

Owen County School District

Basic Financial Statements,
Supplementary Information,
And Independent Auditor's Reports

Year Ended June 30, 2013

Owen County School District
 Table of Contents
 Year Ended June 30, 2013

	<u>Page</u>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis.....	3-7
Basic Financial Statements:	
District-wide Financial Statements:	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Statement of Net Assets – Proprietary Funds	14
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	15
Statement of Cash Flows – Proprietary Funds	16
Statement of Fiduciary Net Assets – Fiduciary Funds	17
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	18
Notes to the Basic Financial Statements	19-32
Budgetary Comparison:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual - General Fund	33
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	34
Supplementary Information:	
Combining Statements – Nonmajor Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	36
Activity Funds:	
Statement of Receipts, Disbursements, and Fund Balances Owen County High School Activity Funds.....	37-38
Statement of Receipts, Disbursements, and Fund Balances Primary, Middle and Elementary Schools.....	39-40
Schedule of Expenditures of Federal Awards.....	41-42
Notes to the Schedule of Expenditures of Federal Awards.....	43
Schedule of Findings and Questioned Costs.....	44
Schedule of Prior Year Audit Findings.....	45

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* 46-47

Independent Auditor’s Report on Compliance For Each Major Program And On
Internal Control Over Compliance Required By OMB Circular A-133 48-49

Management Letter Comments..... 50-51



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Independent Auditor's Report

Owen County Board of Education
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Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Owen County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, Appendix III of the Independent Auditor's Contract - Audit Extension Request, Appendix IV of the Independent Auditor's Contract - Instructions for Completion and Electronic Submission of Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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 Owen County School District, as of June 30, 2013, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–7 and 33–34 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 Owen County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, 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 25, 2013, on our consideration of Owen County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Owen County School District's internal control over financial reporting and compliance.

Charles T. Mitchell Co.

Frankfort, Kentucky
October 25, 2013

**Owen County School District – Owenton, Ky.
Management’s Discussion and Analysis (MD&A)
Year Ended June 30, 2013**

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

FINANCIAL HIGHLIGHTS

- The ending unassigned General Fund balance for FY13 was \$1,166,877.
- The District General Fund had \$13,641,635 in receipts (including transfers from other funds) above the beginning balance for year beginning July 01, 2012, which included \$2,524,879 of payments made by the State on behalf of the District for KTRS, health insurance, flexible spending, life insurance and state administrative fee.
- The major categories of revenue consisted primarily of state funding SEEK (Support Education Excellence of Kentucky) and local tax revenue. Breakdown of revenue sources for FY13 is as follows:

Local	\$ 3,177,856	23.295%
State - SEEK	7,273,018	53.315%
State - On-Behalf	2,524,879	18.509%
State - Other	55,555	0.407%
Federal	3,992	0.029%
Transfers from Other Funds	430,543	3.156%
Proceeds from Capital Leases	175,592	1.287%
Sale of Equipment	200	0.001%
	\$ 13,641,635	100.000%

- The District General Fund expenses were as follows (includes payments made by the State on behalf of the District for KTRS, health insurance, flexible spending, life insurance and state administrative fee \$2,524,879):

Instruction	\$ 7,452,330	54.604%
Student Support Services	479,758	3.515%
Instructional Staff Support	429,196	3.145%
District Admin Support	408,508	2.993%
School Admin Support	1,142,350	8.370%
Business Support Services	721,247	5.285%
Plant Operations & Maintenance	1,576,627	11.552%
Student Transportation	1,371,913	10.052%
Food Service Operations	5,301	0.039%
Community Service Activities	670	0.005%
Facilities Acquisition & Construction	876	0.006%
Debt Service	27,673	0.203%
Transfers	31,549	0.231%
	\$ 13,647,998	100.000%

- The District General Fund expenditures for salaries and benefits were \$8,979,575 excluding payments made by the State on behalf of the District. This amount represents 80.73% of the total District General Fund expenditures in FY13.
- The District received \$165,933 in state revenue for the Capital Outlay fund. The District used \$247,797 from Capital Outlay and an additional \$179,800 from the Building Fund to pay expenses normally paid from the General Fund as permitted by the Kentucky Department of Education Capital Funds Request process. Districts have been given flexibility in the use of Local District Capital Funds without forfeiting the district's eligibility to participate in the School Facilities Construction Commission. This will continue in the 2013-14 fiscal year as the District faces further financial challenges due to the lack of adequate State funding.
- The District received local revenues \$1,105,358 from property taxes and utility taxes in the Building Fund. In addition to the tax revenue, the District received \$547,804 from the State for FSPK and the Equalized Facility Funding Nickel. These funds were used to pay District debt service payments \$1,484,868 and plant operation costs as permitted by the Kentucky Department of Education Capital Funds Request process \$179,800.
- During the fiscal year the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self insurance provider for school districts in Kentucky. KSBIT has informed districts there is an unfunded liability that will be assessed. However, the exact amount of the assessment has not been determined.
- In an effort to reduce expenditures and maintain an adequate contingency, the District Board of Education revised the Staffing Formula which resulted in staff reductions for the 2012-13 fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

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

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

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

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8 and 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 32 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a governmental financial position. In the case of the District, assets exceeded liabilities by \$17.8 million 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.

Net Position for the period ending June 30, 2013 as compared to June 30, 2012:

	Net Position(in thousands)					
	Governmental Activities		Business Type Activities		Total	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Assets	\$ 38,809	\$ 39,947	\$ 392	\$ 500	\$ 39,201	\$ 40,447
Deferred Outflows of Resources	436	463	-	-	436	463
Liabilities	\$ 21,307	\$ 21,915	\$ -	\$ 3	\$ 21,307	\$ 21,918
Deferred Inflows of Resources	174	103	-	-	174	103
Net Assets						
Investment in Capital Assets (net of debt)	\$ 15,473	\$ 14,263	\$ 267	\$ 300	\$ 15,740	\$ 14,563
Restricted	1,016	3,105	125	197	1,141	3,302
Unrestricted	1,276	1,024	-	-	1,276	1,024
Total Net Position	\$ 17,765	\$ 18,392	\$ 392	\$ 497	\$ 18,157	\$ 18,889

Budgetary Implications

In Kentucky the public school fiscal year is July 1 – June 30: other programs, i.e. some federal operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum of 2 percent contingency. The district adopted a budget with \$569,892 in contingency, which is 4.6 percent.

Comments on Budget Comparisons

The original budget was amended to reflect changes in the site based allocations and anticipated revenues. The changes made were based on more accurate data being available after the first couple months of the fiscal year.

The District recorded “On-Behalf” payments as revenues and expenditures during the fiscal year. “On-Behalf” payments were not included in the budget. Therefore budget comparisons have some large negative variances. Caution should be used when reading the budget comparison reports.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2013 for selected funds.

	Changes in Net Position(in thousands)					
	Governmental		Business Type		Total	
	Activities		Activities			
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Revenues						
Local Revenue Sources	\$ 4,368	\$ 4,196	\$ 262	\$ 285	\$ 4,630	\$ 4,481
State Revenue Sources	11,420	12,015	132	82	11,552	12,097
Federal Revenue Sources	1,150	1,563	690	663	1,840	2,226
Investments	11	14	-	-	11	14
Total Revenues	<u>16,949</u>	<u>17,788</u>	<u>1,084</u>	<u>1,030</u>	<u>18,033</u>	<u>18,818</u>
Expenses						
Instruction	8,522	9,934			8,522	9,934
Support Support	747	588			747	588
Instructional Support	661	656			661	656
District Administration	409	366			409	366
School Administration	1,142	1,091			1,142	1,091
Business Support	753	537			753	537
Plant Operations	1,577	1,573			1,577	1,573
Student Transportation	1,372	1,140			1,372	1,140
Facilities Acquisition & Construction	1,429	1,068			1,429	1,068
Community Support	196	221			196	221
Food Service	5	4	1,190	1,036	1,195	1,040
Debt Service	1,834	1,692	-	-	1,834	1,692
Total Expenses	<u>18,647</u>	<u>18,870</u>	<u>1,190</u>	<u>1,036</u>	<u>19,837</u>	<u>19,906</u>
Capital Contribution	-	-	-	272	-	272
Bond/Capital Lease Proceeds	176	1,505	-	-	176	1,505
Change in Net Position	(1,522)	423	(106)	266	(1,628)	689
Beginning Net Position	<u>4,129</u>	<u>3,706</u>	<u>497</u>	<u>231</u>	<u>4,626</u>	<u>3,937</u>
Ending Net Position	<u>\$ 2,607</u>	<u>\$ 4,129</u>	<u>\$ 391</u>	<u>\$ 497</u>	<u>\$ 2,998</u>	<u>\$ 4,626</u>

The government’s overall financial position and results of operations improved as a result of the year’s operations as reflected in the increase in net position for the year.

INFRASTRUCTURE

The district has not reported any infrastructure in the current financial statements.

Analysis of Balances and Transactions of Individual Funds (in thousands)

Fund	<u>Beginning</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Transfers</u>	<u>Ending</u>
General Fund	\$ 1,251	\$ 13,211	\$ 13,616	\$ 399	\$ 1,245
Special Revenue	-	1,768	1,796	28	-
Capital Outlay	81	166	-	(247)	-
Building	434	1,655	-	(1,655)	-
Construction	2,363	3	1,428	-	938
Debt Service	-	321	1,806	1,485	-

Capital Assets & Long-Term Debt Activity (in thousands)

Governmental	<u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending</u>
Capital Assets	\$ 47,040	\$ 1,598	\$ (31)	\$ 48,607
Accumulated Depreciation	11,560	1,198	(31)	12,727
Business-Type				
Capital Assets	630	-	-	630
Accumulated Depreciation	330	34	-	364
Bonds Payable	21,490	-	(1,110)	20,380
Capital Leases Payable	187	176	(23)	340
Sick Leave Payable	144	-	(45)	99

CURRENT ISSUES

Employees will be given a “one step” increase in 2013-14. The step increase was frozen in 2012-13.

The Board of Education awarded a contract for construction for the MBMS Athletic Field project.

The Board of Education approved an emergency BG1 to install 3 HVAC units at Owen County Upper Elementary School using funds left over from BG 11-264.

The District hired a new treasurer, Kathy Faulkner.

Contacting the District’s Financial Management

This financial report is designed to provide to our citizens, taxpayers, investors, and creditors with a general overview of the Board’s finances and to reflect the Board’s accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent, Rob Stafford, or to the Treasurer, Kathy Faulkner, (502) 484-3934, or by mail at: Owen County School District, 1600 Highway 22 East, Owenton, Kentucky 40359.

Owen County School District
Statement of Net Position
District Wide
June 30, 2013

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and Cash Equivalents (Note D)	\$ 2,834,435	\$ 15,662	\$ 2,850,097
Accounts Receivable	97,505	64,392	161,897
Inventory		45,346	45,346
Capital Assets			
Land & Construction in Progress	2,851,546		2,851,546
Other Capital Assets, Net of Depreciation	<u>33,025,876</u>	<u>266,504</u>	<u>33,292,380</u>
Total Capital Assets	<u>35,877,422</u>	<u>266,504</u>	<u>36,143,926</u>
Total Assets	<u>\$ 38,809,362</u>	<u>\$ 391,904</u>	<u>\$ 39,201,266</u>
Deferred Outflows of Resources			
Bond Issuance Costs	<u>\$ 435,899</u>	<u>\$ -</u>	<u>\$ 435,899</u>
Liabilities			
Accounts Payable	\$ 26,494	\$ 509	\$ 27,003
Other Current Liabilities	12,053		12,053
Accrued Salaries and Benefits Payable	112,412		112,412
Interest Payable	120,241		120,241
KISBIT Liability	216,126		216,126
Long-Term Liabilities			
Due within 1 year	1,189,684		1,189,684
Due in more than 1 year	<u>19,629,697</u>		<u>19,629,697</u>
Total Liabilities	<u>21,306,707</u>	<u>509</u>	<u>21,307,216</u>
Deferred Inflows of Resources			
Deferred Revenue	173,956		173,956
Restricted			
Invested in Capital Assets, Net of Related Debt	15,472,790	266,504	15,739,294
Restricted:			
Inventories		45,346	45,346
Accrued Sick Leave	49,545		49,545
Food Service		79,545	79,545
SFCC	424,368		424,368
Future Construction Projects	937,934		937,934
Site Based Carryforward	28,301		28,301
Unrestricted	<u>851,660</u>		<u>851,660</u>
Total Net Position	<u>\$ 17,764,598</u>	<u>\$ 391,395</u>	<u>\$ 18,155,993</u>

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Activities
District Wide
For the Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Capital Grants & Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Governmental Activities:							
Instruction	\$ 9,208,575		1,042,183	\$	\$ (8,166,392)	\$	\$ (8,166,392)
Support Services:							
Student	750,325		267,731		(482,594)		(482,594)
Instruction Staff	663,946		231,482		(432,464)		(432,464)
District Administrative	572,978				(572,978)		(572,978)
School Administrative	1,148,341				(1,148,341)		(1,148,341)
Business	752,981		31,734		(721,247)		(721,247)
Plant Operation and Maintenance	1,622,037		-		(1,622,037)		(1,622,037)
Student Transportation	1,806,083		-		(1,806,083)		(1,806,083)
Central Office	5,301				(5,301)		(5,301)
Community Services	196,473		195,323		(1,150)		(1,150)
Facility Acquisition	876				(876)		(876)
Interest on Long-Term Debt	848,499			88,006	(760,493)		(760,493)
Total Governmental Activities	<u>17,576,415</u>	<u>-</u>	<u>1,768,453</u>	<u>88,006</u>	<u>(15,719,956)</u>	<u>-</u>	<u>(15,719,956)</u>
Business-Type Activities:							
Food Service	<u>1,190,053</u>	<u>262,449</u>	<u>821,515</u>			<u>(106,089)</u>	<u>(106,089)</u>
Total Business-Type Activities	<u>1,190,053</u>	<u>262,449</u>	<u>821,515</u>			<u>(106,089)</u>	<u>(106,089)</u>
Total Primary Government	<u>\$ 18,766,468</u>	<u>\$ 262,449</u>	<u>\$ 2,589,968</u>	<u>\$ 88,006</u>	<u>\$ (15,719,956)</u>	<u>\$ (106,089)</u>	<u>\$ (15,826,045)</u>
General Revenues:							
Taxes:							
Property Taxes					\$ 3,394,345	\$	\$ 3,394,345
Motor Vehicle Taxes					416,119		416,119
Utility Taxes					450,147		450,147
State and Formula Grants					10,804,350		10,804,350
Investment Earnings					11,071	350	11,421
Gain/Loss on Sale of Assets					200		200
Miscellaneous					16,231		16,231
Total General & Special					<u>15,092,463</u>	<u>350</u>	<u>15,092,813</u>
Change in Net Positions					(627,493)	(105,739)	(733,232)
Net Position - Beginning					<u>18,392,091</u>	<u>497,134</u>	<u>18,889,225</u>
Net Position - Ending					<u>\$ 17,764,598</u>	<u>\$ 391,395</u>	<u>\$ 18,155,993</u>

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Balance Sheet - Governmental Funds
June 30, 2013

	General Fund	Special Revenue	Building Fund	Construction Fund	Other Non-Major Governmental Funds	Totals Governmental Funds
Assets						
Cash & Cash Equivalents	\$ 1,333,786	\$ 120,083	\$ 424,368	\$ 944,145	\$ 12,053	\$ 2,834,435
Other Receivables	41,774	55,731	-		-	97,505
Total Assets	<u>\$ 1,375,560</u>	<u>\$ 175,814</u>	<u>\$ 424,368</u>	<u>\$ 944,145</u>	<u>\$ 12,053</u>	<u>\$ 2,931,940</u>
Liabilities						
Accounts Payable	\$ 18,425	\$ 1,858	\$ -	\$ 6,211	\$ -	\$ 26,494
Other Current Liabilities					12,053	12,053
Accrued Salaries & Benefits Pay	112,412					112,412
Total Liabilities	<u>130,837</u>	<u>1,858</u>	<u>-</u>	<u>6,211</u>	<u>12,053</u>	<u>150,959</u>
Deferred Inflows of Resources						
Deferred Revenue	<u>-</u>	<u>173,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,956</u>
Fund Balances						
Restricted						
Sick Leave Payable	49,545	-			-	49,545
Future Construction Projects				937,934		937,934
SFCC			424,368			424,368
Committed						
Site Based Carryforward	28,301					28,301
Unassigned	1,166,877	-	-		-	1,166,877
Total Fund Balances	<u>1,244,723</u>	<u>-</u>	<u>424,368</u>	<u>937,934</u>	<u>-</u>	<u>2,607,025</u>

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
 Reconciliation of the Balance Sheet -
 Governmental Funds to the Statement of Net Position
 June 30, 2013

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

Total Fund Balance - Fund Financial Statements \$ 2,607,025

Capital assets are not reported in this fund financial statement because
 they are recorded as current expenditures

Bond Issuance Costs 435,899

Capital assets are not reported in this fund financial statement because
 they are not current financial resources, but they are reported in the
 statement of net position

35,877,422

Certain liabilities are not reported in this fund financial statement because
 they are not due and payable, but they are presented in the statement of
 net position

Bonds Payable	(20,380,000)
Capital Leases Payable	(340,290)
KISBIT Liability	(216,126)
Accrued Interest on Bonds	(120,241)
Accumulated Sick Leave	<u>(99,091)</u>

Total Net Position - Governmental Activities \$ 17,764,598

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Revenues, Expenditures, & Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Special Revenue	Building Fund	Construction Fund	Other Non-Major Governmental Funds	Totals (Memorandum Only)
Revenues:						
From Local Sources:						
Property Taxes	\$ 2,739,134	\$	\$ 655,211	\$		\$ 3,394,345
Motor Vehicle Taxes	416,119					416,119
Utilities Tax			450,147			450,147
Earnings on Investments	6,372		2,105	2,323	271	11,071
Other Local Revenues	16,231	91,113				107,344
Intergovernmental - State	9,853,452	531,198	547,804	-	487,108	11,419,562
Intergovernmental - Indirect Federal	3,992	1,146,142				1,150,134
Total Revenues	<u>13,035,300</u>	<u>1,768,453</u>	<u>1,655,267</u>	<u>2,323</u>	<u>487,379</u>	<u>16,948,722</u>
Expenditures:						
Instruction	7,452,330	1,069,785				8,522,115
Support Services:						
Student	479,758	267,731				747,489
Instructional Staff	429,196	231,482				660,678
District Administration	408,508					408,508
School Administration	1,142,350					1,142,350
Business	721,247	31,734				752,981
Plant Operations and Maintenance	1,576,627	-				1,576,627
Student Transportation	1,371,913	-				1,371,913
Food Services	5,301					5,301
Community Service	670	195,323				195,993
Facilities Acquisition & Construction	876			1,427,885		1,428,761
Debt Service	27,673				1,806,043	1,833,716
Total Expenditures	<u>13,616,449</u>	<u>1,796,055</u>	<u>-</u>	<u>1,427,885</u>	<u>1,806,043</u>	<u>18,646,432</u>
Excess (Deficit) of Revenues						
Over Expenditures	<u>(581,149)</u>	<u>(27,602)</u>	<u>1,655,267</u>	<u>(1,425,562)</u>	<u>(1,318,664)</u>	<u>(1,697,710)</u>
Other Financing Sources (Uses):						
Proceeds from Capital Leases	175,592					175,592
Sale of Equipment	200				-	200
Operating Transfers In	430,543	31,549		57,839	1,484,868	2,004,799
Operating Transfers Out	<u>(31,549)</u>	<u>(3,947)</u>	<u>(1,664,667)</u>	<u>(57,839)</u>	<u>(246,797)</u>	<u>(2,004,799)</u>
Total Other Financing Sources(Uses)	<u>574,786</u>	<u>27,602</u>	<u>(1,664,667)</u>	<u>-</u>	<u>1,238,071</u>	<u>175,792</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(6,363)</u>	<u>-</u>	<u>(9,400)</u>	<u>(1,425,562)</u>	<u>(80,593)</u>	<u>(1,521,918)</u>
Fund Balance, July 1, 2012	1,251,086	-	433,768	2,363,496	80,593	4,128,943
Fund Balance, June 30, 2013	<u>\$ 1,244,723</u>	<u>\$ -</u>	<u>\$ 424,368</u>	<u>\$ 937,934</u>	<u>\$ -</u>	<u>\$ 2,607,025</u>

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
 Reconciliation of the Statement of Revenues, Expenditures, &
 Changes in Fund Balances of Governmental Funds
 To the District-Wide Statement of Activities
 For the Year Ended June 30, 2013

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

Total Net Change in Total Fund Balances - Governmental Funds \$ (1,521,918)

Capital outlays are reported as expenditures in this fund financial statement
 because they use current financial resources, but they are presented as
 assets in the statement of activities and depreciated over their
 estimated economic lives. The difference is the amount by which
 capital outlays exceeds depreciation expense this year

Depreciation Expense	(1,198,461)	
Capital Outlays	<u>1,598,479</u>	400,018

Bond issuance costs are expensed as incurred in the fund balance
 statement, but are amortized over the life of the bond in the
 statement of activities

Amortization Expense	(27,384)
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Bond proceeds provide current financial resources to governmental funds, but
 issuing debt increases long-term liabilities in the statement of net position.
 Repayment of bond principal is an expenditure in the governmental funds,
 but the repayment reduces long-term liabilities in the statement of net position

Repayment of Bond Principal	1,110,000
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Lease payments are recognized as expenditures of current financial resources
 in the fund financial statement, but are reductions of liabilities in the statement
 of financial position

Repayment of Capital Lease Principal	22,842
Proceeds from Capital Lease	(175,592)

Generally, expenditures recognized in this fund financial statement are limited
 to only those that use current financial resources, but expenses are
 recognized in the statement of activities when they are incurred.

Change in Accrued Interest	(120,241)
KISBIT Liability	(216,126)
Change in Sick Leave	<u>(99,092)</u>

Total Change in Net Position - Governmental Activities \$ (627,493)

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business Type Activities Enterprise Funds Food Service Fund
Assets	
Cash and Cash Equivalents	\$ 15,662
Accounts Receivable	64,392
Inventory	45,346
Capital Assets, Net of Depreciation	266,504
Total Assets	\$ 391,904
Liabilities	
Accounts Payable	\$ 509
Total Liabilities	\$ 509
Net Position	
Net Investment in Capital Assets	\$ 266,504
Nonspendable-Inventories	45,346
Restricted Net Position	79,545
Total Net Position	\$ 391,395

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Revenues, Expenses
And Changes in Net Position - Proprietary Funds
For the Year Ended June 30, 2013

	Business Type Activities Enterprise Funds Food Service Fund
Operating Revenues:	
Lunchroom sales	\$ 261,029
Other Revenues	1,420
Total Operating Revenues	262,449
Operating Expenses:	
Salaries and benefits	640,165
Contract Services	18,483
Materials and Supplies	496,514
Other Expenses	1,147
Depreciation Expense	33,744
Total Operating Expenses	1,190,053
Operating income (loss)	(927,604)
Non-Operating Revenues (Expenses)	
Federal Grants	636,720
Commodities Received	53,167
State grants	10,300
On-Behalf Payments	121,328
Interest income	350
Non-Operating Revenues (Expenses)	821,865
Decrease in Net Position	(105,739)
Net Position July 1, 2012	497,134
Net Position June 30, 2013	\$ 391,395

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2013

	Business Type Activities
	Enterprise Funds
	Food Service
	Fund
Cash Flow from Operating Activities	
Cash Received from Customers	\$ 262,540
Cash Paid to Employees, Including Benefits	(518,837)
Cash Paid to Suppliers	(453,341)
Net Cash Used by Operating Activities	(709,638)
Cash Flow from Noncapital Financing Activities	
Cash Received from Governmental Funding	582,628
Net Cash Provided from Capital and Related Financing Activities	582,628
Cash Flow from Capital and Related Financing Activities	
Interest Income	350
Net Cash Provided by Capital and Related Financing Activities	350
Increase In Cash & Cash Equivalents	(126,660)
Cash & Cash Equivalents, July 1, 2012	142,322
Cash & Cash Equivalents, June 30, 2013	\$ 15,662
Reconciliation of Operating Income(Loss) to Net Cash Provided by Operating Activities	
Operating Income(Loss)	\$ (927,604)
Adjustments To Reconcile Net Income To Cash Provided By Operating Activities:	
Changes In Assets & Liabilities:	
Depreciation	33,744
On-Behalf Payments	121,328
Commodities Used	53,167
Decrease in Accounts Payable	(1,996)
Decrease in Accounts Receivable	91
Decrease In Inventory	11,632
Net Cash Provided By Operating Activities:	(709,638)
Schedule of Non-Cash Financing Activities	
Donated Commodities	\$ 53,167
On-Behalf Payments	\$ 121,328

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Private Purposes Trust Funds	Agency Fund	Total
Assets			
Cash and Cash Equivalents	\$ 274,445	\$ 208,560	\$ 483,005
Total Assets	<u>\$ 274,445</u>	<u>\$ 208,560</u>	<u>\$ 483,005</u>
Liabilities & Net Position			
Restricted For Scholarships	\$ 274,445	\$	\$ 274,445
Due to Student Groups	-	208,560	208,560
Total Liabilities & Net Position	<u>\$ 274,445</u>	<u>\$ 208,560</u>	<u>\$ 483,005</u>

The notes to the basic financial statements are an integral part of this statement.

Owen County School District
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013

	Private Purpose Trust Funds
Additions	
Interest Income	\$ 786
Total Additions	786
Deductions	
Other	3,000
Total Deductions	3,000
Changes in Net Position	(2,214)
Net Position, July 1, 2012	276,659
Net Position, June 30, 2013	\$ 274,445

The notes to the basic financial statements are an integral part of this statement.

Note A – Summary Of Significant Accounting Policies

Reporting Entity

The Owen County School District (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Owen 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 by GASB pronouncements. 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 Owen County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Owen County School District Finance Corporation

In a prior year the Board of Education resolved to authorize the establishment of the Owen County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors. In accordance with GASB Standard 14, financial transactions of this component unit are incorporated in accompanying financial statements.

Basis of Presentation

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

The district-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 district-wide statements and the statements for governmental funds.

The district-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.

Note A – Summary Of Significant Accounting Policies (Continued)

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

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the 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.
- (B) The Special Revenue (Grant) Funds account 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 are 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. This is a major fund of the District.
- (C) Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years are reported in debt service funds.

III. Proprietary Fund Types (Enterprise Fund)

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

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

Note A – Summary Of Significant Accounting Policies (Continued)

IV. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

V. Permanent Funds

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry.

Basis of Accounting

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

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. 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 resource 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 it 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 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. Unused donated commodities are reported as deferred revenue.

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.

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2013, to finance operations were \$0.587 per \$100 valuation for real property, \$0.587 per \$100 valuation for business personal property and \$0.560 per \$100 valuation for motor vehicles.

The district levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the district, of telephonic and telegraphic communication services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Note A – Summary Of Significant Accounting Policies (Continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-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 their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets 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:

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

Fund Balance Classification Policies and Procedures

The Board intends that accounting practices follow state and federal laws and regulations and generally accepted accounting policies.

Nonspendable Fund Balance

Amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact will be classified as Nonspendable Fund Balance.

Restricted Fund Balance

Fund Balance will be reported as restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors, grantors, contributors, or laws or regulations or other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The Board will use unrestricted amounts before restricted amounts when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available.

Committed Fund Balance

Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education will be reported as committed fund balance.

Assigned Fund Balance

Amounts that have been assigned for specific purposes by formal resolution of the Board of Education will be reported as assigned fund balance for a specific purpose.

Unassigned Fund Balance

Unassigned Fund Balance is the residual classification for the general fund.

Interfund Balances

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

Note A – Summary Of Significant Accounting Policies (Continued)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive a calculated amount of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

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

Inventories

On district-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2013 are recorded as prepaid items using the consumption method. Prepaid assets are only recorded if material to the financial statements.

Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered

Note A – Summary Of Significant Accounting Policies (Continued)

Accrued Liabilities and Long-Term Obligations (Continued)

to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

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

Contributions of Capital

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

Interfund Activity

Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Uses of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles in the United States of America requires the District's 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.

Encumbrances

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

Note B – Property Tax Calendar

Property taxes for fiscal year 2013 were levied on the assessed valuation of property located in the School District as of the January 1, 2012 lien date. The due date and collection periods for all taxes exclusive of vehicle taxes are as follows:

Description	Per KRS 134.020
Due date for payment of taxes	Upon receipt
Face value amount payment date	December 31
Delinquent date, 10% penalty	January 1

Vehicle taxes are collected by the County Clerk and are due and collected in the birth month of the vehicle's licensee.

Note C – Cash and Cash Equivalents

At year-end, the carrying amount of the District’s total cash and cash equivalents was \$1,839,878. The District also had an investment account in the amount of \$710,288 which was to be used in Construction. The investment account is also considered cash and cash equivalent but has been presented as “Investments.” Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Book Balance</u>
General Checking Account	
General Fund	1,333,786
Fund 2	120,083
Fund 310	-
Fund 320	424,368
Fund 360	944,145
Fund 51	<u>15,662</u>
Total General Checking Account	<u>2,838,044</u>
Activity & Trust Funds	208,560
Private Purposes Trust Funds	274,445
Debt Service Funds	<u>12,053</u>
Total	<u>\$ 3,333,102</u>
Breakdown per financial statements:	
Governmental Funds	2,834,435
Proprietary Funds	15,662
Private Purpose Trust Funds	274,445
Agency Funds	<u>208,560</u>
Total	<u>\$ 3,333,102</u>

Note D – Capital Assets

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

Governmental Activities	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013
Land	\$ 1,792,488	\$ -	\$ -	\$ 1,792,488
Buildings and Improvements	40,357,644			40,357,644
Technology Equipment	1,279,983		(31,281)	1,248,702
Vehicles	2,356,843	170,593		2,527,436
General Equipment	289,786			289,786
Construction In Progress	963,416	1,427,886	-	2,391,302
Totals At Historical Cost	<u>47,040,160</u>	<u>1,598,479</u>	<u>(31,281)</u>	<u>48,607,358</u>
Less: Accumulated Depreciation				
Buildings and Improvements	9,082,266	863,958		9,946,224
Technology Equipment	645,972	181,454	(31,281)	796,145
Vehicles	1,636,502	138,758		1,775,260
General Equipment	198,016	14,291	-	212,307
Total Accumulated Depreciation	<u>11,562,756</u>	<u>1,198,461</u>	<u>(31,281)</u>	<u>12,729,936</u>
Governmental Activities Capital Assets-Net	<u>\$ 35,477,404</u>	<u>\$ 400,018</u>	<u>\$ -</u>	<u>\$ 35,877,422</u>
Business-Type Activities				
Food Service and Equipment	623,302			623,302
Technology Equipment	7,265	-	-	7,265
Totals at Historical Cost	<u>630,567</u>	<u>-</u>	<u>-</u>	<u>630,567</u>
Less: Accumulated Depreciation				
Food Service and Equipment	323,054	33,744		356,798
Technology Equipment	7,265	-	-	7,265
Total Accumulated Depreciation	<u>330,319</u>	<u>33,744</u>	<u>-</u>	<u>364,063</u>
Business-Type Activities Capital Assets-Net	<u>\$ 300,248</u>	<u>\$ (33,744)</u>	<u>\$ -</u>	<u>\$ 266,504</u>

Note D – Capital Assets (continued)

Depreciation expense was charged to functions of the governmental activities as follows:

Instruction	\$ 371,243
Support Services	
Student	2,836
Instruction Staff	3,268
District Administrative	164,470
School Administrative	5,991
Plant Operation and Maintenance	45,410
Student Transportation	604,763
Community Services	480
	<u>\$ 1,198,461</u>

Note E – Bonded Debt and Lease Obligations

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Owen County School District Finance Corporation, with original amounts of issue totaling \$24,080,000.

Issue	Original Principal Amount	Interest Rates	Principal Outstanding at 06/30/13	Maturity Date
Series of January 31, 2012	1,545,000	1.73% - 3.25%	1,425,000	02/01/32
Series of August 8, 2010	6,460,000	1.00% - 1.40%	\$ 4,805,000	04/01/21
Series of May 28, 2009	15,720,000	2.00% - 4.00%	14,080,000	05/01/29
Series of March 1, 2003	355,000	2.00% - 2.90%	70,000	09/01/14
	<u>\$ 24,080,000</u>		<u>\$ 20,380,000</u>	

The General Fund, including utility taxes, the Facility Support Program Fund and the SEEK Capital Outlay Fund are obligated to make lease payments. The lease agreements provide, among other things, (1) for rentals sufficient to satisfy debt service requirements on bonds issued by the Owen County School District Finance Corporation, and Kentucky School Facility Construction Commission (KSFCC) to construct school facilities, and (2) the District with the option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The following is a summary of the District's long-term debt transactions for the year ended.

	Beginning Balance	Additions	Reductions	Ending Balance
Bonds	\$ 21,490,000	\$ -	\$ 1,110,000	\$ 20,380,000
Capital Leases	187,540	175,592	22,842	340,290
Sick Leave	143,834		44,743	99,091

Note E – Bonded Debt and Lease Obligations(continued):

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

Year	Owen County School District		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2014	\$ 892,087	\$ 591,432	\$ 237,913	\$ 83,264	\$ 1,804,696
2015	908,240	572,555	236,760	78,226	1,795,781
2016	930,446	552,748	224,554	73,262	1,781,010
2017	950,436	531,178	229,564	68,252	1,779,430
2018	975,110	508,411	234,890	62,924	1,781,335
2019	999,441	484,354	240,559	57,257	1,781,611
2020	1,027,861	456,160	247,139	50,677	1,781,837
2021	1,062,071	422,692	252,929	42,888	1,780,580
2022	1,093,866	388,090	96,134	34,902	1,612,992
2023	1,140,304	345,240	99,696	31,343	1,616,583
2024	1,181,610	300,696	103,390	27,647	1,613,343
2025	1,232,772	254,407	107,228	23,810	1,618,217
2026	1,212,190	206,235	107,810	19,828	1,546,063
2027	1,263,478	157,748	111,522	15,627	1,548,375
2028	1,314,617	107,209	115,383	11,278	1,548,487
2029	1,365,602	54,624	124,398	6,776	1,551,400
2030	-	-	20,000	1,950	21,950
2031	-	-	20,000	1,300	21,300
2032	-	-	20,000	650	20,650
	<u>\$ 17,550,131</u>	<u>\$ 5,933,779</u>	<u>\$ 2,829,869</u>	<u>\$ 691,861</u>	<u>\$ 27,005,640</u>

Note F – Capital Lease Payable

The following is an analysis of the leased property under capital lease by class:

<u>Class of Property</u>	<u>Book Value as of June 30, 2013</u>
Buses & Equipment	\$336,735

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2013:

<u>Year Ending</u>	<u>Capital Lease Payable</u>
2014	\$47,626
2015	47,305
2016	43,639
2017	43,208
2018	43,819
Thereafter	156,476
Total minimum lease payments	382,073
Less: Amount representing interest	(41,783)
Present Value of Net Minimum Lease Payments	<u>\$340,290</u>

Note G – Commitments Under Noncapitalized Leases

The District had no commitments under operating lease agreements as of June 30, 2013.

Note H – Retirement Plans

Plan Description – The Owen County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer, defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRA occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statute (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 10.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members who started their accounts after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions.

Medical Insurance Plan

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

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

Funding Policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at 0.75% of members’ gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan and description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.0% of members’ salary for the 2012-13 fiscal year.

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System (“CERS”), a cost sharing, multiple-employer, public employer’s retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 19.55% of the employee’s total compensation subject to contribution. Employees hired after September 1, 2008 have a 1% increase on the employee and employer portion of withholdings.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents. The following are payroll and retirement amounts for the years ending June 30, 2013, 2012, and 2011.

	2013	2012	2011
Total Payroll	\$ 9,636,581	\$ 10,460,522	\$ 10,577,335
KTRS Total Payroll	7,015,815	7,706,528	7,805,353
CERS Total Payroll	2,459,042	2,561,075	2,560,157
Contribution Requirement for CERS	606,139	613,983	5,646,259
District Portion - CERS Portion	480,742	485,684	433,431
Employee Contribution - CERS Contribution	125,397	128,299	131,198
KTRS Contribution - Commonwealth Contribution	868,981	938,758	899,413
KTRS Contribution - District Federal			
Employees	134,492	117,612	123,479

Note H – Retirement Plans (continued)

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

Note I – Contingencies

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's 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.

Note J - Litigation

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

Note K – Insurance and Related Activities

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

Note L – Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the district an amount equal to 30% of the value of accumulated sick leave. At June 30, 2013, this amount totaled \$99,091 of which \$49,545 is restricted in the current year fund balance of the General Fund.

Note M – Interfund Receivables and Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
None		

Note N – Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District purchases various insurance policies.

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.

Note O – Deficit Operating Balances

Funds with a current deficit of revenues over expenditures:

Fund 1	(6,363)
Fund 310	(80,593)
Fund 320	(9,400)
Fund 360	(1,425,562)

Note P - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss. The District notifies the Department of Employee Insurance (DEI) when an employee is no longer employed. DEI send the employee the COBRA requirements.

Note Q – Transfer of Funds

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	1	2	KETS Matching	\$ 31,549
Indirect Cost	2	1	Indirect Cost	3,947
Operating	310	1	COFT	246,797
Operating	320	1	BFFT	179,800
Debt Service	320	400	Bond Payment	1,484,868
Construction	360	360	Between Projects	57,839

Note R – On-Behalf Payments

The financial statements include payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational and retirement benefits. The following amounts are included in each of the functions:

Instruction	\$ 1,629,774
Student Services	
Student	102,846
Instructional Staff	71,658
District Administration	40,519
School Administration	210,716
Business	99,839
Plant Operations & Maintenance	154,218
Student Transportation	161,336
Food Service	121,328
Total	<u>\$ 2,592,234</u>
Technology On-Behalf Payments	<u>\$ 53,974</u>
Debt Service On-Behalf Payments	<u>\$ 321,175</u>

Note S – KSBIT Assessment

During the fiscal year, the District was notified the Kentucky School Board Insurance Trust (KSBIT) would be dissolving as the self-insurance provider for school districts in Kentucky. KSBIT has informed Districts there is an unfunded liability that will be assessed. The exact amount of the assessment has not been determined. The District has shown a liability of \$216,126 based on the “Novation” calculated by KSBIT.

Note T – GASB 68

In March 2009, the Governmental Accounting Standards Board (GASB) approved Statement No. 68, Accounting and Financial Reporting for Pensions. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The provisions of the statement must be implemented by the District no later than the fiscal year beginning July 1, 2014.

Note U – Subsequent Events

Subsequent events have been evaluated through October 25, 2013, which is the date the financial statements were available to be issued.

Supplementary Information

Owen County School District
 Budgetary Comparison Schedule For the General Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Favorable
	Original	Final		(Unfavorable)
Revenues				
Taxes	\$ 2,981,319	\$ 3,088,554	\$ 3,155,253	\$ 66,699
Other Local Revenues	12,750	13,950	22,603	8,653
State Sources	7,365,317	7,258,873	9,853,452	2,594,579
Federal Sources	9,000	7,000	3,992	(3,008)
Total Revenues	<u>10,368,386</u>	<u>10,368,377</u>	<u>13,035,300</u>	<u>2,666,923</u>
Expenditures:				
Instruction	5,701,044	5,883,617	7,452,330	(1,568,713)
Support Services:				
Student	469,676	385,103	479,758	(94,655)
Instructional Staff	332,672	380,689	429,196	(48,507)
District Administration	345,123	399,378	408,508	(9,130)
School Administration	884,642	895,574	1,142,350	(246,776)
Business	442,784	617,458	721,247	(103,789)
Plant Operations and Maintenance	1,584,078	1,577,339	1,576,627	712
Student Transportation	1,185,815	1,096,064	1,371,913	(275,849)
Food Services	5,138	5,138	5,301	(163)
Community Service	-	-	670	(670)
Facilities Acquisition & Construction	-	-	876	(876)
Contingency	506,847	569,892	-	569,892
Debt Service	-	54,673	27,673	27,000
Total Expenditures	<u>11,457,819</u>	<u>11,864,925</u>	<u>13,616,449</u>	<u>(1,751,524)</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(1,089,433)</u>	<u>(1,496,548)</u>	<u>(581,149)</u>	<u>915,399</u>
Other Financing Sources (Uses):				
Proceeds from Capital Leases	-	-	175,592	175,592
Proceeds from Sale of Assets	1,000	1,000	200	(800)
Operating Transfers In	297,433	426,295	430,543	4,248
Operating Transfers Out	(45,000)	(38,000)	(31,549)	6,451
Total Other Financing Sources(Uses)	<u>253,433</u>	<u>389,295</u>	<u>574,786</u>	<u>185,491</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(836,000)	(1,107,253)	(6,363)	1,100,890
Fund Balance, July 1, 2012	836,000	1,107,253	1,251,086	143,833
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,244,723</u>	<u>\$ 1,244,723</u>

On-Behalf Payments are not budgeted. Both revenues and expenditures are equally increased by the amount of on-behalf payments totaling \$2,524,879.

Owen County School District
 Budgetary Comparison Schedule For the Special Revenue
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
Revenues				
State Sources	\$ 639,384	\$ 582,210	\$ 531,198	\$ (51,012)
Federal Sources	1,019,163	1,172,911	1,146,142	(26,769)
Local Sources	\$ -	\$ 41,031	\$ 91,113	\$ 50,082
Total Revenues	<u>1,658,547</u>	<u>1,796,152</u>	<u>1,768,453</u>	<u>(27,699)</u>
Expenditures:				
Instruction	930,878	1,037,965	1,069,785	(31,820)
Support Services:				
Student	179,000	245,436	267,731	(22,295)
Instructional Staff	350,722	320,133	231,482	88,651
Business	49,440	35,440	31,734	3,706
Plant Operations and Maintenance	3,000	-	-	-
Community Service	<u>186,774</u>	<u>191,445</u>	<u>195,323</u>	<u>(3,878)</u>
Total Expenditures	<u>1,699,814</u>	<u>1,830,419</u>	<u>1,796,055</u>	<u>34,364</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(41,267)</u>	<u>(34,267)</u>	<u>(27,602)</u>	<u>6,665</u>
Other Financing Sources (Uses):				
Operating Transfers In	45,000	38,000	31,549	(6,451)
Operating Transfers Out	<u>(3,733)</u>	<u>(3,733)</u>	<u>(3,947)</u>	<u>(214)</u>
Total Other Financing Sources(Uses)	<u>41,267</u>	<u>34,267</u>	<u>27,602</u>	<u>(6,665)</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	-	-
Restricted Fund Balance, July 1, 2012	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Restricted Fund Balance, June 30, 2013	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

Owen County School District
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2013

	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets & Resources			
Cash & Cash Equivalents	\$ -	\$ 12,053	\$ 12,053
Total Assets & Resources	<u>\$ -</u>	<u>\$ 12,053</u>	<u>\$ 12,053</u>
 Liabilities			
Other Current Liabilities	\$ -	\$ 12,053	\$ -
Total Liabilities	<u>-</u>	<u>12,053</u>	<u>-</u>
 Fund Balances			
Restricted	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities & Fund Balances	<u>\$ -</u>	<u>\$ 12,053</u>	<u>\$ -</u>

Owen County School District
Combining Statement of Revenues, Expenditures,
And Changes in Fund Balances - Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>SEEK Capital Outlay Revenue</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Fund</u>
Revenues:			
From Local Sources:			
Earnings on Investments	\$ 271	\$ -	\$ 271
Intergovernmental - State	165,933	321,175	487,108
Total Revenues	<u>166,204</u>	<u>321,175</u>	<u>487,379</u>
 Expenditures:			
Debt Service	<u>-</u>	<u>1,806,043</u>	<u>1,806,043</u>
Total Expenditures	<u>-</u>	<u>1,806,043</u>	<u>1,806,043</u>
 Excess(Deficit) of Revenues Over Expenditures	<u>166,204</u>	<u>(1,484,868)</u>	<u>(1,318,664)</u>
 Other Financing Sources (Uses):			
Operating Transfers In	-	1,484,868	1,484,868
Operating Transfers Out	<u>(246,797)</u>	<u>-</u>	<u>(246,797)</u>
Total Other Financing Sources(Uses)	<u>(246,797)</u>	<u>1,484,868</u>	<u>1,238,071</u>
 Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(80,593)	-	(80,593)
 Fund Balance, July 1, 2012	<u>80,593</u>	<u>-</u>	<u>80,593</u>
 Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Owen County School District
Combining Statement of Fiduciary Net Position
School Activity Funds
June 30, 2013

	Owen County High School	Maurice Bowling Middle School	Owen County Elementary School	Owen Primary School	Total
Assets					
Cash & Cash Equivalents	\$ 99,732	\$ 63,313	\$ 16,202	\$29,313	\$ 208,560
Total Assets	<u>\$ 99,732</u>	<u>\$ 63,313</u>	<u>\$ 16,202</u>	<u>\$29,313</u>	<u>\$ 208,560</u>
Liabilities					
Due to Student Groups	\$ 99,732	\$ 63,313	\$ 16,202	\$29,313	\$ 208,560
Total Liabilities	<u>\$ 99,732</u>	<u>\$ 63,313</u>	<u>\$ 16,202</u>	<u>\$29,313</u>	<u>\$ 208,560</u>

Owen County School District
Combining Statement of Fiduciary Receipts & Disbursements
School Activity Funds
For the Year Ended June 30, 2013

School	Cash Balances July 1, 2012	Receipts	Disbursements	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Due to Student Groups June 30, 2013
Owen County High School	\$ 137,466	\$ 358,154	\$ 395,888	\$ 99,732	\$ -	\$ -	\$ 99,732
Middle School	62,625	130,074	129,386	63,313	-	-	63,313
Elementary	22,268	30,694	36,760	16,202			16,202
Primary	26,859	65,102	62,648	29,313	\$	\$	29,313
Total	<u>\$ 249,218</u>	<u>\$ 584,024</u>	<u>\$ 624,682</u>	<u>\$ 208,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 208,560</u>

Owen County School District
Combining Statement of Fiduciary Receipts & Disbursements
Owen County High School Activity Funds
For the Year Ended June 30, 2013

Accounts	Cash Balances July 1, 2012	Receipts	Disbursements	Transfers	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Athletics Director	\$ 3,629	\$ 49,973	\$ 37,662	\$ (13,142)	\$ 2,798	\$ -	\$ -	\$ 2,798
Concessions	-	24,301	13,549	(10,752)	-			-
Football	6,882	15	9,379	5,310	2,828			2,828
Boys Basketball	5,391	15,610	18,671	2,686	5,016			5,016
Girls Basketball	6,684	7,801	14,901	2,493	2,077			2,077
Baseball	3,765	14,399	18,020	967	1,111			1,111
Softball	6,607	12,670	16,492	346	3,131			3,131
Veteran's Program Fund	15	-	318	453	150			150
Boys Soccer	4,857	2,276	3,475	1,359	5,017			5,017
Girls Soccer	1,741	1,901	3,420	24	246			246
Boys Golf	902	300	1,027	876	1,051			1,051
Girls Golf	184	6,150	6,420	550	464			464
Varsity Cheerleaders	433	19,119	18,318	1,456	2,690			2,690
BEKA Memorial Scholarship Fu	290	50	-	200	540			540
Cross Country	551	1,344	1,710	1,084	1,269			1,269
Track	1,694	1,141	2,334	576	1,077			1,077
Volleyball	91	18,153	21,095	2,896	45			45
Yearbook	13,426	16,571	22,527	576	8,046			8,046
Art Club	465	893	1,062	-	296			296
Band	3,008	19,951	23,134	175	-			-
Beta Club	1,047	550	403	(32)	1,162			1,162
FBLA	-	1,870	2,315	445	-			-
FCA	24	513	446	-	91			91
FEA	193	694	635	-	252			252
FFA	1,413	14,798	15,398	1,288	2,101			2,101
FHA/FCCLA	197	348	638	93	-			-
Foreign Language	38	-	-	-	38			38
Industrial Arts	742	16,559	18,912	2,441	830			830
Science Club	767	2,009	2,541	32	267			267
National Honor Society	1,225	437	1,128	(343)	191			191
O Club	287	1,230	1,450	-	67			67
SADD	612	10	-	-	622			622
Student Council	1,264	887	869	-	1,282			1,282
Upward Bound	-	8,187	8,487	300	-			-
Judo Club	89	3,404	3,733	1,064	824			824
"Y" Club	-	3,905	3,905	-	-			-
Chess Club	-	49	-	6	55			55
Senior Class	869	4,550	7,737	4,540	2,222			2,222
Junior Class	2,376	8,479	6,812	(4,043)	-			-
Sophomore Class	264	410	241	(40)	393			393
Freshman Class	193	2,159	1,785	(143)	424			424
Tech Ed	825	670	1,537	1,100	1,058			1,058
Math Department	919	465	77	-	1,307			1,307
Ag Class	149	350	564	65	-			-
Banking & Finance	1,777	1,040	1,978	(157)	682			682
Business Classes	-	818	818	-	-			-
Comm. Based Int.	123	-	-	(123)	-			-
Drama Club	4,818	802	1,816	35	3,839			3,839
English	988	-	222	-	766			766
Charitable Gaming Account	-	1,208	250	(958)	-			-
Webster-Supplies	897	3,844	4,466	1,033	1,308			1,308
PE Fees	288	-	-	-	288			288
Special Education	12	-	-	(12)	-			-

Owen County School District
Combining Statement of Fiduciary Receipts & Disbursements
Owen County High School Activity Funds
For the Year Ended June 30, 2013

Accounts	Cash Balances July 1, 2012	Receipts	Disbursements	Transfers	Cash Balances June 30, 2013	Accounts Receivable June 30, 2013	Accounts Payable June 30, 2013	Fund Balances June 30, 2013
Student Body	1,303	5,839	5,120	17,473	19,495			19,495
Student Fees	8,995	10,938	17,092	(384)	2,457			2,457
Student Rewards	19,274	318	2,016	(17,576)	-			-
Student Trips	1,045	-	828	(217)	-			-
Peps/Teacher	761	1,859	788	(51)	1,781			1,781
Guidance	1,920	11,441	12,045	-	1,316			1,316
Media Center	500	1,953	1,972	46	527			527
STLP	3,059	4,280	5,267	(212)	1,860			1,860
STEP	2,429	1,304	1,623	1,137	3,247			3,247
Landscape Fund	30	-	-	(30)	-			-
Café Rebel	2,403	15,758	14,120	(3,680)	361			361
YSC	238	1,070	296	(80)	932			932
Fellowship of Christian Hunter	282	-	-	(282)	-			-
Outdoor Adventure	90	100	60	-	130			130
Scholarship Fund	3,662	32	1,020	-	2,674			2,674
USDA Grant Greenhouse	8,239	10,329	10,659	(880)	7,029			7,029
Future Nurses	223	70	305	12	-			-
Due to Student Body	2	-	-	-	2	-	-	2
	<u>\$ 137,466</u>	<u>\$ 358,154</u>	<u>\$ 395,888</u>	<u>\$ -</u>	<u>\$ 99,732</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,732</u>

Owen County School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Passed-Through Grantor Program or Cluster Title	CFDA Number	Pass-Through Number	Disbursements
U.S. Department of Agriculture			
Passed through the Kentucky Department of Education			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002 12	84,162
National School Lunch Program	10.555	7750002 13	397,278
School Breakfast Program	10.553	7760005 12	25,546
School Breakfast Program	10.553	7760005 13	<u>129,734</u>
Subtotal Child Nutrition Cluster			<u>636,720</u>
Commodities	10.555	510 4950	<u>53,167</u>
Total U.S. Department of Agriculture			<u>689,887</u>
 U.S. Department of Education			
Passed through Kentucky Department of Education			
Improving America's School Act of 1994			
Title I, Part A Cluster			
Title I, Grants to Local Educational Agencies	84.010	3100002 11	66,895
Title I, Grants to Local Educational Agencies	84.010	3100002 12	<u>381,543</u>
		Subtotal	<u>448,438</u>
Special Education Cluster(IDEA)			
Special Education - Grants to States(IDEA, Part B)	84.027	3810002 11	13,341
Special Education - Grants to States(IDEA, Part B)	84.027	3810002 12	342,336
Special Education - Preschool Grants (IDEA, Preschool)	84.173	3800002 12	579
Special Education - Preschool Grants (IDEA, Preschool)	84.173	3800002 11	<u>6,000</u>
		Subtotal	<u>362,256</u>
 Edujobs	 84.410	 EJOB00	 <u>3,009</u>
 Race to the Top	 84.413A	 3960002 11	 <u>9,150</u>
 Title VI Rural Education	 84.358	 3140002 11	 3,987
Title VI Rural Education	84.358	3140002 12	<u>25,764</u>
		Subtotal	<u>29,751</u>
 Career and Technical Education - Basic Grants to States			
Perkins	84.048	4621232 12	589
Perkins	84.048	4621132 13	<u>14,199</u>
		Subtotal	<u>14,788</u>
 21st Century Community Learning Centers	 84.287	 3400002 10	 2,754
21st Century Community Learning Centers	84.287	3400002 11	35,631
21st Century Community Learning Centers	84.287	3400002 12	<u>29,277</u>
		Subtotal	<u>67,662</u>

Owen County School District
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/Passed-Through Grantor Program or Cluster Title	CFDA Number	Pass-Through Number	Disbursements
English Language Acquisition Grants	84.365	3300002 10	1,936
English Language Acquisition Grants	84.365	3300002 11	5,983
		Subtotal	<u>7,919</u>
National Assessment of Educational Progress	84.902B	9000001 89	<u>120,710</u>
Improving Teacher Quality State Grant	84.367	3230002 11	12,343
Improving Teacher Quality State Grant	84.367	3230002 12	60,246
		Subtotal	<u>72,589</u>
Passed Through Worforce Development			
Adult Education, Community Based Work Transition	84.002	3681	2
Adult Education, Community Based Work Transition	84.002	3713	9,817
Adult Education, Community Based Work Transition	84.002	3732	51
		Subtotal	<u>9,870</u>
Total U.S. Department of Education			<u>1,146,142</u>
Total Federal Financial Awards			<u>\$ 1,836,029</u>

Note 1 – Basis Of Presentation

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

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures for prior years. Pass-through entity identifying numbers are presented where available.

Note 3 – Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities disbursed, totaling \$53,167.

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None Reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiencies identified that are not considered to be material weakness(es)? None Reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
10.555	Child Nutrition Cluster
84.027/84.173	IDEA Cluster

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

Auditee qualified as low-risk auditee? No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

There were no prior year audit findings.

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*

Owen County Board of Education
Owenton, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America the financial statements and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States and with the audit requirements prescribed by the Kentucky State Committee for School District audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III of the Independent Auditor's Contract – Audit Extension Request*, *Appendix IV of the Independent Auditor's Contract - Instructions for Completion and Electronic Submission of Audit Report* the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Owen County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 25, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness on 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.

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

Compliance and Other Matters

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

In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

We noted certain matters that we reported to the Board, in a separate letter dated October 25, 2013.

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.

Charles T. Mitchell Co.

Frankfort, Kentucky
October 25, 2013

Independent Auditor's Report On Compliance With Requirements
That Could Have A Direct And Material Effect On Each Major Program
And Internal Control Over Compliance In Accordance With OMB Circular A-133

Members of the Board of Education
Owen County School District
Owenton, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Owen County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. Owen County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and with the audit requirements prescribed by the Kentucky State Committee for School District audits in *Appendix I to the Independent Auditor's Contract - General Audit Requirements*, and *Appendix II to the Independent Auditor's Contract - State Audit Requirements*, *Appendix III of the Independent Auditor's Contract - Audit Extension Request*, *Appendix IV of the Independent Auditor's Contract - Instructions for Completion and Electronic Submission of Audit Report*. 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 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

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

Report on Internal Control Over Compliance

Management of Owen County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Owen County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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* 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 suitable for any other purpose.

Charles T. Mitchell Co.

Frankfort, Kentucky
October 25, 2013

Owen County Board of Education
1600 Highway 22 East
Owenton, Kentucky 40050

Recommendations and Comments to Management

In planning and performing our audit, we considered Owen County School District's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Owen County School District's internal control over financial reporting.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 25, 2013. This letter does not affect our report dated October 25, 2013, on the financial statements of the Owen County School District. The conditions observed are as follows:

Statement of Condition: Certain transactions of the District do not require purchase orders due to the nature of the expense (e.g. referees for sports games, utilities, payroll taxes).

Criteria for Condition: Purchase orders should be issued for each transaction unless policies are in place not requiring purchases to be issued.

Cause of the Condition: During testing we noted certain invoices at the activity fund level that were paid did not have purchase orders that may have required a purchase order to be issued.

Effect of the Condition: Transactions may be performed and purchase orders may not be issued.

Recommendation for Correction: Policies should be reviewed and amended to indicate which transactions require purchase orders to be prepared.

Management's Response:

The administration and finance office will review which transactions require purchase orders to be prepared and submit to board members a recommended policy change.

Follow-Up On Prior Year Recommendations:

1) During testing for payroll we noted that some employees had not properly documented their time and effort for certain grants. We recommend that proper levels of supervision review effort and coding for those employees that may be partially funded by grants.

Follow up: Corrected.

2) During testing for food service, it was noted that the 3% verification testing was performed by the staff of food service but not properly reviewed and approved. Our testing concluded that the verification proved individuals were

included or denied per eligibility but that most of the sample had not been reviewed and approved by management. We recommend management review and approve each verification in the sample upon receipt.

Follow up: Corrected.

3) Certain transactions of the Board do not require purchase orders due to the nature of the expense (e.g. referees for sports games, utilities, payroll taxes). However, during testing we noted certain invoices at the activity fund level that were paid did not have purchase orders that maybe should have. We recommend that the Board review their purchase order policies and ensure that personnel abide by the policies of the District and that proper signatures are required and signed before payment of invoice.

Follow up: Repeated.

We have enjoyed working with the management and staff of the Owen County School District and look forward to a continuing, mutually productive relationship. Please call us if you have any questions concerning this letter or if we can be of any other assistance.

Respectfully submitted:

Charles T. Mitchell Co.

Frankfort, Kentucky

October 25, 2013