

OWSLEY COUNTY

SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS

AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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## INDEPENDENT AUDITOR'S REPORT

To the Owsley County Board of Education and  
State Committee for School District Audits  
Booneville, Kentucky

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

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

## ***Other Matters***

### ***Required Supplementary Information***

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

### ***Other Information***

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

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Owsley County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and

grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Owsley County School District's internal control over financial reporting and compliance.

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

As management of the Owsley County 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 fund balance for the district was \$ 961,898 of which \$ 811,030 was General Fund, \$150,868 was in the restricted funds of Debt Service Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$ 903,001 of which \$721,073 was General Fund, \$ 181,928 was in the restricted funds of Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$ 182,633 for General Fund.
- The district has also joined forces with the Owsley County Conservation District. This construction project is a structure that will be used to market the school and community vegetables and fruits. This building is being built with local and state In-kind monies.
- The General Fund Revenue totaled \$ 6,418,810 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$ 6,564,059 exclusive of inter-fund transfers. These totals include \$ 1,330,220 of on-behalf payments from the Commonwealth of Kentucky for health insurance, life insurance and Kentucky Teachers’ Retirement contributions.
- The District will continue to attain funding through Promising Neighborhoods and Gear-up Programs. These Programs are Federal grants administered through Berea College. Students will be provided resources to help them overcome barriers, so they can achieve overall success in High School, College, and life.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.
- The General Fund had \$6.4 million in revenues, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and earned interest income.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Owsley County School District’s basic financial statements. The District’s basic financial statements are comprised of three

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-Wide Financial Statements** - The district-wide financial statements are designed to provide readers with a broad overview of the Owsley County School District’s finances, in a manner similar to a private-sector business.

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

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

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

The district-wide financial statements can be found on the table of contents in this report.

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

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in this report.

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets plus deferred outflows exceeded liabilities by approximately \$2.61 million as of June 30, 2013. The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

2013 District-Wide Governmental Net position compared to 2012 as follows:

**Table 1  
Net Position (in Millions)**

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Percentage
	2012	2013	2012	2013	2012	2013	Change 2012-2013
<b>Assets:</b>							
Current and Other Assets	1.28	0.96	0.12	0.16	1.40	1.12	-20%
Capital Assets	5.98	5.50	0.03	0.03	6.01	5.53	-8%
<b>Total Assets</b>	<b>7.25</b>	<b>6.46</b>	<b>0.15</b>	<b>0.19</b>	<b>7.40</b>	<b>6.65</b>	-10%
<b>Loss for the difference</b>							
in reacquisition and carrying							
value of refunding debt	0.00	0.09	0.00	0.00	0.00	0.09	
	0.00	0.09	0.00	0.00	0.00	0.09	
<b>Liabilities:</b>							
Current Liabilities	0.58	0.47	0.00	0.00	0.58	0.47	-19%
Noncurrent Liabilities	3.79	3.66	0.00	0.00	3.79	3.66	-3%
<b>Total Liabilities</b>	<b>4.37</b>	<b>4.13</b>	<b>0.00</b>	<b>0.00</b>	<b>4.37</b>	<b>4.13</b>	-5%
Net Assets:							
Invested in Capital Assets							
Net of Debt	1.14	1.88	0.03	0.03	1.17	1.91	63%
Restricted	0.91	0.19	0.19	0.16	1.11	0.36	-68%
Unrestricted Net Position	0.88	0.34	0.12	0.00	1.00	0.34	-66%
<b>Total Net Position</b>	<b>2.94</b>	<b>2.42</b>	<b>0.35</b>	<b>0.19</b>	<b>3.28</b>	<b>2.61</b>	-20%

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GOVERNMENTAL ACTIVITIES**

Ending net position was \$2.61 million for the District. This was a decrease of \$.67 million including a prior period adjustment from 2012.

Table 2  
Changes in Net Position  
(in millions)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change 2012-2013
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	
<b>Revenues:</b>							
Charges for services	\$ 0.20	\$ 0.53	\$ 0.14	\$ 0.12	\$ 0.35	\$ 0.66	89%
Operating grants and contributions	4.68	3.21	0.55	0.57	5.23	3.78	-28%
Capital grants and contributions	0.42	0.43	-	-	0.42	0.43	2%
General revenues	4.90	6.13	0.00	0.00	4.90	6.13	25%
<b>Total revenue</b>	<b>10.21</b>	<b>10.30</b>	<b>0.69</b>	<b>0.69</b>	<b>10.90</b>	<b>10.99</b>	<b>1%</b>
<b>Expenses:</b>							
Instruction	\$ 5.99	\$ 6.10			\$ 5.99	\$ 6.10	2%
Student	0.35	0.42			0.35	0.42	17%
Instructional staff	0.48	0.54			0.48	0.54	11%
District administration	0.41	0.30			0.41	0.30	-27%
School administration	0.43	0.43			0.43	0.43	0%
Business	0.25	0.28			0.25	0.28	14%
Plant operation & maintenance	0.78	0.93			0.78	0.93	18%
Student transportation	0.63	0.65			0.63	0.65	2%
Other instructional	0.01	0.01			0.01	0.01	0%
Community services operations	0.25	0.25			0.25	0.25	-1%
Land Improvements	-	0.00			-	0.00	0%
Amortization		0.01					
Depreciation	0.52	0.50	0.00	0.00	0.53	0.50	-4%
Interest on long-term debt	0.13	0.12			0.13	0.12	-5%
Food Service Operations	0.01	0.01	0.67	0.65	0.68	0.65	-4%
Extraordinary Item		0.16				0.16	
<b>Total Expenses</b>	<b>\$ 10.24</b>	<b>\$ 10.69</b>	<b>\$ 0.68</b>	<b>\$ 0.65</b>	<b>\$ 10.92</b>	<b>\$ 11.34</b>	<b>4%</b>
<b>Change in net position</b>	<b>\$ (0.04)</b>	<b>\$ (0.39)</b>	<b>\$ 0.01</b>	<b>\$ 0.04</b>	<b>\$ (0.02)</b>	<b>\$ (0.35)</b>	<b>-1404%</b>

**CAPITAL ASSETS**

At the end of fiscal 2013, the District had \$5.53 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.48 million over last year.

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

Capital Assets at Year-End FY2013  
(Net of depreciation)

	Governmental Activities		Business Type Activities		Totals	
	2012	2013	2012	2013	2012	2013
Land	216,605	216,605	-		216,605	216,605
Land and Improvements	28,526	21,664	-		28,526	21,664
Buildings & Improvements	3,451,047	4,272,084	5,698	5,402	3,456,745	4,277,486
Technology Equipment	435,655	282,184	28,001	27,805	463,656	309,989
Vehicles	626,813	535,791	-		626,813	535,791
General Equipment	172,411	173,469	-	(3,019)	172,411	170,450
Construction In Progress	1,047,290	-	-		1,047,290	-

**DEBT**

Capital lease and general obligation debt decreased \$.34 million from FY 2012.

Outstanding Debt at Year-End  
(in Millions)

	Government Activities	
	2012	2013
Capital Lease Obligations	\$ 0.50	\$ 0.43
General Obligation Bonds	<u>3.54</u>	<u>3.28</u>
Total Obligations	\$ <u>4.04</u>	\$ <u>3.70</u>

**THE DISTRICT’S FUNDS**

As the District completed the year, the General Fund reflected a fund balance of \$721,073, which is less than last year’s fund balance of \$811,030. The unassigned portion of the fund balance at the end of fiscal year 2013 is \$664,320, compared to \$770,063 from the preceding year.

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2013:

\*Note This chart does not include beginning balances.

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

REVENUE	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Local Revenue Sources	1,017,952	181,758		61,209	-		123,068
State Revenue Sources	5,388,988	322,707	69,390	190,331		112,188	69,069
Federal Revenue Sources		2,887,328				56,300	591,989
Other	11,870					815	90
Transfers	71,858	16,566				261,962	
<b>TOTALS</b>	<b>6,490,668</b>	<b>3,408,359</b>	<b>69,390</b>	<b>251,540</b>	<b>-</b>	<b>431,265</b>	<b>784,216</b>
EXPENDITURES	Fund 1	Fund 2	Fund 310	Fund 320	Fund 360	Fund 400	Fund 51
Instruction	3,573,788	2,502,722					
Student Support Services	259,792	155,673					
Instructional Staff Support Services	153,150	385,913					
District Admin Support	297,277						
School Admin Support	429,008						
Business Support Services	265,717	15,748					
Plant Operation & Management	869,202	70,240					
Student Transportation	624,878	25,573					
Food Service Operations	6,884						651,048
Community Services		247,014					
Debt Service	83,446					387,315	
Site Improvement	918						
Building Renovations							
Other Items		5,476					94,675
Transfers	16,566		82,280	251,540			
<b>TOTALS</b>	<b>6,580,626</b>	<b>3,408,359</b>	<b>82,280</b>	<b>251,540</b>	<b>-</b>	<b>387,315</b>	<b>745,723</b>
Excess / (Deficit)	(89,958)	-	(12,890)	-	-	43,950	38,493

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**Comments on Budget Comparisons**

- The District’s total general fund revenues for the fiscal year ended June 30, 2013 net of other financing sources and uses, were \$6.3 million including “On-Behalf” payments.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the other revenue from local sources item with the ending actual revenue being \$306,294 more than budget by approximately 15 percent.
- The total cost of all general fund programs and services was \$6.58 million including transfers.
- General fund budget expenditures to actual varied by approximately \$14,679 in total.

**BUDGETARY IMPLICATIONS**

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2013-2014 with a 2.8% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates
- Declining federal funds, required health/life/admin fee/HRA insurance reimbursements from federal grants. Continued unfunded mandates such as the “shared” KTRS (which requires a .50% district match of gross pay for all KTRS eligible employees in FY2013 and will continue to increase to a 2.0% contribution rate), initiatives moving from state-paid to district-paid such as Infinite Campus and MUNIS maintenance fees, the loss of Coal Severance funding, and additional anticipated reductions in funding continues to press the district’s ability to continue programs. The district contribution rate for CERS increased by 2.8% for 2012/2013.
- Continued Insufficient funding of the state transportation formula

Questions regarding this report should be directed to the Finance Officer, Jerry McIntosh or Superintendent, Dr. Tim Bobrowski. at (606) 593-6363 or by mail at Owsley County Board of Education, 14 Old Hwy 11, Booneville, Kentucky 41314.

Owsley County School District  
**Statement of Net Position**  
June 30, 2013

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 40,399	\$ 100,509	\$ 140,908
Investments	594,045		594,045
Receivables (net)	320,575	33,291	353,866
Inventories		29,091	29,091
Capital assets:			
Land, improvements, and construction in progress	216,605		216,605
Other capital assets, net of depreciation	5,285,191	30,188	5,315,379
Total capital assets	<u>5,501,796</u>	<u>30,188</u>	<u>5,531,985</u>
Total assets	<u>6,456,815</u>	<u>193,079</u>	<u>6,649,894</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	<u>86,360</u>		<u>86,360</u>
<b>LIABILITIES</b>			
Accrued interest payable	22,703		22,703
Unearned revenue	122,767		122,767
Long-term liabilities:			
Due within 1 year:			
Bond obligations	255,000		255,000
Capital lease obligations	67,182		67,182
Total due within 1 year	<u>322,182</u>	<u>-</u>	<u>322,182</u>
Due in more than 1 year:			
Bond obligations	3,020,000		3,020,000
Capital lease obligations	361,515		361,515
KSBIT payable	160,761		160,761
Sick leave	116,410		116,410
Total due in more than 1 year	<u>3,658,686</u>	<u>-</u>	<u>3,658,686</u>
Total liabilities	<u>4,126,339</u>	<u>-</u>	<u>4,126,339</u>
<b>NET POSITION</b>			
Net Investment in capital assets	1,884,459	30,188	1,914,647
Restricted for:			
Expendable restricted for the debt service	43,936		43,936
Expendable restricted for sick leave	56,754		56,754
Expendable restricted for capital projects	94,042		94,042
Expendable restricted for food services		162,891	162,891
Unrestricted	<u>337,646</u>		<u>337,646</u>
Total net position	<u>\$ 2,416,836</u>	<u>\$ 193,079</u>	<u>\$ 2,609,915</u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Activities**  
Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 6,099,697	\$ 533,757	\$ 2,054,422	\$ -	\$ (3,511,518)		\$ (3,511,518)
Support Services							
Student	415,465		128,401		(287,064)		(287,064)
Instructional Staff	539,063		160,502		(378,562)		(378,562)
District Administration	297,277		96,301		(200,976)		(200,976)
School Administration	429,008		128,401		(300,606)		(300,606)
Business	281,465		96,301		(185,164)		(185,164)
Plant Operation & Maintenance	927,420		288,903	259,721	(378,796)		(378,796)
Student Transportation	650,451		192,602		(457,849)		(457,849)
Food Services	6,884				(6,884)		(6,884)
Other Instructional	5,475				(5,475)		(5,475)
Community Services Operations	247,014		64,201		(182,813)		(182,813)
Land Improvements	918				(918)		(918)
Amortization	10,804				(10,804)		(10,804)
Depreciation	499,863				(499,863)		(499,863)
Interest on general long-term debt	122,298			168,488	46,190		46,190
Total governmental activities	<u>10,533,101</u>	<u>533,757</u>	<u>3,210,034</u>	<u>428,209</u>	<u>(6,361,101)</u>		<u>(6,361,101)</u>
Business-type activities:							
Food service operations	647,538	123,068	566,382			\$ 41,913	41,913
Depreciation	3,511					(3,511)	(3,511)
Total business-type activities	<u>651,048</u>	<u>123,068</u>	<u>566,382</u>	<u>-</u>	<u>-</u>	<u>38,402</u>	<u>38,402</u>
Total primary government	\$ <u>11,184,149</u>	\$ <u>656,825</u>	\$ <u>3,776,417</u>	\$ <u>428,209</u>	<u>(6,361,101)</u>	<u>38,402</u>	<u>(6,322,698)</u>
General revenues:							
Taxes:							
Property taxes					397,365		397,365
Motor vehicle taxes					95,115		95,115
Utility taxes					210,249		210,249
Unmined minerals tax					24,433		24,433
State and formula grants					5,388,988		5,388,988
Unrestricted investment earnings					12,685	90	12,776
Total general revenues					<u>6,128,835</u>	<u>90</u>	<u>6,128,926</u>
Extraordinary item					(160,761)		(160,761)
Total general revenues and extraordinary item					<u>5,968,074</u>	<u>90</u>	<u>5,968,165</u>
Change in net position					(393,026)	38,493	(354,534)
Net position - beginning					2,887,282	154,586	3,041,868
Prior period adjustment					(77,419)		(77,419)
Restated net position - beginning					<u>2,809,863</u>	<u>154,586</u>	<u>2,964,449</u>
Net position - ending					\$ <u>2,416,836</u>	\$ <u>193,079</u>	\$ <u>2,609,915</u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2013

	<b>Governmental Funds</b>				
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 182,633	\$ -	\$	\$ 94,042	\$ 276,675
Investments	506,159		87,886		594,045
Receivables, net					
Taxes-current	5,660				5,660
Taxes-delinquent	389				389
Accounts	26,232	6,667			32,900
Intergovernmental-federal		281,626			281,626
Total assets	721,073	288,293	87,886	94,042	1,191,295
<b>LIABILITIES</b>					
Cash shortage		236,276			236,276
Unearned revenue		52,017			52,017
Total liabilities	-	288,293	-	-	288,293
<b>FUND BALANCE</b>					
Restricted			87,886	94,042	181,928
Committed	56,754				56,754
Unassigned	664,320				664,320
Total fund balance	\$ 721,073	\$ -	\$ 87,886	\$ 94,042	\$ 903,001

See the accompanying notes to the financial statements.

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

<b>Total fund balance per fund financial statements</b>	\$	903,001
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.</p>		5,501,796
<p>Capitalized the bond issue costs of the sale/refunding bonds and amortized over the life of the refunded bond.</p>		86,360
<p>Certain liabilities are not reported in the fund financial statement because they are not due and payable, but they are presented in the statement of net position as follows:</p>		
Accrued interest payable		(22,703)
Deferred revenue QZAB		(70,750)
Bonds payable		(3,275,000)
Capital lease payable		(428,697)
KSBIT payable		(160,761)
Noncurrent sick leave payable		(116,410)
		(2,416,410)
<b>Net position of governmental activities</b>	<b>\$</b>	<b>2,416,836</b>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
From Local Sources					
Taxes					
Property	\$ 336,156	\$ -	\$ -	\$ 61,209	\$ 397,365
Motor vehicle	95,115				95,115
Unmined minerals	24,433				24,433
Utilities	210,249				210,249
Earnings on investments	11,870		815		12,685
Other local revenue	351,998	181,758			533,757
Intergovernmental - state	5,388,988	322,707	112,188	259,721	6,083,604
Intergovernmental - federal		2,887,328	56,300		2,943,628
Total revenues	<u>6,418,810</u>	<u>3,391,793</u>	<u>169,303</u>	<u>320,930</u>	<u>10,300,835</u>
<b>EXPENDITURES</b>					
Instruction	3,573,788	2,502,722			6,076,510
Support Services					
Student	259,792	155,673			415,465
Instructional Staff	153,150	385,913			539,063
District Administration	297,277				297,277
School Administration	429,008				429,008
Business	265,717	15,748			281,465
Plant Operation & Maintenance	869,202	70,240			939,442
Student Transportation	624,878	25,573			650,451
Food Service Operation	6,884				6,884
Community Services Operations		247,014			247,014
Other Instructional		5,475			5,475
Debt Service	83,446		387,315		470,761
Land improvements	918				918
Total expenditures	<u>6,564,059</u>	<u>3,408,359</u>	<u>387,315</u>	<u>-</u>	<u>10,359,732</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(145,249)	(16,566)	(218,012)	320,930	(58,897)
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	71,858	16,566	261,962		350,386
Operating transfers (out)	(16,566)			(333,820)	(350,386)
Total other financing sources and (uses)	<u>55,292</u>	<u>16,566</u>	<u>261,962</u>	<u>(333,820)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCE</b>	(89,957)	-	43,950	(12,890)	(58,897)
<b>FUND BALANCE-BEGINNING</b>	<u>811,030</u>	<u>-</u>	<u>43,936</u>	<u>106,933</u>	<u>961,898</u>
<b>FUND BALANCE-ENDING</b>	<u>\$ 721,073</u>	<u>\$ -</u>	<u>\$ 87,886</u>	<u>\$ 94,042</u>	<u>\$ 903,001</u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities**  
 Year ended June 30, 2013

<b>Net change in total fund balances per fund financial statements</b>	\$	(58,897)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.</p>		(476,551)
<p>The difference in the issue amount of the refunding of bond proceeds and the amount for payment to the escrow account to pay the refunded bonds is amortized over the life of the refunding issue, and the bond issuance costs associated with the sale of bonds amortized over the life of the bonds.</p>		(10,804)
<p>Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.</p>		333,697
<p>Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.</p>		
Accrued interest payable		616
Deferred revenue QZAB		14,150
KSBIT payable extraordinary item		(160,761)
Noncurrent sick leave payable		(34,477)
		(393,026)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(393,026)</b>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**General Fund**  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 328,000	\$ 328,000	\$ 336,156	\$ 8,156
Motor vehicle	80,000	80,000	95,115	15,115
Unmined minerals	20,000	20,000	24,433	4,433
Utilities	184,513	184,513	210,249	25,736
Earnings on investments	18,000	18,000	11,870	(6,130)
Other local revenue	39,000	45,704	351,998	306,294
Intergovernmental - state	3,967,119	3,994,396	*	64,372
Intergovernmental - federal	6,342	6,342		(6,342)
Total revenues	<u>4,642,974</u>	<u>4,676,955</u>	<u>5,088,590</u>	<u>411,635</u>
<b>EXPENDITURES</b>				
Instruction	2,688,281	2,689,481	*	(121,544)
Support Services				
Student	197,478	197,478	*	(314)
Instructional Staff	174,429	174,429	*	33,779
District Administration	308,042	308,042	*	67,765
School Administration	278,450	278,450	*	(58)
Business	199,722	199,722	*	(18,995)
Plant Operation & Maintenance	729,279	729,279	*	30,077
Student Transportation	575,306	575,306	*	18,884
Food Service Operations	6,885	6,885	1	1
Land/site Acquisitions	2,000	2,000		2,000
Land improvements	4,000	4,000	918	3,082
Debt service	83,446	83,446	83,446	(0)
Total expenditures	<u>5,247,318</u>	<u>5,248,518</u>	<u>5,233,839</u>	<u>14,679</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	(604,344)	(571,563)	(145,249)	426,314
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment	1,500	1,500		(1,500)
Operating transfers in	16,566	16,566	71,858	55,292
Operating transfers (out)	(16,566)	(16,566)	(16,566)	-
Total other financing sources and (uses)	<u>1,500</u>	<u>1,500</u>	<u>55,292</u>	<u>53,792</u>
<b>NET CHANGE IN FUND BALANCE</b>	(602,844)	(570,063)	(89,957)	480,107
<b>FUND BALANCE-BEGINNING</b>	<u>829,340</u>	<u>770,063</u>	<u>811,030</u>	<u>40,967</u>
<b>FUND BALANACE-ENDING</b>	<u>\$ 226,496</u>	<u>\$ 200,000</u>	<u>\$ 721,073</u>	<u>\$ 521,073</u>

\* The on-behalf payments (please see the accompanying notes to the financial statements) were not budgeted, therefore, to better compare the actual to the budgeted amounts these amounts were deducted from both revenue and expenditures in the amount of \$1,330,220.

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual**  
**Special Revenue Fund**  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Other local revenue	\$ 144,802	\$ 183,081	\$ 181,758	\$ (1,323)
Intergovernmental - state	283,217	322,868	322,707	(162)
Intergovernmental - federal	1,328,823	2,658,608	2,887,328	228,720
Total revenues	<u>1,756,842</u>	<u>3,164,557</u>	<u>3,391,793</u>	<u>227,236</u>
<b>EXPENDITURES</b>				
Instruction	1,228,187	2,293,841	2,502,722	(208,881)
Support Services				
Student	116,102	143,278	155,673	(12,396)
Instructional Staff	240,675	407,270	385,913	21,356
Business	1,000	1,000	15,748	(14,748)
Plant Operation & Maintenance	11,012	50,089	70,240	(20,151)
Student Transportation		24,147	25,573	(1,426)
Community Services Operations	155,430	257,062	247,014	10,049
Other Instructional	4,436	4,436	5,475	(1,039)
Total expenditures	<u>1,756,842</u>	<u>3,181,123</u>	<u>3,408,359</u>	<u>(227,236)</u>
<b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b>	-	(16,566)	(16,566)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in		16,566	16,566	-
Total other financing sources and (uses)	-	<u>16,566</u>	<u>16,566</u>	-
<b>NET CHANGE IN FUND BALANCE</b>	-	-	-	-
<b>FUND BALANCE-BEGINNING</b>	-	-	-	-
<b>FUND BALANACE-ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying notes to the financial statements.

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

		<b>School Food Services</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$	100,509
Inventories		29,091
Accounts receivable, net		33,291
Capital assets:		
Other capital assets, net of depreciation		30,188
Total assets		193,079
 <b>NET POSITION</b>		
Net Investment in capital assets		30,188
Restricted for:		
Expendable Restricted for Food Service		162,891
Total net position	\$	193,079

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Funds**  
Year Ended June 30, 2013

		<u>Enterprise Funds</u>
		<u>School Food Services</u>
<b>OPERATING REVENUES</b>		
Lunchroom sales	\$	123,068
Total operating revenues		<u>123,068</u>
<b>OPERATING EXPENSES</b>		
Depreciation		3,511
Food service operations		
Employee services		243,016
Operational expense		404,521
Total operating expenses		<u>651,048</u>
Operating income (loss)		<u>(527,980)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Federal grants		561,314
State grants		5,069
State on-behalf payments received		64,000
State on-behalf payments used		(64,000)
Commodities received		30,675
Commodities used		(30,675)
Other		(0)
Earnings from investments		90
Total nonoperating revenues		<u>566,473</u>
<b>CHANGE IN NET POSITION</b>		38,493
<b>NET POSITION-BEGINNING</b>		<u>154,586</u>
<b>NET POSITION-ENDING</b>	\$	<u><u>193,079</u></u>

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2013

Enterprise Funds

**School  
Food  
Services**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$	123,068
Payments to suppliers		(420,315)
Payments to employees		(243,016)
Net cash provided (used) by operating activities		<u>(540,264)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Operating grants and contributions		<u>566,382</u>
Net cash provided (used) by noncapital financing activities		<u>566,382</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest		<u>90</u>
Net cash provided (used) by investing activities		<u>90</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** 26,209

**CASH AND CASH EQUIVALENTS-BEGINNING** 74,299

**CASH AND CASH EQUIVALENTS-ENDING** \$ 100,509

**Reconciliation of operating income (loss) to net cash used  
by operating activities:**

Operating income (loss)	\$	(527,980)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation		3,511
Changes in assets and liabilities:		
Receivables		(15,605)
Inventories		(189)
Net cash used by operating activities	\$	<u><u>(540,264)</u></u>

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$30,675 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

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

		<b>SCHOOL ACTIVITY FUNDS</b>
		<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$	105,385
Investments		31,048
Accounts Receivable		4,111
Total Assets		<u>140,544</u>
<b>LIABILITIES</b>		
Accounts payable		124
Due to student groups		140,420
Total Liabilities		<u>140,544</u>
<b>NET POSITION HELD IN TRUST</b>	<b>\$</b>	<b><u>                    -</u></b>

See the accompanying notes to the financial statements.

OWSLEY COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2013

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Owsley County Board of Education (“Board”), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Owsley County Board of Education (“District”). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100-Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the operation of the Owsley County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the District itself such as Band Boosters, Parent-Teacher Associations, etc.

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

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

Owsley County Board Of Education Finance Corporation

The Board authorized establishment of the Owsley County Board Of Education Finance Corporation a non-stock, non-profit corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes (the “Corporation”) to act as an agency of the District for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Owsley County Board of Education.

Basis of Presentation

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

The District has the following funds:

### I. Governmental Fund Types

#### (A) General Fund

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

#### (B) Special Revenue (Grant) Fund

The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trust funds or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

### (C) Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

#### SEEK Capital Outlay Fund

The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects as identified in the District's facility plan.

#### Building (FSPK) Fund

The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy that is 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.

#### Construction Fund

The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction and/or remodeling.

### (D) Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law. This is a major fund of the District.

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

The District applies all GASB pronouncements to proprietary funds.

## III. Fiduciary Fund Types

### Agency Funds

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with “Accounting Procedures for Kentucky School Activity Funds.”

### Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement the revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Property Taxes

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

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.438 (including exonerations) per \$100 valuation of real property, \$.431 per \$100 valuation for business personal property and \$.578 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 county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Interfund Balances

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

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, a certified and classified employee will receive from the district an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

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

### Budgetary Process

The District prepares its budgets on the modified accrual basis of accounting, which is the same basis as used to prepare the Statements of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

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

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

The Kentucky Department of Education does not require the Capital Project Funds and Debt Service Funds to prepare budgets.

### Cash and Cash Equivalents

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

### Inventories

On government-wide financial statements inventories are stated at cost and are expended when used.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Prepaid Assets

Payments made that will benefit periods beyond the fiscal period end 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 expenditure/expense is reported in the year in which services are consumed.

### 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 on the proprietary fund financial statements.

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

### Fund Balances

Fund balance is divided into five categories as defined by GASB 54 as follows:

Nonspendable:	Permanently nonspendable by decree of the donor, such as an endowment, or funds that are not in a spendable form, such as prepaid expenses or inventory on hand.
Restricted	Legally restricted under legislation, bond authority, or grantor contract.
Committed	Commitments of future funds for specific purposes passed by the Board.
Assigned	Funds that are intended by management to be used for a specific purpose, including encumbrances.
Unassigned	Funds available for any purpose.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Board has adopted a GASB 54 spending policy which states that the spending order of funds is to first use restricted funds, followed by committed, assigned, and unassigned fund funds.

### Net Position

The Statement of Net Position presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net position. Net Position is reported in three categories: 1) net investment in capital assets – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of the assets; 2) restricted net position – resulting from constraints placed on net position by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation adopted by the School District; 3) unrestricted net position – those assets that do not meet the definition of restricted net position or net investment in capital assets. It is the District's policy to first apply restricted net position and then unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

### Operating and Non-Operating Revenues and Expenses

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

Non-operating revenues are not generated directly from the primary activity of the proprietary funds. For the School District those revenues come in the form of grants (federal and state), donated commodities, and earnings from investments.

### Contributions of Capital

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

### Interfund Activity

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

## **NOTE B – ESTIMATES**

The process of preparing financial statements in conformity accounting principles generally accepted in the United States of America requires District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenditures, designated fund balances, and

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The District’s cash and cash equivalents of amounts deposited in checking accounts include interest bearing accounts deposited in various local banks. Due to the liquidity nature of these accounts the carrying value is the fair market value.

Investments are CD’s deposited with various local banks that have a maturity date longer than ninety (90) days.

	<b>Bank Balance</b>		
<u>Farmers State Bank</u>	<u>Demand</u>	<u>Time</u>	<u>Totals</u>
FDIC	\$ 125,000	\$ 125,000	\$ 250,000
Securities pledged to district	810,715	381,159	1,191,874
Bank balance	\$ 935,715	\$ 506,159	\$ 1,441,874
	<b>Book Balance</b>		
	<u>Cash equivalents</u>	<u>Investments</u>	
Governmental Activities	\$ 40,399	\$ 594,045	
Business-type Activities	100,509		
School Activity Funds	105,385	31,048	
Total carrying amount	\$ 246,293	\$ 625,093	

The debt service fund has accumulated \$87,886 in investments for the purpose of retiring a 2010 Qualified Zone Academy Bond. The investments along with annual contributions are invested and reinvested so as to retire the principal amount of the bond on December 1, 2027. This amount is not listed in the bank balance above.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE D – CAPITAL ASSETS**

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

<u>Governmental Activities</u>	<u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2013</u>
Land	\$ 216,605	\$ -	\$ -	\$ 216,605
Land improvements	157,923	-	-	157,923
Buildings	7,435,444	1,047,290	-	8,482,734
Technology equipment	1,920,295	11,290	-	1,931,585
Vehicles	1,969,754	-	-	1,969,754
General equipment	411,979	12,022	-	424,001
Construction in progress	1,047,290	-	1,047,290	-
Total at historical cost	\$ <u>13,159,290</u>	\$ <u>1,070,602</u>	\$ <u>1,047,290</u>	\$ <u>13,182,602</u>
Less: Accumulated depreciation				
Land improvements	\$ 129,397	\$ 6,862	\$ -	\$ 136,259
Buildings	3,984,397	226,253	-	4,210,650
Technology equipment	1,484,640	164,761	-	1,649,401
Vehicles	1,342,941	91,022	-	1,433,963
General equipment	239,568	10,964	-	250,532
Total accumulated depreciation	\$ <u>7,180,943</u>	\$ <u>499,863</u>	\$ <u>-</u>	\$ <u>7,680,805</u>
Governmental Activities Capital Assets-net	\$ <u>5,978,348</u>	\$ <u>570,739</u>	\$ <u>1,047,290</u>	\$ <u>5,501,797</u>
 <u>Business-Type Activities</u>	 <u>41,091</u>	 <u>Additions</u>	 <u>Deductions</u>	 <u>41,455</u>
Buildings and Improvements	\$ 7,400	\$ -	\$ -	\$ 7,400
Technology equipment	103,156	-	-	103,156
General equipment	196,181	-	-	196,181
Total at historical cost	\$ <u>306,737</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>306,737</u>
Less: Accumulated depreciation				
Buildings and Improvements	\$ 1,702	\$ 296	\$ -	\$ 1,998
Technology equipment	75,155	196	-	75,351
General equipment	196,181	3,019	-	199,200
Total accumulated depreciation	\$ <u>273,038</u>	\$ <u>3,511</u>	\$ <u>-</u>	\$ <u>276,549</u>
Business-Type Activities Capital Assets-net	\$ <u>33,699</u>	\$ <u>(3,511)</u>	\$ <u>-</u>	\$ <u>30,188</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as “unallocated”.

**NOTE E – BONDED DEBT AND LEASE OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt and lease obligations represent the District’s future obligations to make payments relating to the bonds issued by the Owsley County School District Finance Corporation aggregating \$3,275,000 and \$255,000 is the portion due within one year.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

The original amount of outstanding issues, the issue dates, interest rates, and outstanding balances, at June 30, 2013 are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2004	\$ 445,000	10/1/2023	2.75 - 4.50%	\$ 30,000		\$ 10,000	\$ 20,000
2007	755,000	6/1/2027	3.9 - 4.3%	610,000		30,000	580,000
2010R	695,000	2/1/2021	.75 - 2.55%	575,000		65,000	510,000
2010	1,000,000	12/1/2027	6.125%	1,000,000		-	1,000,000
2012R	\$ 1,340,000	10/1/2024	1.0 - 2.375%	1,325,000		160,000	1,165,000
Totals				\$ 3,540,000	\$ -	\$ 265,000	\$ 3,275,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following 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 at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service, (principal and interest) are as follows:

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>Federal Rebate</u>		<u>PRINCIPAL TOTAL</u>	<u>INTEREST TOTAL</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		
2014	\$ 212,308	\$ 32,437	\$ 42,692	\$ 85,906	\$ -	\$ (56,300)	\$ 255,000	\$ 62,043
2015	221,000	29,497	44,000	84,598	-	(56,300)	265,000	57,795
2016	224,535	25,233	45,465	83,132	-	(56,300)	270,000	52,065
2017	228,016	20,552	46,984	81,613	-	(56,300)	275,000	45,865
2018	231,397	15,806	48,603	79,994	-	(56,300)	280,000	39,500
2019-2023	403,751	38,772	236,249	372,189	-	(281,500)	640,000	129,460
2024-2028	1,109,517	3,827	180,483	295,435	-	(253,350)	1,290,000	45,913
	\$ 2,630,524	\$ 166,124	\$ 644,476	\$ 1,082,866	\$ -	\$ (816,350)	\$ 3,275,000	\$ 432,640

A qualified zone academy bond (QZAB) was issued in 2003 in the amount of \$500,000 to be used for construction. The bond required an initial payment of \$287,750 which retired the bond. The difference of \$212,250 was recorded as unearned revenue. Over the 15 year life of the bond, \$14,150 will be

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

recorded as revenue per year to reduce unearned revenue to zero over the life of the bond. At June 30, 2013, there was \$70,750 remaining in unearned revenue for the QZAB bond.

The 2010 issued bond is a QZAB bond that requires payments to an escrow fund that will draw interest and retire the bond December 1, 2027. The District had accumulated \$87,886 in the escrow fund as of June 30, 2013.

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$160,761. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

**NOTE F – CAPITAL LEASE PAYABLE**

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

<u>KISTA Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2006 KISTA	\$ 65,103	3/1/2016	3.3 - 4.0%	\$ 26,310		\$ 6,847	\$ 19,463
2008 KISTA	153,110	3/1/2018	3.0 - 3.75%	92,254		14,996	77,258
2009 KISTA	158,239	3/1/2019	2.0 - 3.9%	109,559		15,059	94,500
2011 KISTA	190,065	3/1/2021	1.0 - 4.0%	169,509		20,945	148,564
2012 KISTA	\$ 99,782	3/1/2022	2.0 - 2.625%	99,762		10,850	88,912
				<u>\$ 497,394</u>	<u>\$ -</u>	<u>\$ 68,697</u>	<u>\$ 428,697</u>

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

*SEE SCHEDULE ON NEXT PAGE*

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Fiscal Year Ended	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
2014	\$	67,182	\$	13,002	\$	80,184
2015		65,806		11,208		77,014
2016		67,601		9,349		76,950
2017		60,222		7,298		67,520
2018		58,984		5,452		64,436
2019-2022		108,902		7,017		115,919
	\$	428,697	\$	53,326	\$	482,023

Total minimum lease payments	\$	482,023
Less: Amount representing interest		(53,326)
 Present Value of Net Minimum Lease Payments	\$	428,697

**NOTE G – RETIREMENT PLANS**

Kentucky Teachers’ Retirement System

Plan Description – The Owsley County School District contributes to the Teachers’ Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE).

KTRS was created by the 1938 General Assemble and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers’ Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 or from the KTRS web site at <http://ktrs.ky.gov/>.

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Medical Insurance Plan

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

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

Funding policy –In order to fund the post-retirement healthcare benefit, three and a half percent (3.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One and three quarters percent (1.75%) is paid by member contributions and .75% from state appropriation and .50% from the employer. Members after July 1, 2008 contribute an additional 1.00% from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Owsley County School System's total payroll for the year was \$5,803,581. The payroll for employees covered under KTRS was \$3,841,469. For the year ended June 30, 2013, the Commonwealth contributed \$400,847 to KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$114,928, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$630,702 \$661,310, and 681,782 respectively.

### County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS), a cost sharing, multiple-employer public employee retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of the school District. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, and Frankfort, Kentucky, 40601.

For participating employees who established an account prior to July 1, 2008, they contribute 5% of the creditable compensation. For employees hired after July 1, 2008, they contribute 6% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

one percent (1%) of un-funded past service costs per annum plus interest at the actuarial assumed rate. The Board of Trustees of the Kentucky Retirement Systems determines such contribution rates each biennium. The current District contribution rate for employees is 19.55%. The District contributed \$377,081 of the employee’s compensation during the fiscal year ended June 30, 2013.

The District’s required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$476,074 \$471,123, and \$412,429 respectively.

**NOTE H – COMMITMENTS**

The District has committed \$56,754 in the general fund for future payouts for accrued sick leave.

The District has the following commitments for operating leases:

<u>Fiscal Year Ended</u>	<u>Minimum Lease Payments</u>
<u>30-Jun</u>	
2014	\$ 7,616
2015	2,992
	<hr/>
	<u>\$ 10,608</u>

**NOTE I – RESTRICTED FUND BALANCES**

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Debt Service	\$ 87,886	Escrow for 2010 QZAB Bond
FSPK	94,042	School Facilities Construction Commission
Food Service	\$ 162,891	Food Service Operations

**NOTE J - CONTINGENCIES**

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

**NOTE K - LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE L – INSURANCE AND RELATED ACTIVITIES**

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

**NOTE M – RISK MANAGEMENT**

The District is exposed to various risks of loss related to illegal acts, torts, theft/damage/destruction of assets, errors and omissions, injuries to employees, and natural disasters. To obtain insurance for workers’ compensation, errors and omission, and general liability coverage, the District purchased commercial insurance policies.

The District purchases unemployment insurance through the Kentucky School Districts Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer.

**NOTE N – DEFICIT FUND AND OPERATING BALANCES**

The following fund had an operating deficit at the end of the fiscal year causing a reduction in the fund balance/net position.

<u>Fund</u>		<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$	(393,026)
General Fund		(89,957)
Capital Outlay		(12,890)
School Activity	\$	(13,356)

**NOTE O - COBRA**

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**NOTE P – TRANSFER OF FUNDS**

The following transfers were made during the year.

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Special Revenue Fund	\$ 16,566	KETS Matching
Capital Outlay Fund	General Fund	71,858	Operating Expenditures
Capital Outlay Fund	Debt Service Fund	10,422	Debt Service
FSPK Fund	Debt Service Fund	\$ 251,540	Debt Service

**NOTE Q – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Owsley County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded, but not budgeted, within the General, and School Food Services Funds. The amounts recorded for both revenues and expenditures (expenses) are \$1,330,220 for the General Fund and \$64,000 for the School Food Service Fund.

**NOTE R – CHANGE IN ACCOUNTING POLICY**

During the fiscal year ended June 30, 2013, management adopted the Governmental Accounting Standards Board Statement No. 63. This statement created the statement of net position which replaced the previous statement of net assets. The term net assets is no longer used and has been replaced with net position. The District also implemented GASB 65 early, resulting in asset and liability classifications of deferred inflows and deferred outflows. This change is preferable so the District can be better prepared for the mandatory adoption in the upcoming fiscal year. The District recorded a deferred outflow of resources for the difference in reacquisition and carrying value of refunding debt. Refer to Note S-Prior Period Adjustment to see how the change in accounting policy affects net position.

**NOTE S – PRIOR PERIOD ADJUSTMENT**

Due to the implementation of GASG 63 and GASB 65 bond issue costs, discounts, and premiums are no longer reflected on the statement of net position. This caused beginning net position to be overstated as follows:

Net Position July 1, 2012	\$ 2,887,282	
Prior Period Adjustment	(77,419)	
Restated Net Position July 1, 2012	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 2,809,863</td> </tr> </table>	\$ 2,809,863
\$ 2,809,863		

**NOTE T – SUBSEQUENT EVENTS**

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

<b>Other Governmental Funds</b>				
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Construction</b>	<b>Total</b>
<b>Assets</b>				
Cash and Cash Equivalents	\$ -	\$ 94,042	\$ -	\$ 94,042
Total Assets	-	94,042	-	94,042
<b>Fund Balances</b>				
Restricted	-	94,042	-	94,042
Total Fund Balances	\$ -	\$ 94,042	\$ -	\$ 94,042

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds**  
For the year ended June 30, 2013

	<b>Other Governmental Funds</b>			
	<b>Capital Outlay</b>	<b>FSPK</b>	<b>Construction</b>	<b>Total</b>
<b>Revenues</b>				
From Local Sources				
Taxes				
Property	\$ -	\$ 61,209	\$ -	\$ 61,209
Intergovernmental - State	69,390	190,331		259,721
Total Revenues	69,390	251,540	-	320,930
<b>Expenditures</b>				
Building Acquisitions & Construction				-
Total Expenditures	-	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	69,390	251,540	-	320,930
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(82,280)	(251,540)		(333,820)
Total Other Financing Sources (Uses)	(82,280)	(251,540)	-	(333,820)
<b>Net change in fund balances</b>	(12,890)	-	-	(12,890)
<b>Fund Balance beginning</b>	12,890	94,042	-	106,933
<b>Fund Balance ending</b>	\$ -	\$ 94,042	\$ -	\$ 94,042

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Balance Sheet of Fiduciary Fund - School Activity Funds**  
As of June 30, 2013

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>OWSLEY COUNTY HIGH SCHOOL</b>	<b>OWSLEY COUNTY ELEMENTARY</b>	<b>TOTAL</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 92,395	\$ 12,990	\$ 105,385
Investments	28,548	2,500	31,048
Accounts receivable	1,277	2,834	4,111
	<u>122,220</u>	<u>18,324</u>	<u>140,544</u>
Total Assets	<u>122,220</u>	<u>18,324</u>	<u>140,544</u>
<b>LIABILITIES</b>			
Accounts payable		124	124
Total Liabilities	-	124	124
<b>FUND BALANCE</b>			
Student activities	122,220	18,200	140,420
Total Liabilities & Fund Balances	\$ 122,220	\$ 18,324	\$ 140,544

See the accompanying notes to the financial statements.

Owsley County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance**  
**- School Activity Funds**  
As of June 30, 2013

	<b>SCHOOL ACTIVITY FUND</b>		
	<b>OWSLEY COUNTY HIGH SCHOOL</b>	<b>OWSLEY COUNTY ELEMENTARY</b>	<b>TOTAL</b>
<b>REVENUES</b>			
Student revenues	\$ 205,364	\$ 69,951	\$ 275,316
<b>EXPENSES</b>			
Student activities	211,888	76,783	288,672
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(6,524)	(6,832)	(13,356)
<b>FUND BALANCES BEGINNING</b>	128,744	25,031	153,776
<b>FUND BALANCES ENDING</b>	\$ 122,220	\$ 18,200	\$ 140,420

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Owsley County High School**  
As of June 30, 2013

	<b>FUND BALANCE BEGINNING</b>	<b>REVENUES</b>	<b>EXPENDITURES</b>	<b>FUND BALANCE ENDING</b>
OUTDOORS CLUB	\$ 1,806	\$ 998	\$ 2,147	\$ 657
BAND FUND	9	2,161	1,431	740
BASEBALL BOYS	2,205	4,210	3,121	3,294
BETA CLUB	137	3,915	3,351	701
BOYS BASKETBALL	2,378	11,285	10,782	2,881
CC STAFF	6,829	1,751	2,464	6,115
CHEERLEADERS	2,382	12,498	13,781	1,099
CLASS OF 2012	189	-	189	-
CLASS OF 2013	5,750	33,713	39,463	-
CLASS OF 2014	1,719	3,654	1,315	4,058
CLASS OF 2015	1,108	2,485	1,728	1,866
CLASS OF 2016	-	1,418	1,087	331
CLASS OF 2017	-	1,965	1,287	678
CLASSROOM CREATIONS	1,297	-	-	1,297
CONCESSIONS SALES	-	16,121	16,121	-
EKLN	1	-	1	-
FFA	22	17,138	16,457	702
FBLA	-	1,986	1,010	976
GENERAL ATHLETICS	10,725	27,311	31,821	6,215
GIRLS BASKETBALL	1,564	13,582	12,901	2,244
GOLF	4,016	2,469	2,907	3,578
ACADEMICS HIGH SCHOOL	42	600	380	262
HEALTH	589	-	479	110
GRANT	502	30	193	339
HOSA	-	-	-	-
JUNIOR BETA	295	-	295	-
LIBRARY	4,178	6,123	2,799	7,501
ACADEMIC MIDDLE SCHOOL	-	45	45	-
MS BOYS BASKETBALL	1,506	2,971	2,494	1,984
MS GIRLS BASKETBALL	599	2,030	1,631	998
MISC	9,619	8,053	7,268	10,405
NAC	1,487	-	191	1,296
PTSO	429	-	429	-
PRIDE	210	-	210	-
PROJECT PROM	554	1,703	2,246	11
SCHOOL TO WORK	205	-	-	205
SNACK	10,239	10,029	11,361	8,906
SOFTBALL	2,885	2,802	2,653	3,034
TECHNOLOGY	17,495	60	1,336	16,219
TRACK	134	4,570	1,777	2,926
UNITE	76	-	76	-
VOLLEYBALL	1,689	5,255	5,808	1,135
CROSS COUNTRY	4,211	1,847	6,058	-
YEARBOOK	859	-	-	859
YOUTH SERVICE CENTER	358	500	795	63
CD	28,448	87	-	28,536
<b>TOTALS</b>	<b>\$ 128,744</b>	<b>\$ 205,364</b>	<b>\$ 211,888</b>	<b>\$ 122,220</b>

See the accompanying notes to the financial statements.

OWSLEY COUNTY SCHOOL DISTRICT  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
YEAR ENDED JUNE 30, 2013

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Owsley County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had food commodities totaling \$30,675.

OWSLEY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 12		7760005 12	\$ N/A	\$ 37,453
Fiscal Year 13		7760005 13	N/A	127,865
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 12		7750002 12	N/A	74,737
Fiscal Year 13		7750002 13	N/A	272,750
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 12		7690024 12	N/A	1,801
Fiscal Year 13		7690024 13	N/A	559
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 12		7740023 12	N/A	17,486
Fiscal Year 13		7740023 13	N/A	5,395
Child Nutrition Cluster Subtotal				<u>538,045</u>
<b>Fruit &amp; Vegetable Program</b>	10.582			
Fiscal Year 12		7720012 12	N/A	6,697
Fiscal Year 13		7720012 13	N/A	22,205
				<u>28,902</u>
Passed Through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 13		510.4950	N/A	30,675
Total US Department of Agriculture				<u>597,623</u>
US Department of Education				
Passed Through State Department of Education				
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 12		3100002 12	668,911	230,175
Fiscal Year 12M		3100002 12	40,394	21,025
Fiscal Year 13		3100002 13	631,829	381,935
Fiscal Year 13M		3100002 13	42,000	39,413
				<u>672,547</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 13		3810002 13	193,390	193,390
<b>Special Education - Preschool Grants</b>	84.173A			
Fiscal Year 12		3800002 12	21,520	7,559
Fiscal Year 13		3800002 11	21,477	7,578
Special Education Cluster Subtotal				<u>208,527</u>
<b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	230,162	1,620
* <b>School Improvement Grant</b>	84.377A			
Fiscal Year 10C		3100302 10	39,000	39,000
* <b>School Improvement Grants, Recovery Act</b>	84.388A			
Fiscal Year 10B-ARRA		4100302 10	152,500	35,893
Fiscal Year 10C-ARRA		4100302 10	61,000	61,000
School Improvement Grants Cluster Subtotal				<u>135,893</u>
<b>Vocation Education - Basic Grants to States</b>	84.048			
Fiscal Year 12A		4621132 12	572	572
Fiscal Year 13		4621132 13	12,867	12,867
				<u>13,439</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	28,603	11,781
<b>Rural Education</b>	84.358B			
Fiscal Year 12		314002 12	16,725	11,790
<b>Improving Teacher Quality State Grants</b>	84.367A			
Fiscal Year 12		3230002 12	107,918	40,439
Fiscal Year 13		3230002 13	106,587	106,587
				<u>147,026</u>
<b>Twenty-First Century Community Learning Centers</b>	84.287			
Fiscal Year 11		3400002 11	75,000	31,778
Passed through Reading is Fundamental, Inc.				
<b>Reading is Fundamental</b>	81.000			
Fiscal Year 13		6873	2,000	1,801
Passed through Berea College				
<b>Gaining Early Awareness and Readiness for Undergraduate Programs</b>	84.334A			

OWSLEY COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
Passed Through Morehead State University				
<b>Kentucky Appalachian Higher Education (KYAHED)</b>	23.011			
Fiscal Year 12		6882	5,000	1,792
Fiscal Year 13		6883	3,208	3,208
				<u>5,000</u>
Total US Department of Education				<u><u>1,418,618</u></u>
U.S. Department of Commerce				
Passed through Bluegrass Pride				
<b>Pride Grant-Wetlands Project</b>	11.420			
Fiscal Year 13A		2703A	250	250
Fiscal Year 13B		2703B	250	234
Total U.S. Department of Commerce				<u><u>484</u></u>
US Department of Labor				
Passed Through Middle Kentucky Community Action Partnership				
<b>WIA Year Round Youth Program</b>	17.259			
Fiscal Year 13Y		DTR10Y08-001	118,446	114,930
Total US Department of Labor				<u><u>114,930</u></u>
US Department of Health and Human Services				
* <b>Head Start</b>	93.600			
Fiscal Year 13		04CH2596	681,367	489,594
Fiscal Year 14A-ARRA		04CH2596	645,938	182,722
* <b>Early Head Start</b>	93.600			
Fiscal Year 13A		04CH4613	533,476	399,161
Fiscal Year 14A		04CH4613	476,533	131,352
				<u><u>1,202,830</u></u>
Passed Through Kentucky River District Health Department				
<b>Postponing Sexual Involvement</b>	93.994			
Fiscal Year 13		6003	535	535
Total US Department of Health and Human Services				<u><u>1,203,365</u></u>
<b>Total Expenditure of Federal Awards</b>				<b>\$ <u><u>3,335,020</u></u></b>

\* Major program

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Owsley County Board of Education and  
State Committee for School District Audits  
Booneville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Owsley County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, In addition, the results of our tests disclosed no deficiencies as it relates to specific state statutes or regulations identified in the audit requirements prescribed by the Kentucky State Committee for School District Audits included in the

Kentucky Public School Districts' Audit Contract and Requirements or Appendicies. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*White & Associates, PSC*

Richmond, Kentucky  
October 21, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Owsley County Board of Education and  
State Committee for School District Audits  
Booneville, Kentucky

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

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Owsley County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the Auditor Responsibilities and State Compliance Requirements sections contained in the Kentucky Public School Districts' Audit Contract and Requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owsley County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Owsley County School District's compliance.

***Opinion on Each Major Federal Program***

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

## Report on Internal Control Over Compliance

Management of Owsley County School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Owsley County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Owsley County School District's internal control over compliance.

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

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

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

OWSLEY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2013

**SUMMARY OF AUDITORS' RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed?	No
If so, was any significant deficiencies material (GAGAS)?	No
Was any material noncompliance reported (GAGAS)?	No
Were there material weaknesses in internal control disclosed For major programs?	No
Were there any significant deficiencies in internal control disclosed that were not considered to be material weaknesses?	No
What type of report was issued on compliance for major programs?	Unmodified
Did the audit disclose findings as it relates to major programs that Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559] Head Start Cluster [CFDA 93.600, 93.708] School Improvement Grant Cluster [CFDA 84.388A, 84.377A]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	No

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

No major federal award findings.

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

### FINDINGS - FINANCIAL STATEMENT AUDIT

There were no prior year financial statement findings.

### FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

#### SIGNIFICANT DEFICIENCY

#### FINDING 12-1

Head Start, CFDA 93.600

Head Start, Recovery Act, CFDA 93.708

Allowed and Unallowed Costs/Activities

*Statement of Condition:* There were several instances of purchases being made without pre-authorization. Although the majority of expenditures included board mandated purchase orders, the approval date on the purchase order was later than the invoice date.

*Criteria for Condition:* Board policies and procedures direct that all purchases must have a purchase order showing authorization and availability of funds before the purchase takes place.

*Cause of the Condition:* Proper execution of Board policies and procedures for purchases are being ignored.

*Effect of the Condition:* Purchases were unauthorized.

*Subsequent Review:* This finding was corrected.

**MANAGEMENT LETTER**

Owsley County School District  
Booneville, Kentucky

In planning and performing our audit of the financial statements of the Owsley County School District for the year ended June 30, 2013, we considered the District's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated October 21, 2013. This letter does not affect our report dated October 21, 2013, on the financial statements of the Owsley County School District. The conditions observed are as follows:

OWSLEY COUNTY ELEMENTARY

1-13

Statement of Condition: Lack of segregation of duties in the current process of handling mail.

Recommendation for Correction: Precautions must be taken to protect activity fund money from loss and limit the liability of persons handling money and mail. All mail should be sorted and opened by someone other than the school treasurer. If checks are in the mail that is distributed to the school treasurer, the checks shall be recorded in a log or on a Multiple Receipt Form (F-SA-6) by someone other than the school treasurer; then submitted to the school treasurer.

Management Response to the Recommendation: Someone that's employed by the district other than the school treasurer will handle the mail and record any revenue that comes into the Elementary School.

2-13

Statement of Condition: Instances of cash collected, turned in to the treasurer, but not deposited in the school's bank account. The cash was used for petty cash.

Recommendation for Correction: All expenditures shall be paid by check following proper purchasing procedures. No expenditures shall be paid with cash unless it is for an advance for an

event that involves students which complies with the guidelines in the “*Accounting Procedures for Kentucky School Activity Funds*”.

Management Response to the Recommendation: The school treasurer will make sure all expenditures will be paid by check. No expenditures shall be paid with cash unless it is for an advance for a school sponsored event that involves students.

### OWSLEY COUNTY HIGH SCHOOL

#### 3-13

Statement of Condition: Inventory Control Worksheets (F-SA-5) are not being completed monthly on concessions.

Recommendation for Correction: Inventory Control Worksheets (F-SA-5) need to be correctly filled out monthly on all activities that require one. Completed worksheets need to be reviewed by the principal to address significant shortages or overages. After reviewing the worksheets file them with the other financial documents.

Management Response to the Recommendation: The teacher/sponsor will complete the Inventory Control Worksheets (F-SA-5) monthly for concessions. The worksheets will be reviewed by the principal.<sup>3</sup>

### CENTRAL OFFICE

#### 4-13

Statement of Condition: Employees of the District are being paid through accounts payable instead of payroll. These positions are classified as coordinators and coaches.

Criteria for the Condition: Within the Common Law Rules, Revenue Ruling 87-41 states criteria to be used to determine if a worker is an employee or an independent contractor. These criteria indicate that all employees should be paid through payroll.

Management Response to the Recommendation: Employees that work directly on a day to day basis that are coordinators, and coaches will be ran through the MUNIS payroll system. These positions are not classified as consultants.

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

Condition 1-13 is a repeat condition from the prior year. All other conditions have been corrected. Dr. Bobrowski, Superintendent, is the person responsible for initiation of the corrective action plan for the above comments which will be implemented immediately. The corrective action plan is the management response for each condition.

We would like to thank the Finance Officer and their department for their support and assistance during our audit.

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

*White & Associates, PSC*

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Richmond, Kentucky  
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