

Owensboro Independent School District

Independent Auditors' Report on Basic Financial Statements and
Supplementary Information
For the fiscal year ended June 30, 2013

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INDEPENDENT AUDITORS' REPORT

Dr. Nicholas Brake, Superintendent and
Members of the Board of Education
Owensboro Independent School District
Owensboro, Kentucky

Report on 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 Owensboro Independent School District as of and for the year ended June 30, 2013, 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, maintenance, and implementation of internal control relevant to the fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplemental 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 to 18 and page 47 to 48, respectively, be presented to supplement the basic financial statements, and 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 supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods preparation of the supplemental information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information:

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to auditing procedures applied in our audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare 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 information is fairly stated in all material aspects in relation to the 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 14, 2013 on our consideration of the Owensboro Independent School District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Owensboro Independent School District's internal control over financial reporting and compliance.



Owensboro, Kentucky
October 14, 2013

**OWENSBORO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)
Year ended June 30, 2013**

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

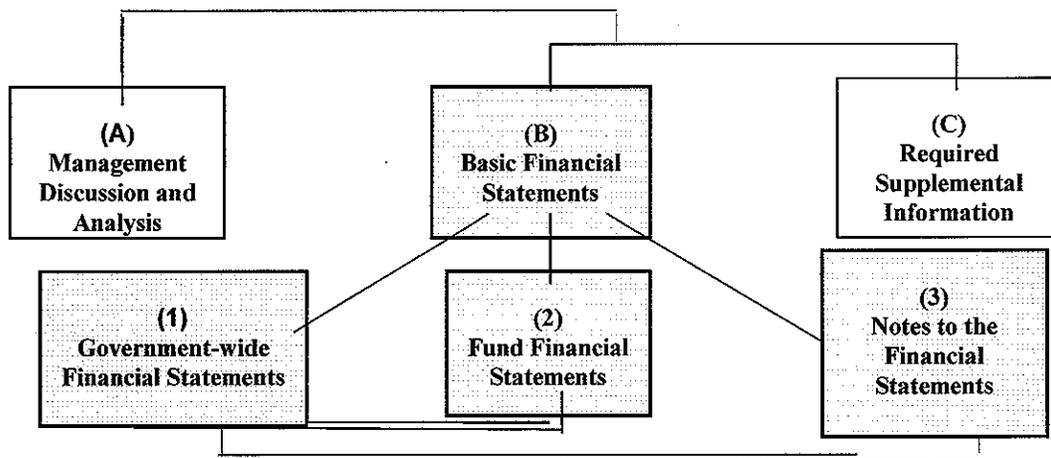
FINANCIAL HIGHLIGHTS

- The beginning General Fund balance at July 1, 2012 for the District was \$10,956,808. The final ending General Fund balance at June 30, 2013 was \$12,238,738. During fiscal year 2013, several minor maintenance projects occurred which were non-recurring outlays of General Fund cash, Building Fund cash and Capital Outlay cash.
- The Annual Financial Report includes an increase in state revenue due to an increase in state on-behalf payments mandated by the Kentucky Department of Education (KDE). The state's contribution for on-behalf payments is included in the District's revenues and expenditures. The amount contributed was \$8,218,866 for Kentucky Teachers Retirement System (KTRS), County Employees Retirement Systems (CERS), health insurance premiums, life insurance premiums, administration fees, technology network cost and bond payments contributed by the Kentucky School Facilities Construction Commission (SFCC). The expenditure of these monies is recorded within the appropriate funds and functions.

Overview of the Annual Financial Report (AFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Owensboro Independent School District as an entire financial operating entity, in a manner similar to a private-sector business. The annual report consists of three parts: (a) Management's Discussion and Analysis (this section) on pages 3 - 18, (b) the basic financial statements located on pages 19 - 30 and related notes located on pages 31 - 46, and (c) required and other supplemental information. The statements provide a detailed look at specific financial activities. The District's basic financial statements are comprised of three components: (1) district-wide financial statements pages 19 - 20, (2) fund financial statements pages 21 - 30, and (3) notes to the financial statements, pages 31 - 46. This report also contains other supplementary information (pages 47 - 52) in addition to the basic statements.

Organization of the Annual Financial Report



The Government-Wide Financial Statements have two sections (1) the *Statement of Net Position* and (2) the *Statement of Activities*. The *Statement of Net Position* and *Statement of Changes in Net Position* provide information about the activities of the District as a whole, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide an additional level of detail. For governmental funds, these statements tell how services were financed in the short-term, as well as what remains for future spending. The fund financial statements also report the District's major funds, along with all other non-major funds combined in the total column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 - 46 of this report.

Reporting the District as a Whole

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

The District's net position and changes in net position are reported on these two statements. This change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must

consider many other non-financial factors, such as Kentucky's education funding formula, *Support Educational Excellence in Kentucky* (SEEK) and its adjustments, the District's property tax base, required educational programs and other factors.

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

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

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$32,997,381 as of June 30, 2013. This was an increase of \$472,490 over the previous fiscal year.

The largest portion of the District's net position is reflected in 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. At June 30, the outstanding debt balance, including the SFCC portion, is \$26,218,913, which is a decrease of \$1,256,753 over the previous year. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

After looking at the District as a whole, an analysis of the District's major funds follows. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District's fund accounting is a mandated state-wide uniform system and chart of accounts used by all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds are the school food service and day care funds. A proprietary fund is sometimes referred to as an enterprise fund. It is a fund that operates like a business with sales of goods and services. Fiduciary funds are assets that belong to others. The schools' activity funds are reported as fiduciary funds, as well as the Scholarship Funds. All other activities of the District are included in the governmental funds. The major governmental funds for the Owensboro Independent School District are the General Fund, Special Revenue (grant) Fund, the FSPK (Building Fund), and Construction Fund.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that is available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the School District's general government operations and the basic services it provides. Governmental fund information helps determine whether there is an increase or decrease in financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental *activities* (reported in the Statement of Net Position and the *Statement of Changes in Net Position*) and governmental *funds* is reconciled in the financial statements.

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, the statements for the proprietary funds will essentially match. The District's school food service operations and day care operations are reported as proprietary business-type activities.

Fiduciary Funds – Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. The schools' activity fund balances (or agency funds) at June 30 totaled \$538,658, which is an increase of \$13,731 from the previous year. The balance held in trust for scholarship funds at June 30 is \$436,894.

Financial Analysis of the District as a Whole:

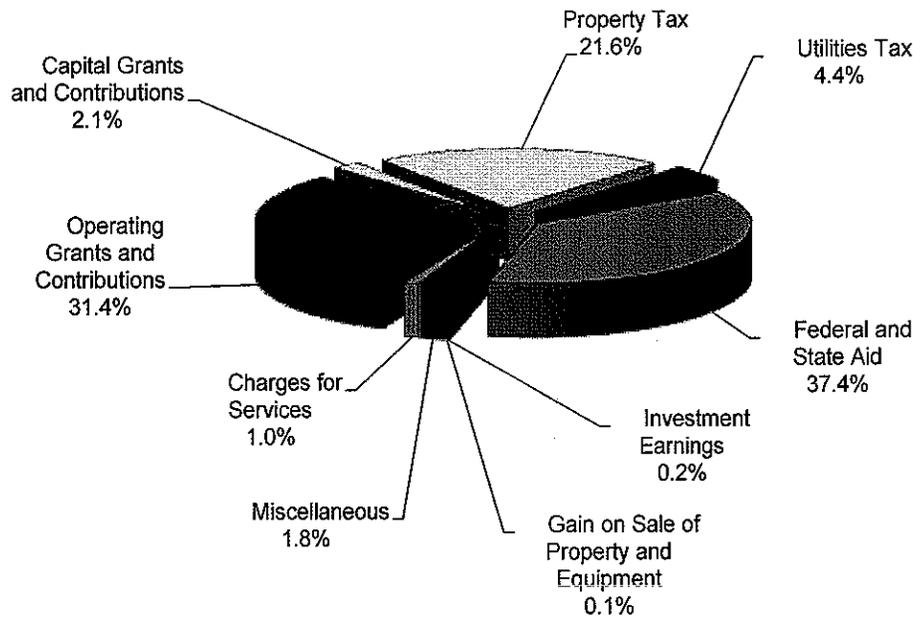
Government Wide Net Position for the periods ended June 30, 2012 and June 30, 2013:

	Governmental Activities		Business-Type Activities		District Total		Total District Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2013
Assets							
Current and Other Assets	\$ 14,963,844	\$ 15,362,092	\$ 1,683,303	\$ 1,915,426	\$ 16,647,147	\$ 17,277,518	3.8%
Capital Assets	47,884,951	46,026,979	340,361	343,172	48,225,312	46,370,151	-3.8%
Total Assets	\$ 62,848,795	\$ 61,389,071	\$ 2,023,664	\$ 2,258,598	\$ 64,872,459	\$ 63,647,669	-1.9%
Liabilities							
Long Term Liabilities	\$ 27,537,854	\$ 26,274,984	\$ -	\$ -	\$ 27,537,854	\$ 26,274,984	-4.6%
Other Liabilities (current)	4,794,763	4,355,549	14,951	19,755	4,809,714	4,375,304	-9.0%
Total Liabilities	\$ 32,332,617	\$ 30,630,533	\$ 14,951	\$ 19,755	\$ 32,347,568	\$ 30,650,288	-5.2%
Net Position							
Investment in capital assets (net debt)	\$ 18,595,663	\$ 19,808,066	\$ 340,361	\$ 343,172	\$ 18,936,024	\$ 20,151,238	6.4%
Restricted	2,198,384	2,499,890	-	-	2,198,384	2,499,890	13.7%
Unrestricted	9,722,131	8,450,582	1,668,352	1,895,671	11,390,483	10,346,253	-9.2%
Total Net Position	\$ 30,516,178	\$ 30,758,538	\$ 2,008,713	\$ 2,238,843	\$ 32,524,891	\$ 32,997,381	1.5%
Total Liabilities and Net Position	\$ 62,848,795	\$ 61,389,071	\$ 2,023,664	\$ 2,258,598	\$ 64,872,459	\$ 63,647,669	-1.9%

Government Wide Revenues for the periods ended June 30, 2012 and June 30, 2013:

Revenues	Governmental Activities		Business-Type Activities		District Total		Total District Percentage Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2013
Program Revenues:							
Charges for Services	\$ -	-	\$ 631,560	\$ 541,753	\$ 631,560	\$ 541,753	-14.2%
Operating Grants and Contributions	12,502,741	13,075,991	2,834,322	3,360,221	15,337,063	16,436,212	7.2%
Capital Grants and Contributions	1,112,994	1,109,550	-	-	1,112,994	1,109,550	0.0%
General Revenues:							
Property Tax	10,289,364	11,285,490	-	-	10,289,364	11,285,490	9.7%
Utilities Tax	2,502,091	2,321,778	-	-	2,502,091	2,321,778	-7.2%
Federal & State Aid	19,629,637	19,565,826	-	-	19,629,637	19,565,826	-0.3%
Investment Earnings	152,740	75,430	11,561	6,730	164,301	82,160	-50.0%
Gain/Loss on Sale of Property and Equipment	32,104	30,509	-	-	32,104	30,509	-5.0%
Miscellaneous	903,661	925,938	1,864	4,666	905,525	930,604	2.8%
Net transfers	137,393	144,564	(137,393)	(144,564)	-	-	0.0%
Total Revenues	\$ 47,262,725	\$ 48,535,076	\$ 3,341,914	\$ 3,768,806	\$ 50,604,639	\$ 52,303,882	3.4%

SOURCES OF GOVERNMENT WIDE REVENUES FY 2013

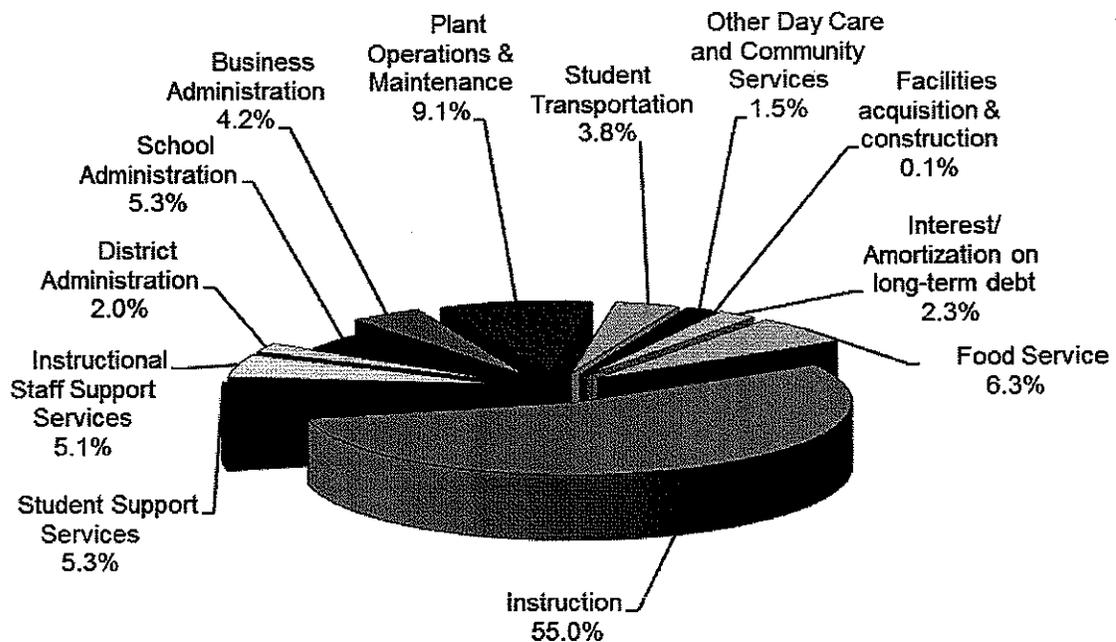


Federal and state aid provided 37.4% of the government wide revenues, while operating grants and revenues provided 31.4% and property taxes provided 21.6%.

Government Wide Expenses for the periods ended June 30, 2012 and June 30, 2013:

Expenses	Governmental Activities		Business-Type Activities		District Total		Total District Percentage Change	% to Total Expenses
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013		
Instruction	\$28,462,976	\$28,507,102	\$ -	\$ -	\$28,462,976	\$28,507,102	0.2%	55.0%
Student Support Services	2,850,323	2,737,849	-	-	2,850,323	2,737,849	-3.9%	5.3%
Instructional Staff Support Services	2,801,624	2,632,052	-	-	2,801,624	2,632,052	-6.1%	5.1%
District Administration	1,154,483	1,024,895	-	-	1,154,483	1,024,895	-11.2%	2.0%
School Administration	2,689,084	2,733,810	-	-	2,689,084	2,733,810	1.7%	5.3%
Business Administration	4,670,058	2,186,302	-	-	4,670,058	2,186,302	-53.2%	4.2%
Plant Operations & Maintenance	994,475	4,735,156	-	-	994,475	4,735,156	376.1%	9.1%
Student Transportation	1,960,450	1,945,426	-	-	1,960,450	1,945,426	-0.8%	3.8%
Other Day Care and Community Services	478,825	515,400	260,776	272,138	739,601	787,538	6.5%	1.5%
Facilities acquisition & construction	-	70,518	-	-	-	70,518	N/A	0.1%
Interest/Amortization on long-term debt	1,112,994	1,204,206	-	-	1,112,994	1,204,206	8.2%	2.3%
Food Service	-	-	2,807,391	3,266,538	2,807,391	3,266,538	16.4%	6.3%
Total Expenses	\$47,175,292	\$48,292,716	\$3,068,167	\$3,538,676	\$50,243,459	\$51,831,392	3.2%	100.00%

Government Wide Expenses FY 2013

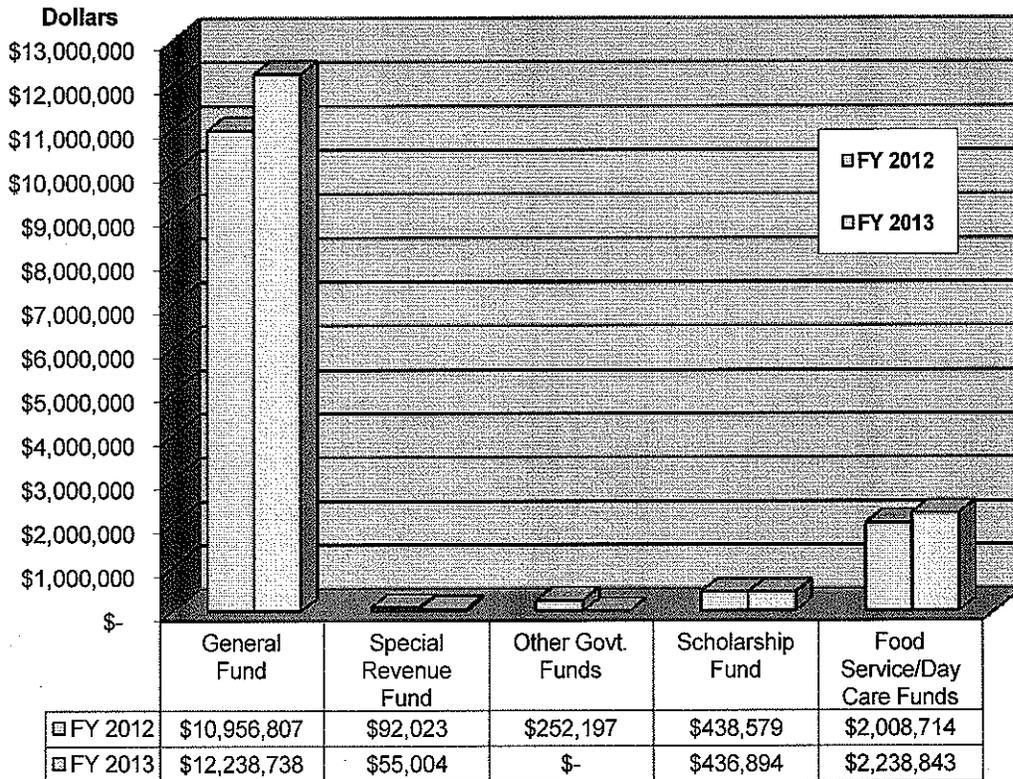


- Instruction, Instructional Staff Support, and Student support comprised the majority of Government Wide program expenses and accounted for 65.4% of the total.
- The District's total revenues were \$52,303,882 and the total expenses were \$51,831,392 for FY 2013. Revenues exceeded expenses by \$472,490 for the fiscal year.
- Revenues from federal and state aid accounted for 37.4% and local taxes accounted for 26.0% of the total governmental revenue.
- Food service revenues exceeded expenses by \$249,486. During FY 2013, indirect costs of \$144,564 were transferred to General Fund from Food Service Fund.

Financial Analysis of the District Fund Balances at June 30th:

Changes in June 30th Fund Balances	FY 2012	FY 2013	Amount of Change	Percent of Change
General Fund	\$ 10,956,807	\$ 12,238,738	\$ 1,281,931	12%
Special Revenue Fund	92,023	55,004	(37,019)	-40%
Other Govt. Funds	252,197	-	(252,197)	-100%
Scholarship Fund	438,579	436,894	(1,685)	0%
Food Service/Day Care Funds	2,008,714	2,238,843	230,129	11%
Total	\$ 13,748,320	\$ 14,969,479	\$ 1,221,159	9%

Changes in Fund Balances at June 30, 2013



- The fund balance in the General Fund showed a positive change of \$1,281,931. Actual revenues were 10% more and actual expenditures were 11% less than budgeted. This was partially due to the District budgeting \$3,000,000 for the purchase of the Texas Gas property, however, that purchase was not completed in FY 2013. Also, property and tax revenue increased and generated additional revenue.
- The Special Revenue Fund Balance decreased by \$37,019 due to a reduction in federal funding for instructional programs.
- The Fund Balance in Other Governmental Funds decreased from the previous year by \$252,197 because there were no major construction projects during FY 2013.
- The Food Service Fund Balance increased by \$249,486. The District continues to have increases in the free and reduced student population which correlates to an increase in the lunch program participation.
- The Day Care Program's Fund Balance decreased by \$19,356. This was due to a lower enrollment in the after school day care program.

Comments on General Fund Budget

- The General Fund budget reflects a state mandated contingency amount of at least 2% of the fund balance. The contingency is not meant to be expended, but is to be used as the District's beginning balance for the next year. The amount budgeted in the General Fund by the Board for contingency was \$3,000,000, however there were \$0 contingency expenses. Also, \$3,000,000 was included in the budget for purchase of the Texas Gas property, but that purchase was not completed in FY 2013.
- The Special Revenue Fund budget compared to the actual revenue will always differ slightly because the state budget report only shows current fiscal year grant awards. The Special Revenue expenditures will include current year grant expenditures and previous year grant expenditures that were not completed at the end of the previous year.

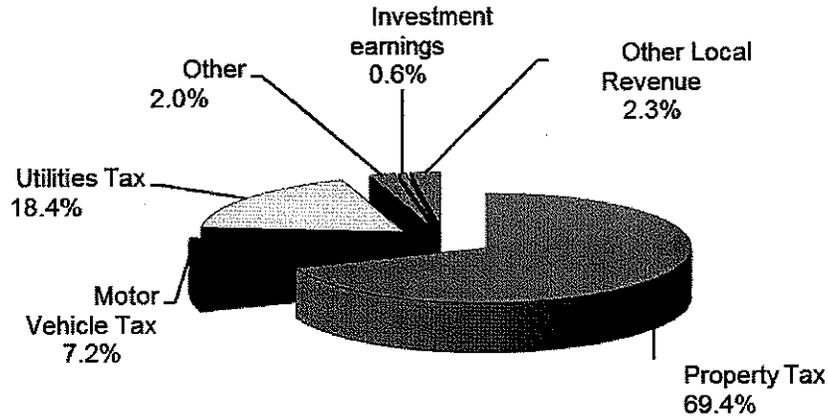
Financial Analysis of the General Fund

The following tables present a summary of revenues of the General Fund for the fiscal year ended June 30, 2013.

General Fund Revenues	Local	Amount	% to Total
Local revenue sources:			
Property Tax	\$ 8,779,427		
Motor Vehicle Tax	916,598		
Utilities Tax	2,321,778		
Other	259,075		
Investment earnings	75,010		
Other Local Revenue	296,856		
Total Local Revenue sources		\$12,648,744	32.4%
State revenue sources		26,090,303	66.9%
Federal revenue sources		257,349	0.7%
Total General Fund Revenues		\$ 38,996,396	100.0%

The majority of General Fund revenue, 66.9%, was derived from state funding sources. Local revenue sources comprised 32.4% of total General Fund revenue, with the remaining 0.7% provided from federal revenues.

Local Revenue Sources FY 2013

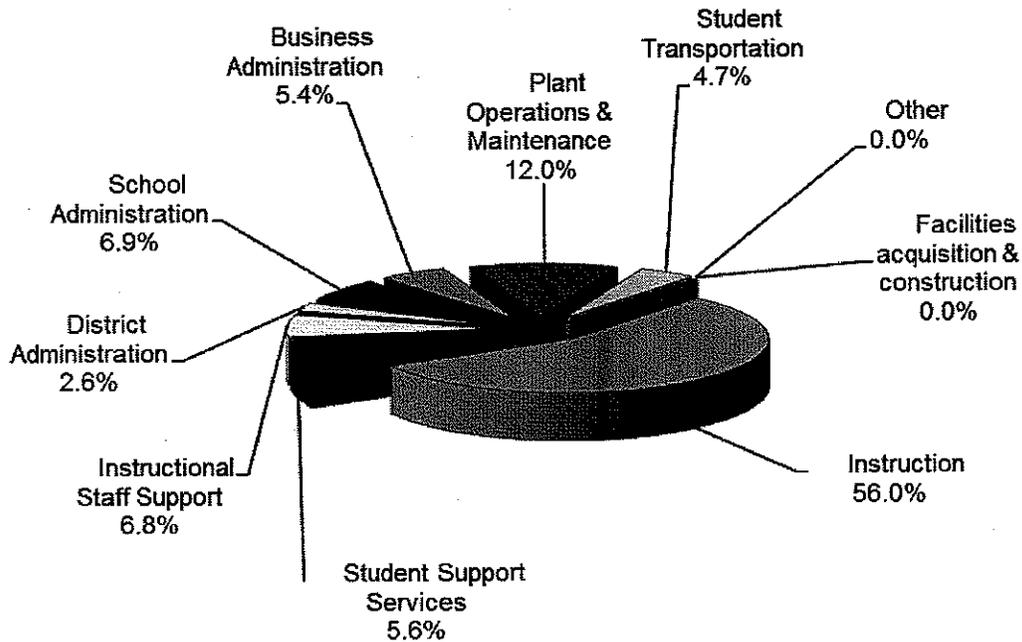


The majority of local revenue, 76.6%, was received from property and motor vehicle taxes. Utility tax provided 18.4% of local revenues.

The following tables present a summary of expenditures of the General Fund for the fiscal year ended June 30, 2013.

General Fund Expenditures	Amount	% to Total
Instruction	\$21,660,588	56.0%
Student Support Services	2,179,566	5.6%
Instructional Staff Support	2,623,771	6.8%
District Administration	991,576	2.6%
School Administration	2,648,623	6.9%
Business Administration	2,100,729	5.4%
Plant Operations & Maintenance	4,628,777	12.0%
Student Transportation	1,806,210	4.7%
Other	-	0.0%
Facilities acquisition & construction	12,693	0.0%
Total Expenditures	\$38,652,533	100.0%

General Fund Expenditures FY 2013



The areas of Instruction, Instructional Staff Support, and Student Support comprise the majority of General Fund expenditures, 68.4%. Other expenditure percentages were for District and Business Administration 8.0%, School Administration 6.9%, Student Transportation 4.7%, and Plant Operation and Maintenance expenditures of 12.0%.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By June 30, 2013, the District had invested \$46,370,151 in capital assets. This included land, school buildings, athletic facilities, maintenance facilities, computer equipment and administrative offices. The cumulative total cost of assets was \$76,171,917 with accumulated depreciation of \$29,801,765.

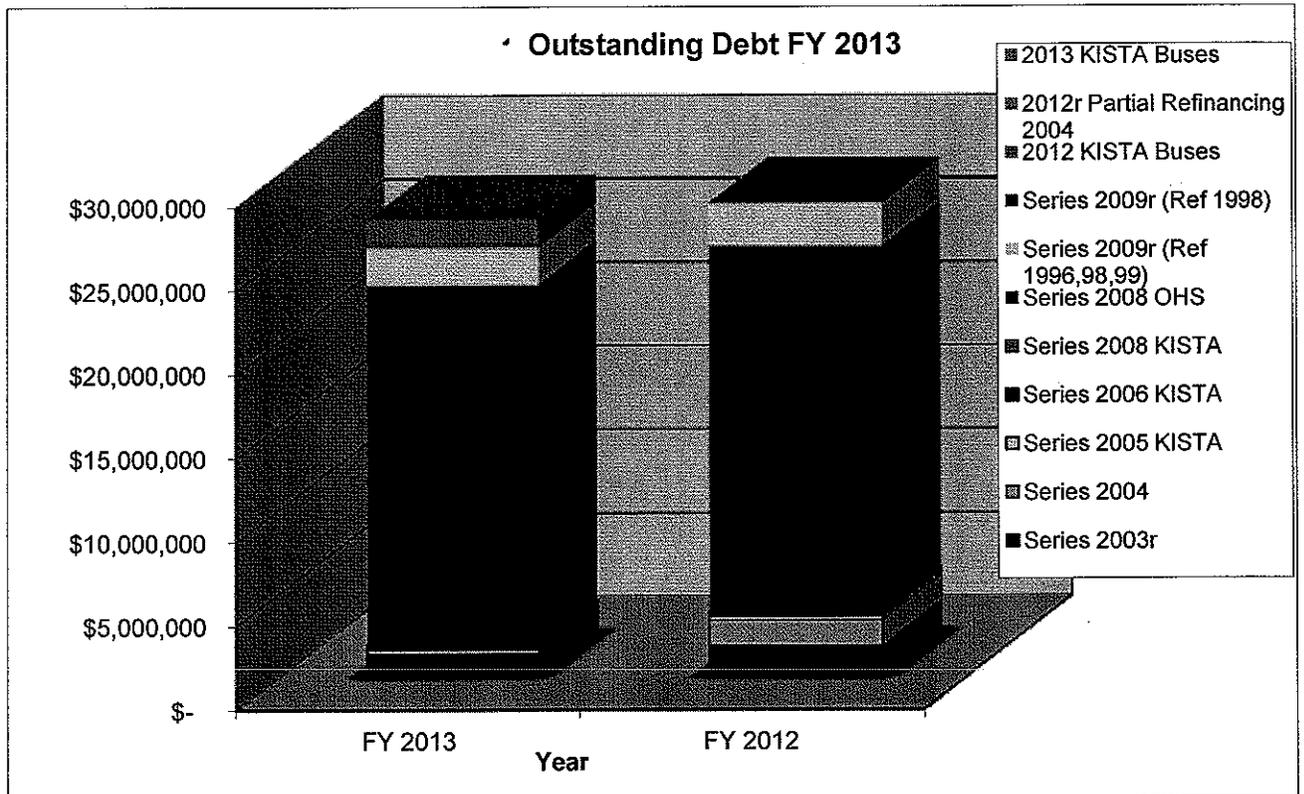
SUMMARY OF CAPITAL ASSETS

Capital Assets	Governmental Activities		Business-Type Activities		District Total		Total District % Change
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013	FY2013
Land & Improvements	\$ 7,817,470	\$ 7,853,897	\$ 20,259	\$ 20,259	\$ 7,837,729	\$ 7,874,156	0.5%
Construction in Progress	-	-	-	-	-	-	0.0%
Buildings and Improvements	54,296,514	54,265,089	12,067	12,067	54,308,581	54,277,156	-0.1%
Equipment, Furniture & Vehicles	12,634,453	13,199,302	783,387	821,303	13,417,840	14,020,605	4.5%
Total Assets	\$74,748,437	\$75,318,288	\$ 815,713	\$853,629	\$75,564,150	\$76,171,917	0.8%

Long-Term Debt

At year-end the District had \$26,218,913 in general obligation bonds outstanding (includes the SFCC portion). The net decrease of these general obligation bonds was \$1,256,753 for FY 2013 principal payments. There was one new bond issued, 2013 KISTA Buses.

General Obligation Bonds	FY 2013	FY 2012
Series 2003r	\$ 925,000	\$ 1,365,000
Series 2004	100,000	195,000
Series 2005 KISTA	103,122	162,316
Series 2006 KISTA	78,187	105,693
Series 2008 KISTA	80,780	96,460
Series 2008 OHS	20,950,000	21,420,000
Series 2009r (Ref 1996,98,99)	1,920,000	2,225,000
Series 2009r (Ref 1998)	-	26,567
2009C (FY10) KISTA Buses	196,372	222,923
2012 KISTA Buses	259,980	291,707
2012r Partial Refinancing 2004	1,350,000	1,365,000
2013 KISTA Buses	255,472	-
Total	\$ 26,218,913	\$ 27,475,666



BUDGETARY IMPLICATIONS

It is extremely important that the District continue to budget very conservatively. The District receives approximately 66.9% of its General Fund revenue each year through state funding (which includes SEEK state funds). The forecasts from the state should be considered an estimate of state revenue. If the state does not receive the revenue from taxing sources, an adjustment will be made to the funding formula. The District should always be prepared for such reductions in funding.

Approximately 32.4% of the General Fund revenue is from local revenue, of which 69.4% of the local revenue is from property tax. The major portion of the tax revenue does not come to the District until the fifth through seventh months. This means the General Fund's beginning fund balance must be used to absorb much of the first four months of expenditures. Provisions must always be made to have a significant fund beginning balance to start each year.

By law the budget must include a minimum 2% contingency. The District adopted a budget with \$3,000,000 in contingency (5.1% of total budget). The beginning General Fund balance for fiscal year 2013 was \$10,956,808. Significant Board action that impacts the finances include a 1% pay raise for all Classified employees, a 1% pay raise for Certified employees, spending toward instructional and technology programs and General Fund matching dollars for other grants.

The District currently participates in excess of thirty-five federal and state grants. The total budget for these grants was approximately \$6,416,906. Most of these grants are funded on a reimbursement basis. This requires the District to pay the expenses of the grant and then apply for reimbursement. The District must continue to monitor the grants constantly and request reimbursements in a timely manner. The District must also maintain a significant cash balance in order to pay the expenses of these grants while waiting for reimbursements.

DISTRICT CHALLENGES FOR THE FUTURE

The primary challenges facing Owensboro Independent School District include continuing to make strides toward graduating students college and/or career ready, all schools meeting proficient or distinguished benchmarks as defined by KDE and Unbridled Learning, maintaining our current facilities, increasing the average daily attendance percentage, and maintaining current services in the declining economy.

The District's challenge to reach the academic accountability goals established in Unbridled Learning will be accomplished by several means. The primary goal is to employ quality teachers and support staff, provide quality professional learning for all employees, maintain competitive salary schedules to attract and retain quality leadership, and encourage teachers to pursue the National Board Certification. Maintaining several programs will also help the District overcome this challenge. These programs include, but are not limited to, NWEA MAP Assessment, customization of learning based on

individual student needs utilizing a quality formative assessment process, full day kindergarten, a blended PC and Mac learning environment in grades P – 4, a one-to-one laptop integration in grades 5 – 12, K – 12 Leader in Me, high-quality co-curricular and extra-curricular activities (fine arts, athletics, clubs, academic teams, etc.) and a College and Career Ready emphasis in grades P – 12.

The second challenge is to maintain our facilities. The District makes a major annual financial commitment in order to maintain our current (and aging) facilities. Each year the District budgets a portion of the General Fund revenues and utilizes Capital Outlay funds for maintenance items. These budgets help the District fund any unforeseen major facility repairs, maintain our current facilities, and construct required facilities which are not large enough to require a bond sale. Additionally, in FY2014, the District has purchased 32 acres at 3800 Frederica Street (former Texas Gas property) and will develop a facility plan which will likely incorporate major renovation to this property in the near future.

The third challenge is increasing the average daily attendance count. The District receives funding through the SEEK formula based on this count. There are a limited number of new homes constructed within the boundaries of the District. Therefore, growth within the District is limited. It is vital that our schools have high attendance percentages and that parents and students continue to choose Owensboro Independent School District when they could be attending elsewhere. Maintaining excellence and emphasizing our service to the public are the main factors influencing this District challenge.

Finally, the declining economy has brought on additional challenges in trying to maintain and improve programs and services for the future.

With careful planning and monitoring of our finances, the goal of Owensboro Independent School District is to continue to provide a quality education for our students and a secure financial future for our school district.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the finances of the School District and to reflect the District's accountability for the funds it receives. Questions regarding this report should be directed to:

Paula Roberts
Assistant Superintendent of Finance
Owensboro Independent School District
450 Griffith Avenue
Owensboro, KY 42301
Telephone: (270) 686-1000, extension # 2300
E-mail: Paula.Roberts@owensboro.kyschools.us

Owensboro Independent School District
Government Wide Financial Statements - Statement of Net Position
For the fiscal year ended June 30, 2013

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>ASSETS:</u>			
Cash and cash equivalents	\$ 13,240,426	\$ 1,559,504	\$ 14,799,930
Accounts receivable:			
Taxes	461,492	-	461,492
Other	16,799	275,181	291,980
Intergovernmental - federal and state	1,029,702	-	1,029,702
Inventories	-	80,741	80,741
Bond issue costs	121,925	-	121,925
Bond deferrals on refunding	218,390	-	218,390
Bond discounts	273,358	-	273,358
Net capital assets	46,026,979	343,172	46,370,151
	<u>\$ 61,389,071</u>	<u>\$ 2,258,598</u>	<u>\$ 63,647,669</u>
Total Assets			
<u>LIABILITIES:</u>			
Accounts payable	\$ 487,242	\$ 10,066	\$ 497,308
Accrued payroll and related expenses	1,447,052	-	1,447,052
Deferred revenue	320,383	9,689	330,072
Current portion of bond obligations	1,583,391	-	1,583,391
Current portion of accrued sick leave	200,000	-	200,000
Interest payable	317,481	-	317,481
Noncurrent maturities of bond obligations	24,635,522	-	24,635,522
Noncurrent portion of accumulated sick leave	1,639,462	-	1,639,462
	<u>\$ 30,630,533</u>	<u>\$ 19,755</u>	<u>\$ 30,650,288</u>
Total Liabilities			
<u>NET POSITION:</u>			
Invested in capital assets, net of related debt	\$ 19,808,066	\$ 343,172	\$ 20,151,238
Restricted	2,499,890	-	2,499,890
Unrestricted	8,450,582	1,895,671	10,346,253
	<u>\$ 30,758,538</u>	<u>\$ 2,238,843</u>	<u>\$ 32,997,381</u>
Total Net Position			

The accompanying notes are an integral part of these financial statements

**Owensboro Independent School District
Government Wide Financial Statements - Statement of Activities
For the fiscal year ended June 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
FUNCTIONS/PROGRAMS						
Governmental Activities:						
Instruction	\$ 28,507,102	\$ -	\$ -	\$ (17,932,105)	\$ -	\$ (17,932,105)
Support services:						
Student	2,737,849	468,069	-	(2,269,780)	-	(2,269,780)
Instruction staff	2,632,052	392,130	-	(2,239,922)	-	(2,239,922)
District administrative	1,024,895	62,467	-	(962,428)	-	(962,428)
School administrative	2,733,810	497,448	-	(2,236,362)	-	(2,236,362)
Business	2,186,302	337,735	-	(1,848,567)	-	(1,848,567)
Plant operation and maintenance	4,735,156	516,517	-	(4,218,639)	-	(4,218,639)
Student transportation	1,945,426	226,628	-	(1,718,798)	-	(1,718,798)
Facilities acquisition and construction	70,518	-	-	(70,518)	-	(70,518)
Community service activities	515,400	-	-	(515,400)	-	(515,400)
Amortization expense	94,656	-	-	(94,656)	-	(94,656)
Interest	1,109,550	1,109,550	-	-	-	-
Total Governmental Services	48,292,716	14,185,541	-	(34,107,175)	-	(34,107,175)
Business Type Activities:						
Food service	3,266,538	3,255,838	-	-	384,189	384,189
Day care	272,138	146,864	-	-	(20,891)	(20,891)
Total Business Activities	3,538,676	3,402,702	-	-	363,298	363,298
Total Primary Government	\$ 51,831,392	\$ 541,753	\$ -	\$ (34,107,175)	\$ -	\$ (33,743,877)

General Revenues:

Taxes:			
Property tax	\$ 10,109,817	\$ -	\$ 10,109,817
Motor vehicle tax	916,598	-	916,598
Utility tax	2,321,778	-	2,321,778
Other taxes	259,075	-	259,075
Investment earnings	75,430	6,730	82,160
State and formula grants	19,308,477	-	19,308,477
Federal grants	257,349	-	257,349
Other local revenues	925,938	4,666	930,604
Gain on sales of fixed assets	30,509	-	30,509
Transfers in/out	144,564	(144,564)	-
Change in net position	242,360	230,130	472,490
Net position - beginning	30,516,178	2,008,713	32,524,891
Net position - ending	\$ 30,758,538	\$ 2,238,843	\$ 32,997,381

The accompanying notes are an integral part of these financial statements

**Owensboro Independent School District
Balance Sheet - Governmental Funds
June 30, 2013**

	General Fund	Special Revenue Funds	Support Program (FSPK) Fund	School Construction Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total
ASSETS:							
Cash and cash equivalents	\$ 13,871,019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,871,019
Receivables:							
Taxes - current	461,492	-	-	-	-	-	461,492
Other	16,799	-	-	-	-	-	16,799
Intergovernmental - federal and state	-	1,029,702	-	-	-	-	1,029,702
Total Assets	\$ 14,349,310	\$ 1,029,702	\$ -	\$ -	\$ -	\$ -	\$ 15,379,012

LIABILITIES AND FUND BALANCES

LIABILITIES:							
Checks written in excess of deposits	\$ -	\$ 630,593	\$ -	\$ -	\$ -	\$ -	\$ 630,593
Accounts payable	340,443	146,799	-	-	-	-	487,242
Accrued payroll and related expenses	1,447,052	-	-	-	-	-	1,447,052
Deferred revenue	123,077	197,306	-	-	-	-	320,383
Current portion of accrued sick leave	200,000	-	-	-	-	-	200,000
Total Liabilities	2,110,572	974,698	-	-	-	-	3,085,270

FUND BALANCES:

Restricted for:							
Capital expenditures	-	55,004	-	-	-	-	55,004
Capital expenditures/debt service	-	-	-	-	-	-	-
Committed for:							
Future technology	1,500,000	-	-	-	-	-	1,500,000
Future sick leave	430,928	-	-	-	-	-	430,928
Future debt service obligations	209,539	-	-	-	-	-	209,539
Assigned to purchase obligations	304,419	-	-	-	-	-	304,419
Unassigned	9,793,852	-	-	-	-	-	9,793,852
Total Fund Balances	12,238,738	55,004	-	-	-	-	12,293,742
Total Liabilities and Fund Balances	\$ 14,349,310	\$ 1,029,702	\$ -	\$ -	\$ -	\$ -	\$ 15,379,012

The accompanying notes are an integral part of these financial statements

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

Total fund balance - governmental funds	\$	12,293,742
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$75,318,287, and the accumulated depreciation is \$29,291,308 of net position.		
		46,026,979
Bond issue costs, bond deferrals on refunding, bond discounts, and prepaid rent are not current financial resources and therefore are not reported as assets in governmental funds.		
		613,673
Bonds payable, including other current obligations, are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.		
		(26,218,913)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.		
		(1,639,462)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.		
		<u>(317,481)</u>
Net position for governmental activities	\$	<u><u>30,758,538</u></u>

The accompanying notes are an integral part of these financial statements

**Owensboro Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds
For the fiscal year ended June 30, 2013**

	General Fund	Special Revenue Fund	Facility Support Program (FSPK)	School Construction Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Governmental Funds
REVENUES:							
From local sources							
Taxes:							
Property	\$ 8,779,427	\$ -	\$ 1,330,390	\$ -	\$ -	\$ -	\$ 10,109,817
Motor vehicle	916,598	-	-	-	-	-	916,598
Utilities	2,321,778	-	-	-	-	-	2,321,778
Other	259,075	224	-	196	-	-	259,075
Earnings on investments	75,010	-	-	-	-	-	75,430
Other local revenues	296,856	629,082	-	-	-	-	925,938
Intergovernmental - state	26,090,303	2,061,175	802,854	-	404,979	518,787	29,878,098
Intergovernmental - federal	237,349	3,615,920	-	-	-	-	3,873,269
Total Revenues	38,996,396	6,306,401	2,133,244	196	404,979	518,787	48,360,003
EXPENDITURES:							
Instruction							
Support services:							
Student	21,660,588	5,252,981	-	-	-	-	26,913,569
Instruction staff	2,179,566	554,292	-	-	-	-	2,733,858
District Administrative	2,623,771	-	-	-	-	-	2,623,771
School administrative	991,576	30,000	-	-	-	-	1,021,576
Business	2,648,623	82,280	-	-	-	-	2,730,903
Plant operation and maintenance	2,100,729	-	-	-	-	-	2,100,729
Student transportation	4,628,777	76,737	-	-	-	-	4,705,514
Community service activities	1,806,210	8,865	-	-	-	-	1,815,075
Facilities acquisition and construction	12,963	-	-	57,555	-	2,566,921	70,518
Debt service	-	-	-	-	-	-	-
Total Expenditures	38,652,803	6,520,555	-	57,555	-	2,566,921	47,797,834
Excess (deficit) of revenues over expenditures	343,593	(214,154)	2,133,244	(57,359)	404,979	(2,048,134)	562,169
OTHER FINANCING SOURCES (USES):							
Proceeds from sale of fixed assets	30,509	-	-	-	-	-	30,509
Proceeds from bond principal	255,472	-	-	-	-	-	255,472
Operating transfers in	1,028,281	183,797	-	(10,495)	-	2,048,134	3,249,717
Operating transfers out	(375,925)	(6,662)	(2,317,587)	-	(404,979)	-	(3,105,153)
Total Other Financing Sources (Uses)	938,337	177,135	(2,317,587)	(10,495)	(404,979)	2,048,134	430,545
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	1,281,930	(37,019)	(184,343)	(67,854)	-	-	992,714
Fund balance, June 30, 2012	10,956,808	92,023	184,343	67,854	-	-	11,301,028
Fund balance, June 30, 2013	\$ 12,238,738	\$ 55,004	\$ -	\$ -	\$ -	\$ -	\$ 12,293,742

The accompanying notes are an integral part of these financial statements

Owensboro Independent School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
- Governmental Funds to the Statement of Activities
June 30, 2013

Excess of revenues and other financing sources over expenditures - governmental funds	\$	992,714
Amounts reported for governmental activities in the statement of changes in net position are different because:		
Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over the estimated useful lives and reported as depreciation expense in the statement of activities. The difference is the amount by which depreciation expense exceed capital outlay.		(1,813,264)
Governmental funds report proceeds from the sale of bonds as other financing sources. However, in the statement of change in net position the proceeds are not included as debt is treated as a liability on the statement of net position.		(255,472)
Governmental funds report costs related to the issuance of bonds as expenditures. However, in the statement of change in net position those costs are allocated over the lives of the respective bonds and reported as amortization expense.		(94,656)
Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities in the statement of net position, and interest expense in the statement of activities.		1,512,225
Accumulated sick leave is recognized by the amount earned in the statement of change in net position, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources.		<u>(99,187)</u>
Change in net position of governmental activities	\$	<u>242,360</u>

The accompanying notes are an integral part of these financial statements

Owensboro Independent School District
Statement of Net Position - Proprietary Funds
June 30, 2013

	School Food Service Fund	Day Care Fund	Total Proprietary Fund
<u>ASSETS:</u>			
Current Assets:			
Cash and cash equivalents	\$ 1,409,575	\$ 149,929	\$ 1,559,504
Accounts receivable	259,158	16,023	275,181
Inventories	80,741	-	80,741
Total Current Assets	1,749,474	165,952	1,915,426
Noncurrent Assets:			
Capital assets	785,137	68,491	853,628
Less: accumulated depreciation	(497,249)	(13,207)	(510,456)
Total Noncurrent Assets	287,888	55,284	343,172
Total Assets	\$ 2,037,362	\$ 221,236	\$ 2,258,598
<u>LIABILITIES:</u>			
Current Liabilities:			
Accounts payable	\$ 471	\$ 9,595	\$ 10,066
Deferred revenue	9,689	-	9,689
Total Current Liabilities	10,160	9,595	19,755
<u>NET POSITION:</u>			
Invested in capital assets	287,888	55,284	343,172
Unrestricted	1,739,314	156,357	1,895,671
Total Net Position	\$ 2,027,202	\$ 211,641	\$ 2,238,843
Total Liabilities and Net Position	\$ 2,037,362	\$ 221,236	\$ 2,258,598

The accompanying notes are an integral part of these financial statements

Owensboro Independent School District
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds
For the fiscal year ended June 30, 2013

	School Food Service Fund	Day Care Fund	Total
<u>OPERATING REVENUES:</u>			
Lunchroom sales	\$ 394,889	\$ -	\$ 394,889
Other operating revenues	-	146,864	146,864
Total Operating Revenues	394,889	146,864	541,753
<u>OPERATING EXPENSES:</u>			
Salaries, wages, and benefits	1,133,408	210,533	1,343,941
Contract services	313,080	47,421	360,501
Materials and supplies	1,767,239	6,870	1,774,109
Depreciation	41,492	6,308	47,800
Other operating expenses	11,319	1,006	12,325
Total Operating Expenses	3,266,538	272,138	3,538,676
Operating loss	(2,871,649)	(125,274)	(2,996,923)
<u>NON-OPERATING REVENUES (EXPENSES):</u>			
Federal grants	2,721,443	13,715	2,735,158
State grants	300,408	90,668	391,076
Donated commodities	233,987	-	233,987
Interest income	6,730	-	6,730
Other	3,131	1,535	4,666
Total Non-Operating Revenues	3,265,699	105,918	3,371,617
Net Income (Loss) Before Other Financing Sources	394,050	(19,356)	374,694
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating transfers out	(144,564)	-	(144,564)
Total other financing uses	(144,564)	-	(144,564)
Change in net position	249,486	(19,356)	230,130
Net position, June 30, 2012	1,777,716	230,997	2,008,713
Net position, June 30, 2013	\$ 2,027,202	\$ 211,641	\$ 2,238,843

The accompanying notes are an integral part of these financial statements

**Owensboro Independent School District
Statement of Cash Flows - Proprietary Funds
For the fiscal year ended June 30, 2013**

	School Food Service Fund	Day Care Fund	Total
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Cash receipts from:			
Lunchroom sales	\$ 206,767	\$ -	\$ 206,767
Tuition and fees	-	139,016	139,016
Cash payments for:			
Employees	(1,133,408)	(210,533)	(1,343,941)
Contract services	(313,080)	(38,858)	(351,938)
Materials and supplies	(1,665,823)	(3,680)	(1,669,503)
Other	(9,045)	-	(9,045)
	<u>(2,914,589)</u>	<u>(114,055)</u>	<u>(3,028,644)</u>
Net cash provided (used) by operating activities			
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>			
Purchases of capital assets	(21,994)	(30,015)	(52,009)
	<u>(21,994)</u>	<u>(30,015)</u>	<u>(52,009)</u>
Net cash used by capital and related financing activities			
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>			
Government grants	3,021,851	104,383	3,126,234
Donations	233,987	-	233,987
Transfers out	(144,564)	-	(144,564)
	<u>3,111,274</u>	<u>104,383</u>	<u>3,215,657</u>
Net cash provided by non-capital financing activities			
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Receipt of interest income	6,730	-	6,730
	<u>6,730</u>	<u>-</u>	<u>6,730</u>
Net cash provided by investing activities			
Net Increase (decrease) in cash and cash equivalents	181,421	(39,687)	141,734
Cash and cash equivalents, June 30, 2012	1,228,154	189,616	1,417,770
Cash and cash equivalents, June 30, 2013	<u>\$ 1,409,575</u>	<u>\$ 149,929</u>	<u>\$ 1,559,504</u>

The accompanying notes are an integral part of these financial statements

Owensboro Independent School District
Reconciliation of Operating Loss to Net Cash Used in Operating Activities
June 30, 2013

	<u>School Food Service Fund</u>	<u>Day Care Fund</u>	<u>Total</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED</u>			
<u>IN OPERATING ACTIVITIES:</u>			
Operating loss	\$ (2,871,649)	(125,274)	\$ (2,996,923)
<u>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH</u>			
<u>USED IN OPERATING ACTIVITIES:</u>			
Depreciation	41,492	6,308	47,800
Other	2,274	3,790	6,064
Changes in operating assets and liabilities:			
Accounts receivable	(186,855)	(7,848)	(194,703)
Inventories	104,314	-	104,314
Accounts payable	(2,898)	8,969	6,071
Deferred revenue	(1,267)	-	(1,267)
Net cash used in operating activities	\$ (2,914,589)	\$ (114,055)	\$ (3,028,644)
 <u>SCHEDULE OF NON-CASH FINANCING ACTIVITIES</u>			
Donated commodities received from federal government	<u>\$ 233,987</u>	<u>\$ -</u>	<u>\$ 233,987</u>
State on-behalf payments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements

Owensboro Independent School District
Statement of Fiduciary Net Position - Fiduciary Funds
June 30, 2013

	Student Activity Fund	Scholarship Fund	Total Fiduciary Funds
<u>ASSETS:</u>			
Cash and cash equivalents	\$ 541,522	\$ 436,894	\$ 978,416
Accounts receivable	1,320	-	1,320
Total Assets	542,842	436,894	979,736
<u>LIABILITIES:</u>			
Accounts payable	4,184	-	4,184
Due to Student groups	538,658	-	538,658
Total Liabilities	542,842	-	542,842
<u>NET POSITION:</u>			
Held in trust for scholarships	\$ -	\$ 436,894	\$ 436,894

The accompanying notes are an integral part of these financial statements

**Owensboro Independent School District
Statement of Changes in Fiduciary Net Position - Fiduciary Funds
For the fiscal year ended June 30, 2013**

	Student Activity Fund	Scholarship Fund
Revenues:		
Revenues from student activities	\$ 1,044,915	\$ -
Contributions	-	4,251
Interest income	-	2,315
	1,044,915	6,566
Expenditures:		
Other	1,028,941	8,250
Changes in net position	15,974	(1,684)
Net position, beginning of year	(15,974)	438,578
Net position, end of year	\$ -	\$ 436,894

The accompanying notes are an integral part of these financial statements

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Owensboro Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Owensboro Independent 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, and its Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic 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 District's basic financial statements 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 basic financial statements of the following organization are included in the accompanying basic financial statements:

OWENSBORO INDEPENDENT SCHOOL DISTRICT FINANCE CORPORATION

The Owensboro Independent Board of Education established the Owensboro Independent School District Finance Corporation (Corporation) (a nonprofit, non-stock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Owensboro Independent Board of Education also comprise the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of 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. The District does not charge indirect expenses to programs or functions. 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 Statement – 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. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and payments for compensated absences which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resource measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The funds' principal operating revenues are food service charges and childcare fees. Operating expenses include food production costs, material and supplies, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require that the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District has the following funds:

I) Government Fund Types

- A) The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounting for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from the General Fund.
- B) The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.
- C) Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Project Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.
 - 1) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
 - 2) The Facility Support Program of Kentucky (FSPK) Fund accounts for and reports 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. This is a major fund of the District.
 - 3) The School Construction Fund includes capital projects fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

D) Debt Service Funds

The Debt Service Fund is used to account for and report the accumulation of resources for, and the payment of, bonded debt and lease obligations, interest, and related costs.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

II) Proprietary Fund Types

- A) The School Food Service Fund accounts for and reports school food service activities, including the National School Lunch Program and the National School Breakfast Program, which are conducted in cooperation with the U. S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA. This is a major fund of the District.
- B) The Day Care Fund is used to account for and report after-school and summer day care services where a fee is charged for participating.
- C) 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.

III) Fiduciary Fund Types

- A. Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds*.
- B. The Scholarship Fund accounts for and reports principal and income used to benefit individuals by providing scholarships.

BUDGETARY PROCESS

The District's budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund, the School Food Service Fund, and the Day Care Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

INVENTORIES

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

PREPAID EXPENSES

Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. No prepaid expenses were recorded as of June 30, 2013.

PREPAID RENT

The District leases real estate for athletic and other recreational events of the schools for a term of 20 years, renewable each year at the District's option. The District paid the lessor a total of \$210,000 in the initial year of the lease and is paying \$1 each year upon renewal of the lease. The amount paid in the lease's initial year is capitalized as prepaid rent and amortized over the term of the lease on the government-wide financial statements.

BOND ISSUE COSTS

Costs associated with the issuance of bond obligations, including underwriter fees, fiscal and rating agency fees, paying agent fees, and attorney fees, are reported as expenditures in the governmental funds financial statements. These costs are capitalized and amortized over the life of the respective bonds on the government-wide financial statements.

BOND DEFERRALS ON REFUNDING

The difference between the reacquisition price to refund existing (old) debt and the net carrying amount of the old debt is reported as bond deferrals on refunding on the government-wide financial statements. This asset is amortized over the remaining life of the old debt or the life of the refunding debt, whichever is shorter.

BOND DISCOUNTS

Underwriter's discounts on bond issues are reported as reductions to bond proceeds in the governmental funds financial statements. These costs are capitalized and amortized over the lives of the respective bonds on the government-wide financial statements.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERFUND BALANCES

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

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

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000 with the exception of computers and related equipment for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Building and improvements	25-50 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
Other	10-15 years

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

In general, payables and accrued liabilities that will be paid from government funds are reported on the governmental fund financial statements if they will be liquidated with current resources. In general, payments made within 60 days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED REVENUE

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue. In addition, certain amounts received under a lease agreement are being recognized over the 20-year lease term resulting in deferred revenue.

ACCUMULATED SICK LEAVE

Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information. The current portion of the liability is estimated based on the anticipated payouts in the succeeding fiscal year.

FUND BALANCES

The District classifies its governmental fund balances as follows:

Non-spendable - This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any non-spendable funds as of June 30, 2013.

Restricted - This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund, the FSPK Fund, and the Debt Service Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects.

Committed - This category includes funds that have been designated for future projects by the Board. Only the Board may commit funds and modify or rescind the commitment. As of June 30, 2013, the District committed \$1,500,000 for future technology projects, \$430,928 for future sick leave, and \$209,539 for future debt service obligations.

Assigned - This category represents funds that have been designated for existing purchase obligations. Assignments can be made by authorized members of management. As of June 30, 2013, the District assigned funds of \$58,675 for School Based Decision Making carry-forward and \$245,744 in existing purchase obligations in the General Fund.

Unassigned - This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, unless the District provides otherwise in its committed or assigned actions.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION

Net position represent the different 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 position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

CONTRIBUTIONS OF CAPITAL

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

INTER-FUND ACTIVITY

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental funds, and after non-operating revenues/expenses in proprietary funds. These transactions are eliminated in the governmental and business - type activities columns of the statement of activities.

ENCUMBRANCE ACCOUNTING

Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next fiscal year.

ESTIMATES

The preparation of basic financial statements requires the District's management to make estimates and assumptions that effect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through October 14, 2013, the date which the financial statements were available for issue. No subsequent events were of such nature as to require disclosure.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARD

For the fiscal year ended June 30, 2013, the Owensboro Independent School District implemented GASB No. 63 *Financial Reporting of Deferred Outflows, and Deferred Inflows of Resources and Net Position*. This resulted in the establishment of categories outside of assets and liabilities titled deferred outflows and deferred inflows. The statement of net assets has been retitled the statement of net position in accordance with this pronouncement.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2013, the carrying amount of the District's deposits with financial institutions was \$14,799,930. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash is commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, federal financial assistance programs, and donor restrictions, each cash amount within the following funds is considered to be restricted:

Special Revenue Funds
Facility Support Program (FSPK) Fund
School Construction Fund
Student Activity Funds
Scholarship Fund

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investments.

NOTE 3 - TAXES

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2013 were \$.821 per \$100 valuation for real property, \$.821 per \$100 valuation for business personal property, and \$.641 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 the telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gas.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 4 - CAPITAL ASSETS

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

<u>GOVERNMENTAL ACTIVITIES:</u>	Balance July 1, 2012	Additions	Dispositions	Balance June 30, 2013
Land	\$ 3,480,604	\$ -	\$ -	\$ 3,480,604
Land improvements	4,336,865	36,428	-	4,373,293
Buildings and improvements	54,296,514	1,485	(32,911)	54,265,088
Technology equipment	8,471,909	669,084	(310,438)	8,830,555
Vehicles	2,997,322	110,196	(10,000)	3,097,518
General equipment	1,165,222	179,353	(73,346)	1,271,229
Totals at historical costs	74,748,436	996,546	(426,695)	75,318,287
Land improvements	(2,596,978)	(152,275)	-	(2,749,253)
Buildings and improvements	(17,276,459)	(1,093,751)	19,748	(18,350,462)
Technology equipment	(4,489,521)	(1,232,572)	278,895	(5,443,198)
Vehicles	(2,001,229)	(231,407)	10,000	(2,222,636)
General equipment	(499,300)	(99,805)	73,346	(525,759)
Less: accumulated depreciation	(26,863,487)	(2,809,810)	381,989	(29,291,308)
Governmental activities, net	\$ 47,884,949	\$ (1,813,264)	\$ (44,706)	\$ 46,026,979
<u>BUSINESS TYPE ACTIVITIES:</u>				
Buildings and improvements	\$ 32,326	\$ -	\$ -	\$ 32,326
Technology equipment	25,474	27,758	(504)	52,728
Vehicles	19,705	-	-	19,705
General equipment	738,208	24,251	(13,589)	748,870
Totals at historical costs	815,713	52,009	(14,093)	853,629
Buildings and improvements	(2,786)	(1,389)	-	(4,175)
Technology equipment	(18,045)	(7,575)	486	(25,134)
Vehicles	(12,480)	(3,941)	-	(16,421)
General equipment	(442,038)	(34,862)	12,173	(464,727)
Less: accumulated depreciation	(475,349)	(47,767)	12,659	(510,457)
Business-type activities, net	\$ 340,361	\$ 4,242	\$ (1,434)	\$ 343,172

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 2,400,809
Student	6,182
Instructional staff	12,827
District administration	5,141
School administration	4,503
Business	132,541
Plant operations and management	45,912
Student transportation	201,895
Community services	-
	<hr/>
Total depreciation expense	<u>\$ 2,809,810</u>

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Owensboro Independent School District Finance Corporation.

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

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2003 R	\$ 4,920,000	1.25 - 3.250%
2004	2,130,000	2.10 - 4.625%
2005 KISTA	547,869	3.00 - 3.625%
2006 KISTA	261,525	3.30 - 4.000%
2008 KISTA	160,090	3.00 - 3.750%
2008	22,680,000	3.25 - 4.500%
2009 R	3,260,000	2.00 - 3.650%
2009 R KISTA	79,696	1.00 - 2.000%
2009 KISTA	283,721	2.00 - 3.600%
2012 KISTA	291,707	2.00 - 2.650%
2012 R	1,365,000	2.00 - 2.500%
2013 KISTA	255,472	2.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Owensboro Independent School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring bonds then outstanding.

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

For the 2003, 2004, 2008, and 2009 and 2012 bond issues, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose not to fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. 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 bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2013 for debt service (principal and interest) are as follows:

Fiscal Year Ending	Owensboro Independent School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2014	\$ 1,171,379	\$ 900,626	\$ 412,012	\$ 108,965	\$ 2,592,982
2015	1,202,456	863,402	424,933	95,645	2,586,436
2016	1,188,845	816,248	389,757	83,582	2,478,432
2017	1,199,611	775,051	403,054	72,186	2,449,902
2018	1,242,556	731,535	417,580	59,889	2,451,560
2019	1,265,986	684,104	366,069	46,929	2,363,088
2020	1,333,327	632,068	170,640	35,542	2,171,577
2021	1,355,099	578,849	177,938	30,945	2,142,831
2022	1,399,081	523,783	180,481	26,045	2,129,390
2023	1,429,595	465,780	188,514	20,988	2,104,877
2024	1,467,881	405,117	192,119	15,464	2,080,581
2025	1,532,400	340,404	47,600	9,796	1,930,200
2026	1,600,917	271,863	49,083	7,681	1,929,544
2027	1,676,971	199,110	53,029	5,415	1,934,525
2028	1,752,926	121,938	52,074	3,050	1,929,988
2029	1,833,265	41,248	41,735	939	1,917,187
	<u>\$ 22,652,295</u>	<u>\$ 8,351,126</u>	<u>\$ 3,566,618</u>	<u>\$ 623,061</u>	<u>\$ 35,193,100</u>

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 5 - BONDED DEBT AND LEASE OBLIGATIONS (CONTINUED)

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2013 is as follows:

Issue	Balance July 1, 2012	Additions	Payments/ Refunding	Balance June 30, 2013
KISTA Bonds:				
2005	\$ 162,316	\$ -	\$ (59,194)	\$ 103,122
2006	105,693	-	(27,506)	78,187
2008	96,460	-	(15,680)	80,780
2009 R	26,567	-	(26,567)	-
2009	222,923	-	(26,551)	196,372
2012	291,707	-	(31,727)	259,980
2013	-	255,472	-	255,472
School Building Revenue Bonds:				
2003 R	\$ 1,365,000	\$ -	\$ (440,000)	\$ 925,000
2004	195,000	-	(95,000)	100,000
2008	21,420,000	-	(470,000)	20,950,000
2009 R	2,225,000	-	(305,000)	1,920,000
2012 R	1,365,000	-	(15,000)	1,350,000
	<u>\$ 27,475,666</u>	<u>\$ 255,472</u>	<u>\$ (1,512,225)</u>	<u>\$ 26,218,913</u>

NOTE 6 - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon retirement from the school system, eligible employees will receive from the District an amount equal to 30% of the value of accumulated sick leave.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated sick leave benefits during the fiscal year ended June 30, 2013 is as follows:

Balance as of July 1, 2012	\$ 1,774,413
Additions	65,049
Decreases	<u>-</u>
Balances as of June 30, 2013	1,839,462
Less current portion	<u>(200,000)</u>
Noncurrent portion	<u>\$ 1,639,462</u>

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2013 may be impaired. The amount of such failure refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 8 - RETIREMENT PLANS

The District contributes to the Teachers' Retirements 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. Kentucky Revised Statutes (KRS) requires that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the 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, Kentucky 40601, or from the KTRS website at <http://ktrs.ky.gov/>.

Contribution rates are established by KRS. Members are required to contribute 10.105%, if hired prior to July 1, 2008, or 10.855% if hired on or after July 1, 2008, of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% if hired before July 1, 2008, or 14.105% if hired on or after July 1, 2008, of salaries. The federal program for any salaries paid by that program pays the matching contributions.

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

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

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

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 8 - RETIREMENT PLANS (CONTINUED)

The District's total payroll was \$29,912,576, \$29,795,025, and \$30,202,910 for the years ended June 30, 2013, 2012, and 2011, respectively. The payroll for employees covered under KTRS was \$22,226,896, \$22,108,562, \$22,511,986 for the years ended June 30, 2013, 2012, and 2011, respectively. The Commonwealth contributed \$ 2,644,799, \$2,522,572, and \$2,553,003 to KTRS for the years ended June 30, 2013, 2012, and 2011, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$319,972, \$413,732, and \$415,940 for the years ended June 30, 2013, 2012, and 2011, respectively, which represents those employees covered by federal programs.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost-sharing, multiple-employer, public employers retirement system administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death, disability, and health benefits to members and their beneficiaries. Under KRS provisions, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan members are required to contribute 5% of their annual covered compensation, if hired before September 1, 2008, or 6% of their annual covered contribution, if hired on or after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 19.55% of the employee's total covered compensation. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012, and 2011 were \$1,453,042, \$1,415,639, and \$1,266,686, respectively, and are equal to the required contribution for the related year.

The District also offers employees the option to participate in the Owensboro County Board of Education 403(b) Plan, 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 the plan.

NOTE 9 - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

The District receives on-behalf payments for fringe benefits, bonds, and technology from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances - governmental funds, and the statement of revenues, expenses, and changes in net position - proprietary funds:

Retirement contributions to the Teachers'	
Retirement System of Kentucky	\$ 2,644,799
Health, life insurance, and HRA	5,086,749
Administrative Fees	56,261
Less: District Reimbursement for Federal Funded Benefits	<u>(234,633)</u>
Total On-Behalf Payments for Fringe Benefits	7,553,176
School Finance Corporation On-Behalf Bond Payments	513,283
Technology On-Behalf Payments	<u>152,407</u>
	<u><u>\$ 8,218,866</u></u>

**Owensboro Independent School District
Notes to Financial Statements**

NOTE 10 - INSURANCE, RISK MANAGEMENT, 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.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, natural disasters, workers compensation, unemployment, 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. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 - DEFICIT OPERATING/FUND BALANCES

There are no District funds that currently have a deficit fund balance. However, the Facility Support Program (FSPK) Fund, and the School Construction Fund had operations that resulted in a current year deficit of expenditures and other financing uses over revenues and other financing sources resulting in a corresponding reduction of fund balance.

NOTE 12 - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss contingency.

NOTE 13 - TRANSFER OF FUNDS

The following transfers were made during the year ended June 30, 2013:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	Facility Support	General	Operating	\$ 456,419
Operating	SEEK Capital	General	Operating	404,979
Operating	Special Revenue	General	Indirect Costs	6,662
Operating	Food Service	General	Indirect Costs	144,564
Operating	General	Special Revenue	Operating	183,797
Operating	Facility Support	Debt Service	Debt Service	1,861,168
Operating	General	Debt Service	Debt Service	186,966
Facilities	SEEK Capital	School	Capital Project	5,162
				<u>\$ 3,249,717</u>

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

There were no inter-fund receivables or payables as of June 30, 2013.

Owensboro Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund
For the fiscal year ended June 30, 2013

	<u>BUDGETED AMOUNTS</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES:</u>				
From local sources:				
Taxes				
Property	\$ 7,429,137	\$ 7,429,137	\$ 8,779,427	\$ 1,350,290
Motor vehicle and watercraft	605,000	605,000	916,598	311,598
Utilities	577,731	577,731	2,321,778	1,744,047
Other	99,000	99,000	259,075	160,075
Earnings on investments	30,000	30,000	75,010	45,010
Other local revenues	68,537	68,537	296,856	228,319
Intergovernmental - state	26,040,598	26,040,598	26,090,303	49,705
Intergovernmental - federal	100,000	100,000	257,349	157,349
Total Revenues	34,950,003	34,950,003	38,996,396	4,046,393
<u>EXPENDITURES:</u>				
Instruction	21,387,832	21,387,832	21,660,588	(272,756)
Support services:				
Student	2,190,837	2,190,837	2,179,566	11,271
Instruction staff	2,264,536	2,264,536	2,623,771	(359,235)
District administrative	1,448,617	1,448,617	991,576	457,041
School administrative	2,641,157	2,641,157	2,648,623	(7,466)
Business	2,169,675	2,169,675	2,100,729	68,946
Plant operation & maintenance	4,642,379	4,642,379	4,628,777	13,602
Student transportation	1,619,410	1,619,410	1,806,210	(186,800)
Contingency	3,000,000	3,000,000	-	3,000,000
Facilities acquisition and construction	3,199,289	3,199,289	12,963	3,186,326
Debt service	186,742	186,742	-	186,742
Total Expenditures	44,750,474	44,750,474	38,652,803	6,097,671
Deficit of revenues over expenditures	(9,800,471)	(9,800,471)	343,593	10,144,064
<u>OTHER FINANCING SOURCES (USES):</u>				
Proceeds from sale of fixed assets	1,000	1,000	30,509	29,509
Proceeds from bond principal	-	-	255,472	255,472
Operating transfers in	518,430	518,430	1,028,281	509,851
Operating transfers out	(148,424)	(148,424)	(375,925)	(227,501)
Total Other Financing Sources	371,006	371,006	938,337	567,331
Net Change in fund balance	(9,429,465)	(9,429,465)	1,281,930	10,711,395
Fund balance, June 30, 2012	10,956,808	10,956,808	10,956,808	-
Fund balance, June 30, 2013	\$ 1,527,343	\$ 1,527,343	\$ 12,238,738	\$ 10,711,395

Owensboro Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Special Revenue Funds
For the fiscal year ended June 30, 2013

	BUDGETED AMOUNTS			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 224	\$ 224
Other local revenues	516,214	516,214	629,082	112,868
Intergovernmental - state	2,015,135	2,015,135	2,061,175	46,040
Intergovernmental - federal	3,638,422	3,638,422	3,615,920	(22,502)
Total Revenues	6,169,771	6,169,771	6,306,401	136,630
EXPENDITURES:				
Instruction	5,102,895	5,102,895	5,252,981	(150,086)
Support services:				
Student	562,108	562,108	554,292	7,816
District administrative	-	-	30,000	(30,000)
School administrative	51,919	51,919	82,280	(30,361)
Plant operation & maintenance	47,899	47,899	76,737	(28,838)
Student transportation	137,446	137,446	8,865	128,581
Community services	514,639	514,639	515,400	(761)
Total Expenditures	6,416,906	6,416,906	6,520,555	(103,649)
Deficit of revenues over expenditures	(247,135)	(247,135)	(214,154)	32,981
OTHER FINANCING SOURCES (USES):				
Operating transfers in	253,797	253,797	183,797	(70,000)
Operating transfers out	(6,662)	(6,662)	(6,662)	-
Total Other Financing Sources	247,135	247,135	177,135	(70,000)
Net Change in fund balance	-	-	(37,019)	(37,019)
Fund balance, June 30, 2012	92,023	92,023	92,023	-
Fund balance, June 30, 2013	\$ 92,023	\$ 92,023	\$ 55,004	\$ (37,019)

Owensboro Independent School District
Statement of Receipts, Disbursements, and Due to Student Groups - Elementary, Middle, and Alternative Schools Activity Funds
For the fiscal year ended June 30, 2013

School	Cash July 1, 2012	Receipts For Year	Disbursements For Year	Cash June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
SCHOOL ACTIVITY FUNDS:							
Hager Preschool	\$ 17,170	21,721	(20,815)	\$ 18,076	-	-	\$ 18,076
Cravens Elementary School	13,735	14,106	(16,363)	11,478	-	-	11,478
Estes Elementary School	25,917	20,200	(28,590)	17,527	-	-	17,527
Foust Elementary School	23,223	42,507	(44,375)	21,355	-	-	21,355
Newton Parrish Elementary School	13,136	5	(149)	12,992	-	-	12,992
Seven Hills Alternative School	1,386	513	(516)	1,383	-	-	1,383
Sutton Elementary School	18,777	32,159	(31,924)	19,012	-	-	19,012
5 th - 6 th Center	56,249	-	-	56,249	-	-	56,249
Owensboro Middle School	55,901	212,096	(190,727)	77,270	1,320	(4,184)	74,406
Totals	\$ 225,494	\$ 343,307	\$ (333,459)	\$ 235,342	\$ 1,320	\$ (4,184)	\$ 232,478

Owensboro Independent School District
Statement of Receipts, Disbursements, and Due to Student Groups - Owensboro High School Activity Funds
For the fiscal year ended June 30, 2013

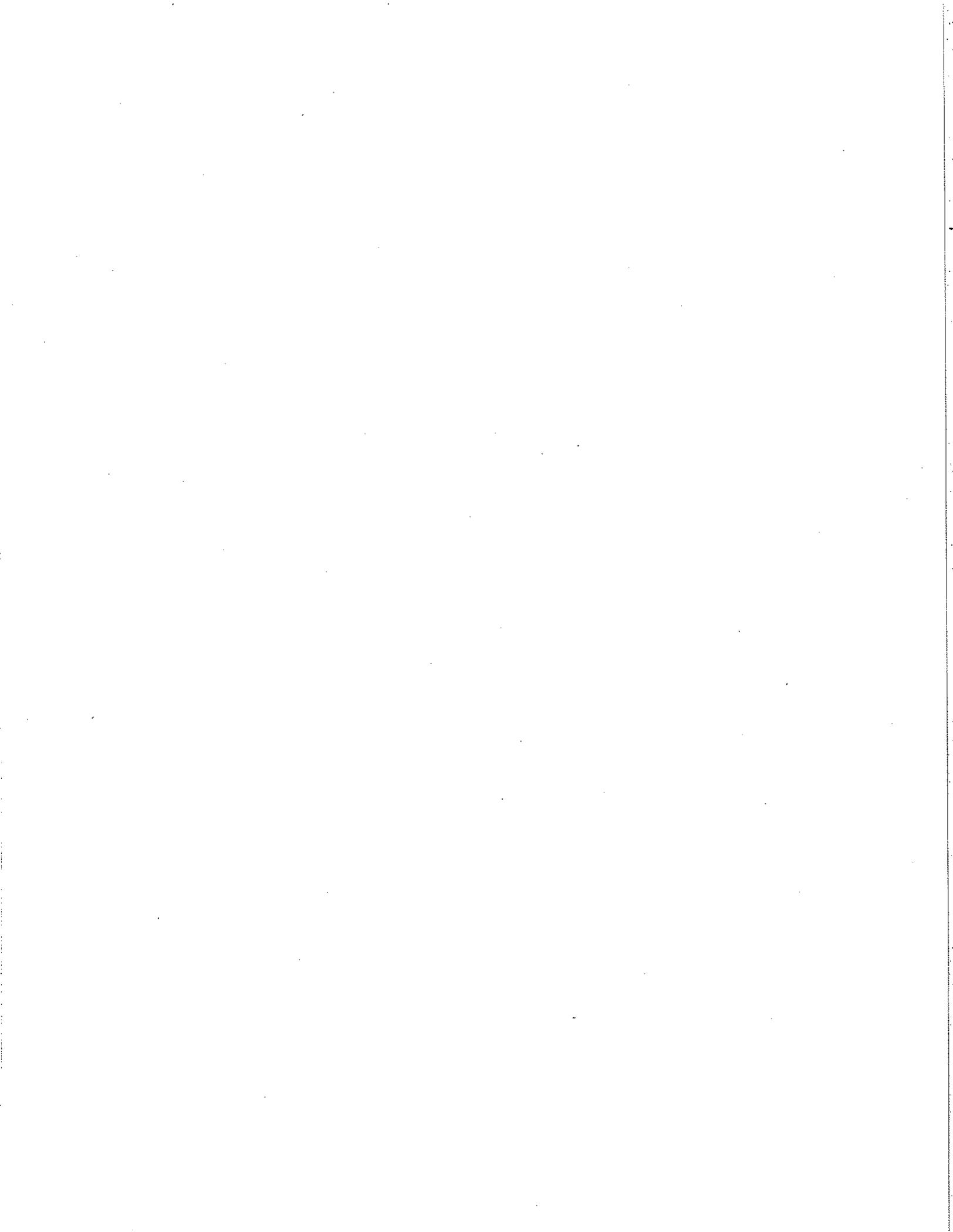
Activity Fund	Cash July 1, 2012	Receipts For Year	Disbursements For Year	Interfund Transfers	Cash June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
Athletics	\$ 82,770	\$ 180,323	\$ (182,220)	\$ -	\$ 80,873	-	\$ -	80,873
Football Booster Club	5,515	19,585	(18,645)	1,230	7,685	-	-	7,685
Soccer Booster Club	8,970	11,851	(12,738)	75	8,158	-	-	8,158
Girls Soccer Support	4,011	774	(3,051)	-	1,734	-	-	1,734
Boys Soccer Support	4,460	729	(2,069)	-	3,120	-	-	3,120
Intramurals	83	-	-	-	83	-	-	83
Swim team Fund	96	1,096	(1,152)	228	268	-	-	268
Cheer - Red Squad	15,986	69,316	(79,628)	(2,068)	3,606	-	-	3,606
Football Sign	4,822	14,125	(13,958)	(1,748)	3,241	-	-	3,241
Girls Basketball Funds	148	20	(3,624)	5,146	1,690	-	-	1,690
Girls Track	31	1,537	(1,357)	-	211	-	-	211
Devilettes	-	50,244	(41,739)	2,390	10,895	-	-	10,895
Boys Basketball Funds	4,767	5,292	(8,451)	4,091	5,699	-	-	5,699
Softball Concessions	6,012	-	-	(6,012)	-	-	-	-
Softball Fundraising	3,191	6,849	(15,067)	6,934	1,907	-	-	1,907
Baseball Fundraising	4,675	11,638	(14,171)	2,425	4,567	-	-	4,567
Cross Country Invit	3,274	9,598	(4,414)	-	8,458	-	-	8,458
Girls CC Support	4,170	-	(1,791)	-	2,379	-	-	2,379
Boys CC Support	3,427	58	(1,046)	-	2,439	-	-	2,439
Wrestling Invitational	98	700	(662)	171	307	-	-	307
Instructional Fees	18,460	14,697	(5,730)	(2,887)	24,540	-	-	24,540
Art Fees	533	3,544	(3,275)	-	802	-	-	802
Business Education	750	-	(478)	490	762	-	-	762
Driver's Ed Fees	6,337	2,048	-	-	8,385	-	-	8,385
English	1,694	179	-	1,000	2,873	-	-	2,873
Foreign Language	619	-	(24)	(595)	-	-	-	-
Family and Consumer	342	740	(692)	-	390	-	-	390
Math	327	-	(255)	1,000	1,072	-	-	1,072
Science	1,109	-	(397)	1,000	1,712	-	-	1,712
Special Education	53	-	-	-	53	-	-	53
Step Team	1,013	569	(910)	-	672	-	-	672

Owensboro Independent School District
Statement of Receipts, Disbursements, and Due to Student Groups - Owensboro High School Activity Funds - Continued
 For the fiscal year ended June 30, 2013

Activity Fund	Cash July 1, 2012	Receipts For Year	Disbursements For Year	Interfund Transfers	Cash June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
Social Studies	\$ 195	\$ -	\$ (601)	\$ 500	\$ 94	\$ -	\$ -	94
PE Fees 9 th Grade	8,431	3,183	(7,970)	-	3,644	-	-	3,644
Laptop Fees	-	57,418	(54,080)	-	3,338	-	-	3,338
Vending - Student	7,780	5,285	(10,391)	(55)	2,619	-	-	2,619
Vending - Adult	1,538	3,734	(3,890)	-	1,382	-	-	1,382
Volleyball Fundraiser	3,764	14,987	(10,145)	(441)	8,165	-	-	8,165
OHS Academic	500	-	(313)	-	187	-	-	187
Magazine Sales	994	11,380	(6,911)	(4,560)	903	-	-	903
OHS Concessions	8,321	31,487	(14,209)	(22,239)	3,360	-	-	3,360
Knotholes	647	172	(406)	-	413	-	-	413
Yearbook Fundraising	263	-	-	-	263	-	-	263
Yearbook	1,055	13,953	(12,715)	1,780	4,073	-	-	4,073
Scoop	233	-	-	(120)	113	-	-	113
P.E.A.C.E.	-	-	-	-	-	-	-	-
Co-Ed-Y Club	622	5,125	(5,917)	500	330	-	-	330
Academic Team	57	60	-	(65)	52	-	-	52
GSA	174	166	-	-	340	-	-	340
FBLA	1,043	2,318	(1,732)	(35)	1,594	-	-	1,594
FHA/FCCLA	279	-	-	-	279	-	-	279
HOSA	118	-	-	-	118	-	-	118
National Honor Society	501	2,964	(2,514)	858	1,809	-	-	1,809
Drama Foundation	-	-	-	-	-	-	-	-
JROTC	2,694	10,310	(10,707)	2,496	4,793	-	-	4,793
Tennis Fundraising	1,012	376	(354)	-	1,034	-	-	1,034
Foreign Language Club	255	615	(628)	(50)	192	-	-	192
SIA/Interact	-	2,033	(1,085)	-	948	-	-	948
Student Council	-	2,171	(1,795)	2,372	2,748	-	-	2,748
Chess Club	30	-	-	-	30	-	-	30
Craft Club	-	-	-	-	-	-	-	-
AOK	204	169	(199)	(50)	74	-	-	74
Band	3,663	1,690	(4,782)	6,000	6,571	-	-	6,571

Owensboro Independent School District
Statement of Receipts, Disbursements, and Due to Student Groups - Owensboro High School Activity Funds - Continued
For the fiscal year ended June 30, 2013

Activity Fund	Cash July 1, 2012	Receipts For Year	Disbursements For Year	Interfund Transfers	Cash June 30, 2013	Accounts Receivable	Accounts Payable	Due to Student Groups June 30, 2013
Band Concessions	\$ 2,723	\$ 12,279	\$ (6,088)	\$ (6,000)	\$ 2,914	\$ -	\$ -	2,914
Orchestra	2,689	1,046	(620)	-	3,115	-	-	3,115
Choir	7,691	2,987	(3,390)	-	7,288	-	-	7,288
PSTO	2,245	20,969	(15,067)	(1,895)	6,252	-	-	6,252
Class of 2013	6,102	-	-	(6,102)	-	-	-	-
Class of 2014	1,259	-	-	2,402	3,661	-	-	3,661
Class of 2015	429	95	-	1,216	1,740	-	-	1,740
Class of 2016	-	-	-	1,082	1,082	-	-	1,082
Quill and Scroll	183	-	-	-	183	-	-	183
Flower Fund	197	433	(166)	-	464	-	-	464
Drama Foundation	12,358	16,435	(13,553)	-	15,240	-	-	15,240
Youth Service Center Project	1,860	1,436	(430)	-	2,866	-	-	2,866
Prom/Graduation	3,108	2,475	(9,407)	3,824	-	-	-	-
Champion (SADD)	304	-	-	-	304	-	-	304
Junior Class/Prom	8,945	4,425	(6,791)	1,960	8,539	-	-	8,539
Social Studies Trip	5,809	27,624	(29,147)	(37)	4,249	-	-	4,249
Senior Activities	690	571	(4,949)	3,688	-	-	-	-
Media Center	1,872	17	(535)	-	1,354	-	-	1,354
World of Work	175	-	-	65	240	-	-	240
Textbook Rental	-	16,110	(14,915)	(45)	1,150	-	-	1,150
Textbook Lost and Damage	69	1,023	(574)	-	518	-	-	518
Renaissance	1,575	-	-	-	1,575	-	-	1,575
In and Out	4,841	17,255	(16,778)	81	5,399	-	-	5,399
Totals	\$ 297,240	\$ 700,288	\$ (691,298)	\$ -	\$ 306,180	\$ -	\$ -	\$ 306,180





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**Independent Auditors' Report on Internal Control Over Financial Reporting, Compliance
and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with
*Government Auditing Standards***

Members of the Board of Education
Owensboro Independent School District
Owensboro, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the *Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits, the financial statements of the governmental activities and the business type activities, each major fund, and the aggregate remaining fund information which collectively comprise the basic financial statements of the Owensboro Independent School District as of and for the year ended June 30, 2013, and have issued our report thereon dated October 14, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be significant deficiencies, or material weaknesses. 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 Owensboro Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II to the Independent Auditors' Contract-State Audit Requirements*.

District's Response to Findings:

There were no findings identified in our audit, therefore, there was no response by the district to any findings.

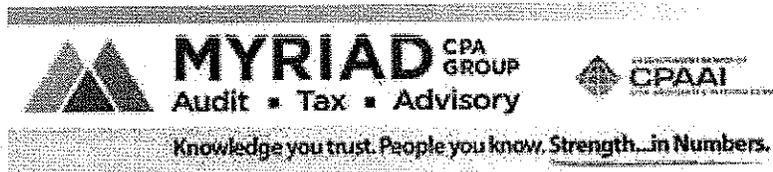
We noted certain matters that were reported to management of the Owensboro Independent School District on October 13, 2014.

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 result of that testing, and not to provide an opinion on the effectiveness of 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 report is not suitable for any other purpose.



Owensboro , Kentucky
October 14, 2013



Independent Auditors' Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Members of the Board of Education of the
Owensboro Independent School District
Owensboro, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Owensboro Independent School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the Owensboro Independent School District's major federal programs for the year ended June 30, 2013. The Owensboro Independent School District's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs-major programs.

Management's Responsibility:

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Owensboro Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of ; and OMB Circular A-133 , *Audits of States, Local Governments, and Non-Profit Organizations, Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Owensboro Independent School District's compliance with these 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, it does not provide a legal determination of the Owensboro Independent School District's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures did not disclose any instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which would be described in the accompanying Schedule of Findings and Questioned Costs.

Report on Internal Control Over Compliance

Management of the Owensboro Independent 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 the Owensboro Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Owensboro Independent School District's internal control over compliance.

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

Our consideration of the 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 considered to be deficiencies, significant deficiencies, or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the remaining aggregate fund information of the Owensboro Independent School District for the year ended June 30, 2013, and the related notes to the financial statements. We issued our report thereon dated October 13, 2013, which contained unmodified opinions on these financial statements.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the District's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records

used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Purpose:

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 A-133. Accordingly, this report is not suitable for any other purpose.

Myriad CA Group, LLC

Owensboro, Kentucky
October 14, 2013

**Owensboro Independent School District
Schedule of Expenditure of Federal Awards
For the Fiscal Year Ended June 30, 2013**

<u>Program</u>	<u>CFDA No.</u>	<u>Grant/Project Number</u>	<u>Amount</u>
<i>(Passed through the Commonwealth of Kentucky Department of Education)</i>			
National School Lunch Program	10.555	7750002	\$ 1,863,630
National School Breakfast Program	10.553	7760005	679,071
Summer Food Program for Children	10.559	7740023	100,434
Summer Food Program for Children	10.559	7690024	10,520
Fresh Fruit and Vegetable Program	10.582	7720012	63,146
State Administrative Expenses- Food for Children	10.560	7850012	1,000
Commodities Supplemental Food Program	10.565	4950	233,987
Total United States Department of Agriculture			<u>2,951,788</u>
<u>United States Department of Education:</u>			
<i>(Passed Through the Commonwealth of Kentucky Department of Education)</i>			
Title I Parental Involvement	84.010	3100002-10	3,021
Title I Part A 2012	84.010	3100002-12	544,706
Title I Part A 2013	84.010	3100002-12	1,354,149
Title I Parental Involvement 2012	84.010	3100002-13	12,311
Title I Parental Involvement 2013	84.010	3100002-12	2,395
Title I- Program Delinquent Children 2012	84.010	3100102-11	17,559
Title I- Program Delinquent Children 2013	84.010	3100102-12	23,353
Title I- School Improvement	84.010	3100202-11	31,417
Total Title I			<u>1,988,911</u>
IDEA Part B	84.027	3810002-12	16,682
IDEA Part B-Regular 2012	84.027	3810002-11	546,985
IDEA Part B-Non Public 2012	84.027	3810002-12	(11,126)
IDEA Part B- Regular 2013	84.027	3810002-12	285,507
Total IDEA Part B			<u>838,048</u>
Vocational Education Basic	84.048	4621232-11	19,817
Vocational Education Carl Perkins	84.048	4621232-10	155
Vocational Education Basic-2013	84.048	4621232-12	6,421
Vocational Education Basic-2013	84.048	4621232-13	50,551
Community Based Work Transition	84.048	3713	15,789
Total Vocational Education			<u>92,733</u>

**Owensboro Independent School District
Schedule of Expenditure of Federal Awards, continued
For the Fiscal Year Ended June 30, 2013**

<u>Program</u>	<u>CFDA No.</u>	<u>Grant/Project Number</u>	<u>Amount</u>
Special Education-Pre School	84.173	38000002-12	<u>50,756</u>
Title II- Part A Teacher Quality	84.367	3230002-11	(2,421)
Title II- Part A Teacher Quality	84.367	3230002-12	<u>327,514</u>
Total Title II			<u>325,093</u>
Title III-ESL	84.365	3330002-11	6,429
Title III- Part D Federal Technology	84.365	3210002-10	<u>3,131</u>
Total Title III			<u>9,560</u>
Education Jobs Fund	84.410	EJOB00-10	<u>7,169</u>
Race to the Top-2012	84.413	3960002-11	<u>30,508</u>
21st Century Learning Center	84.287	3400002-10	92,386
21st Century Learning Center	84.287	3400002-11	165,750
21st Century Learning Center	84.287	3400002-12	<u>15,000</u>
Total 21st Century Learning Center			<u>273,136</u>
Total Department of Education			<u>3,615,914</u>
ROTC	12.000	5043	<u>55,681</u>
Total Federal Awards Expended			<u><u>\$ 6,623,383</u></u>

OWENSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

Note 1 Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Owensboro Independent School District, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States and Local Governments and Non-Profit Organizations*.

Note 2 Commodities Donation:

Nonmonetary assistance for commodities donated is reported at the fair value of the commodities disbursed.

Note 3 Program Clusters:

The following programs are considered clusters and are considered in the aggregate for the purpose of major program determination

<u>Program</u>	<u>CFDA No.</u>	<u>Grant/Project Number</u>	<u>Amount</u>
<i>(Passed through the Commonwealth of Kentucky Department of Education)</i>			
National School Lunch Program	10.555	7750002	\$ 1,863,630
National School Breakfast Program	10.553	7760005	679,071
Summer Food Program for Children	10.559	7740023	100,434
Summer Food Program for Children	10.559	7690024	10,520
Fresh Fruit and Vegetable Program	10.582	7720012	63,146
State Administrative Expenses- Food for Children	10.560	7850012	1,000
Commodities Supplemental Food Program	10.565	4950	233,987
Total United States Department of Agriculture			<u>2,951,788</u>

**Owensboro Independent School District
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2013**

I. Summary of Audit Results:

		<u>Results</u>
a.	Type of report issued on financial statements.	Unmodified
b.	Internal control over financial reporting: * Material weakness identified? * Significant deficiencies identified that are not considered to be material weaknesses?	None reported None reported
c.	Non-compliance material to financial statements noted?	None reported
d.	Internal control over major programs: * Material weakness identified? * Significant deficiencies identified that are not considered to be material weaknesses?	None reported None reported
e.	Type of auditors report issued on compliance for major programs?	Unmodified
f.	Any audit findings that are required to be reported in accordance with 510 (a) of Circular A-133?	None reported
g.	Identification of major programs: Community Development Block Grant 14.218 Federal Transit Grant 20.507	\$ 423,677 \$ 1,099,733
h.	Dollar threshold used to distinguish between Type A and Type B Programs.	\$ 300,000
i.	Does the City of Owensboro qualify as a low risk auditee?	Yes

II. Finding- Financial Statement Audit-June 30, 2013:

There were no findings and questioned cost resulting from the audit of the Owensboro Independent School District for the fiscal year ended June 30, 2013.

III. Findings and Questioned Costs-Major Federal Program Audit:

None: There were no material findings and questioned costs related to major federal programs of the Owensboro Independent School District for the fiscal year ended June 30, 2013.

IV. Findings- Financial Statement Audit- Prior Year-June 30, 2012:

There were no reportable findings for the fiscal year ended June 30, 2012.



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To Dr. Nicholas Brake, Superintendent
and Members of the Board of Education
of Owensboro Independent School District

Ladies and Gentlemen:

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

There were no findings resulting from the prior year's audit that are required to be reported. There are no findings in the current year's audit that are required to be reported.

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

Myriad CPA Group, LLC

Myriad CPA Group, LLC
Owensboro, Kentucky
October 14, 2013