redbook training with all school bookkeepers and school administrators in July 2013. Management will communicate the Redbook audit findings with all school bookkeepers and administrators and instruct staff regarding preventative measures schools must make to alleviate reoccurrence of Redbook findings.

Status of FY 2012 Comments

Schedule of Expenditures of Federal Awards (SEFA):

Although reconciled and corrected in the audited financial statements, the Schedule of Expenditures of Federal Awards (SEFA) originally presented to the auditors did not agree to federal revenue recorded in the general ledger. The accuracy of this schedule each year is important for the proper selection of federal programs to test.

For FY 2013, the SEFA was reconciled to the general ledger prior to submission to the auditor.

This communication is intended solely for the information and use of management, the Board of Education, the Kentucky Department of Education, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Runey Hancock CPAs PSC

Owensboro, Kentucky
October 4, 2013