

OWSLEY COUNTY  
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2014

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 (District) as of and for the year ended June 30, 2014, 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 District, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows, and the respective budgetary comparison schedules 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 District's basic financial statements. The additional supplementary information, as listed in the table of contents, is 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 23, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White & Associates, PSC*

Richmond, Kentucky

October 23, 2014

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

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, 2014. 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 \$ 903,001 of which \$ 721,073 was General Fund, \$181,298 was in the restricted funds of Special Revenue, Debt Service, Capital Outlay, Building Fund and Construction Fund. Ending fund balance was \$ 756,252 of which \$604,294 was General Fund, \$ 151,958 was in the restricted funds of Special Revenue, Capital Outlay, Building Fund, Construction Fund and Debt Service Fund.
- The ending cash balance was \$ 59,832 for General Fund.
- The district has also joined forces with the Owsley County Conservation District. This construction project was constructed and will be used to market the school and community vegetables and fruits. This building was built with local and state In-kind monies.
- The General Fund Revenue totaled \$5,974,583 which primarily consists of state program funding (SEEK), property, utility and motor vehicle taxes. General Fund expenditures total \$6,236,288 exclusive of inter-fund transfers. These totals include \$ 1,335,738 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 \$5.9 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 components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

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.

**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 \$2.36 million as of June 30, 2014. The largest portion of the District’s net position reflects its investment in capital assets (e.g.,

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
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YEAR ENDED JUNE 30, 2014**

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.

2014 District-Wide Governmental Net position compared to 2013 as follows:

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

|                                   | Governmental |             | Business-type |             | Total           |             | Total       |
|-----------------------------------|--------------|-------------|---------------|-------------|-----------------|-------------|-------------|
|                                   | Activities   |             | Activities    |             | School District |             | Percentage  |
|                                   | 2013         | 2014        | 2013          | 2014        | 2013            | 2014        | 2013-2014   |
| <b>Assets:</b>                    |              |             |               |             |                 |             |             |
| Current and Other Assets          | 0.96         | 0.91        | 0.16          | 0.19        | 1.12            | 1.09        | -2%         |
| Capital Assets                    | 5.50         | 4.99        | 0.03          | 0.03        | 5.53            | 5.02        | -9%         |
| <b>Total Assets</b>               | <b>6.46</b>  | <b>5.90</b> | <b>0.19</b>   | <b>0.22</b> | <b>6.65</b>     | <b>6.11</b> | <b>-8%</b>  |
| <b>Loss for the difference</b>    |              |             |               |             |                 |             |             |
| in reacquisition and carrying     |              |             |               |             |                 |             |             |
| value of refunding debt           | 0.09         | 0.08        | -             | -           | 0.09            | 0.08        |             |
|                                   | 0.09         | 0.08        | -             | -           | 0.09            | 0.08        |             |
| <b>Liabilities:</b>               |              |             |               |             |                 |             |             |
| Current Liabilities               | 0.47         | 0.55        | -             | -           | 0.47            | 0.55        | 17%         |
| Noncurrent Liabilities            | 3.66         | 3.27        | -             | -           | 3.66            | 3.27        | -11%        |
| <b>Total Liabilities</b>          | <b>4.13</b>  | <b>3.83</b> | <b>-</b>      | <b>-</b>    | <b>4.13</b>     | <b>3.83</b> | <b>-7%</b>  |
| <b>Invested in Capital Assets</b> |              |             |               |             |                 |             |             |
| Net of Debt                       | 1.88         | 1.69        | 0.03          | 0.03        | 1.91            | 1.71        | -11%        |
| Restricted                        | 0.19         | 0.19        | 0.16          | 0.19        | 0.36            | 0.38        | 5%          |
| Unrestricted Net Position         | 0.34         | 0.27        | -             | -           | 0.34            | 0.27        | -20%        |
| <b>Total Net Position</b>         | <b>2.42</b>  | <b>2.15</b> | <b>0.19</b>   | <b>0.21</b> | <b>2.61</b>     | <b>2.36</b> | <b>-10%</b> |

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

**GOVERNMENTAL ACTIVITIES**

Ending net position was \$2.36 million for the District. This was a decrease of \$.3 million including a prior period adjustment from 2013.

Table 2  
Changes in Net Position  
(in millions)

|                                    | Governmental Activities |                  | Business-Type Activities |                | Total School District |                  | Total Percentage Change 2013-2014 |
|------------------------------------|-------------------------|------------------|--------------------------|----------------|-----------------------|------------------|-----------------------------------|
|                                    | 2013                    | 2014             | 2013                     | 2014           | 2013                  | 2014             |                                   |
| <b>Revenues:</b>                   |                         |                  |                          |                |                       |                  |                                   |
| Charges for services               | \$ 0.53                 | \$ 0.36          | \$ 0.12                  | \$ 0.11        | \$ 0.66               | \$ 0.46          | -29%                              |
| Operating grants and contributions | 3.21                    | 2.84             | 0.57                     | 0.61           | 3.78                  | 3.45             | -9%                               |
| Capital grants and contributions   | 0.43                    | 0.41             | -                        | -              | 0.43                  | 0.41             | -4%                               |
| General revenues                   | 6.13                    | 5.87             | 0.00                     | -              | 6.13                  | 5.87             | -4%                               |
| <b>Total revenue</b>               | <b>10.30</b>            | <b>9.48</b>      | <b>0.69</b>              | <b>0.72</b>    | <b>10.99</b>          | <b>10.20</b>     | <b>-7%</b>                        |
| <b>Expenses:</b>                   |                         |                  |                          |                |                       |                  |                                   |
| Instruction                        | \$ 6.10                 | \$ 5.30          |                          |                | \$ 6.10               | \$ 5.30          | -13%                              |
| Student                            | 0.42                    | 0.42             |                          |                | 0.42                  | 0.42             | 1%                                |
| Instructional staff                | 0.54                    | 0.55             |                          |                | 0.54                  | 0.55             | 1%                                |
| District administration            | 0.30                    | 0.37             |                          |                | 0.30                  | 0.37             | 25%                               |
| School administration              | 0.43                    | 0.36             |                          |                | 0.43                  | 0.36             | -17%                              |
| Business                           | 0.28                    | 0.34             |                          |                | 0.28                  | 0.34             | 21%                               |
| Plant operation & maintenance      | 0.93                    | 0.80             |                          |                | 0.93                  | 0.80             | -14%                              |
| Student transportation             | 0.65                    | 0.72             |                          |                | 0.65                  | 0.72             | 11%                               |
| Food Service Operations            | 0.01                    | 0.02             | 0.65                     | 0.67           | 0.65                  | 0.69             | 6%                                |
| Other instructional                | 0.01                    | 0.01             |                          |                | 0.01                  | 0.01             | -3%                               |
| Community services operations      | 0.25                    | 0.25             |                          |                | 0.25                  | 0.25             | 1%                                |
| Loss on retirement of assets       | -                       | 0.00             | 0                        |                |                       | 0.00             |                                   |
| Land Improvements                  | 0.00                    |                  |                          |                | 0.00                  | -                | 0%                                |
| Amortization                       | 0.01                    | (0.00)           |                          |                |                       | (0.00)           |                                   |
| Depreciation                       | 0.50                    | 0.51             | 0.00                     | 0.00           | 0.50                  | 0.51             | 2%                                |
| Interest on long-term debt         | 0.12                    | 0.12             |                          |                | 0.12                  | 0.12             | 2%                                |
| Extraordinary Item                 | 0.16                    | -                |                          |                |                       | -                |                                   |
| Transfers                          |                         |                  |                          | 0.02           |                       |                  |                                   |
| <b>Total Expenses</b>              | <b>\$ 10.69</b>         | <b>\$ 9.75</b>   | <b>\$ 0.65</b>           | <b>\$ 0.70</b> | <b>\$ 11.34</b>       | <b>\$ 10.45</b>  | <b>-8%</b>                        |
| <b>Change in net position</b>      | <b>\$ (0.39)</b>        | <b>\$ (0.28)</b> | <b>\$ 0.04</b>           | <b>\$ 0.02</b> | <b>\$ (0.35)</b>      | <b>\$ (0.26)</b> | <b>28%</b>                        |

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

**CAPITAL ASSETS**

At the end of fiscal 2014, the District had \$1.7 million invested in capital assets, including land, buildings, buses, computers and other equipment. This amount represents a decrease (including additions and deductions) of \$.2 million over last year.

Capital Assets at Year-End FY2014  
(Net of depreciation)

|                          | Governmental Activities |           | Business Type Activities |         | Totals    |           |
|--------------------------|-------------------------|-----------|--------------------------|---------|-----------|-----------|
|                          | 2013                    | 2014      | 2013                     | 2014    | 2013      | 2014      |
| Land                     | 216,605                 | 216,605   |                          |         | 216,605   | 216,605   |
| Land and Improvements    | 21,664                  | 14,802    |                          |         | 21,664    | 14,802    |
| Buildings & Improvements | 4,272,084               | 4,023,140 | 5,402                    | 5,106   | 4,277,486 | 4,028,246 |
| Technology Equipment     | 282,184                 | 130,483   | 27,805                   | 27,609  | 309,989   | 158,093   |
| Vehicles                 | 534,871                 | 443,849   |                          |         | 534,871   | 443,849   |
| General Equipment        | 173,469                 | 163,457   | (3,019)                  | (5,782) | 170,450   | 157,674   |
| Construction In Progress | -                       | -         | -                        | -       | -         | -         |

**DEBT**

Capital lease and general obligation debt decreased \$.32 million from FY 2013.

Outstanding Debt at Year-End  
(in Millions)

|                           | Government<br>Activities |                       |
|---------------------------|--------------------------|-----------------------|
|                           | 2013                     | 2014                  |
| Capital Lease Obligations | \$ 0.43                  | \$ 0.36               |
| General Obligation Bonds  | <u>3.28</u>              | <u>3.02</u>           |
| Total Obligations         | \$ <u><u>3.70</u></u>    | \$ <u><u>3.38</u></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 \$604,294. The unassigned portion of the fund balance at the end of fiscal year 2014 is \$566,958, compared to \$664,320 from the preceding year.

**OWSLEY COUNTY PUBLIC SCHOOL DISTRICT – BOONEVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

The following table presents a summary of revenue and expense for the District as a whole for the fiscal year ended June 30, 2014:

| REVENUE                              | Fund<br>1        | Fund<br>2        | Fund<br>310   | Fund<br>320    | Fund<br>360 | Fund<br>400    | Fund<br>51     |
|--------------------------------------|------------------|------------------|---------------|----------------|-------------|----------------|----------------|
| Local Revenue Sources                | 835,076          | 180,373          |               | 61,045         |             | 8,018          | 109,542        |
| State Revenue Sources                | 5,124,448        | 344,307          | 67,473        | 183,544        |             | 103,545        | 45,032         |
| Federal Revenue Sources              | 15,060           | 2,481,361        |               |                |             | 56,300         | 569,849        |
| Other                                |                  |                  |               |                |             |                | 78             |
| Transfers                            | 161,548          | 16,623           |               |                |             | 256,633        |                |
| <b>TOTALS</b>                        | <b>6,136,131</b> | <b>3,022,663</b> | <b>67,473</b> | <b>244,589</b> | <b>-</b>    | <b>424,496</b> | <b>724,502</b> |
| EXPENDITURES                         | Fund<br>1        | Fund<br>2        | Fund<br>310   | Fund<br>320    | Fund<br>360 | Fund<br>400    | Fund<br>51     |
| Instruction                          | 3,134,201        | 2,217,792        |               |                |             |                |                |
| Student Support Services             | 285,985          | 133,001          |               |                |             |                |                |
| Instructional Staff Support Services | 199,910          | 346,258          |               |                |             |                |                |
| District Admin Support               | 371,630          |                  |               |                |             |                |                |
| School Admin Support                 | 356,242          |                  |               |                |             |                |                |
| Business Support Services            | 322,029          | 18,832           |               |                |             |                |                |
| Plant Operation & Management         | 760,366          | 41,341           |               |                |             |                |                |
| Student Transportation               | 706,893          | 14,122           |               |                |             |                |                |
| Food Service Operations              | 18,848           |                  |               |                |             |                | 673,896        |
| Community Services                   |                  | 245,928          |               |                |             |                |                |
| Debt Service                         | 80,184           |                  |               |                |             | 373,343        |                |
| Site Improvement                     |                  |                  |               |                |             |                |                |
| Building Renovations                 |                  |                  |               |                |             |                |                |
| Other Items                          |                  | 5,390            |               |                |             |                | 3,255          |
| Transfers                            | 16,623           |                  | 67,473        | 325,713        |             |                | 24,995         |
| <b>TOTALS</b>                        | <b>6,252,911</b> | <b>3,022,663</b> | <b>67,473</b> | <b>325,713</b> | <b>-</b>    | <b>373,343</b> | <b>702,146</b> |
| Excess / (Deficit)                   | (116,780)        | -                | -             | (81,124)       | -           | 51,154         | 22,355         |

\*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, 2014**

**Comments on Budget Comparisons**

- The District’s total general fund revenues for the fiscal year ended June 30, 2014 net of other financing sources and uses, were \$5.97 million including “On-Behalf” payments.
- General fund budget compared to actual revenue varied slightly from line item to line item except.
- The total cost of all general fund programs and services was \$6.4 million including transfers.
- General fund budget expenditures to actual were \$219,647 less than budget.

**BUDGETARY IMPLICATIONS**

By law, the budget must have a minimum 2% contingency. The District adopted a tentative budget for 2014-2015 with a 3% general fund contingency.

Issues which will impact future budgets include:

- Increased expenses to meet federal and state academic mandates.
- 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, 2014

|   | <b>Primary Government</b>          |  |                     |
|---|------------------------------------|--|---------------------|
|   | <b>Governmental<br/>Activities</b> | <b>Business-<br/>type<br/>Activities</b> | <b>Total</b>        |
| <b>ASSETS</b>   |                                    |  |                     |
| Cash and cash equivalents   | \$ -                               | \$ 151,202                               | \$ 151,202          |
| Investments   | 509,968                            |  | 509,968             |
| Receivables (net)   | 395,439                            | 12,539                                   | 407,977             |
| Inventories   |                                    | 24,761                                   | 24,761              |
| Capital assets:   |                                    |  |                     |
| Land, improvements, and construction in progress                              | 216,605                            |  | 216,605             |
| Other capital assets, net of depreciation                                     | 4,775,730                          | 26,933                                   | 4,802,663           |
| Total capital assets  | <u>4,992,336</u>                   | <u>26,933</u>                            | <u>5,019,269</u>    |
| Total assets  | <u>5,897,743</u>                   | <u>215,434</u>                           | <u>6,113,177</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>   |                                    |  |                     |
| Loss for the difference in reacquisition and carrying value of refunding debt | <u>75,556</u>                      |  | <u>75,556</u>       |
| <b>LIABILITIES</b>  |                                    |  |                     |
| Accrued interest payable  | 15,608                             |  | 15,608              |
| Cash shortage   | 114,030                            |  | 114,030             |
| Unearned revenue  | 91,725                             |  | 91,725              |
| Long-term liabilities:  |                                    |  |                     |
| Due within 1 year:  |                                    |  |                     |
| Bond obligations  | 265,000                            |  | 265,000             |
| Capital lease obligations   | 65,806                             |  | 65,806              |
| Total due within 1 year   | <u>330,806</u>                     | <u>-</u>                                 | <u>330,806</u>      |
| Due in more than 1 year:  |                                    |  |                     |
| Bond obligations  | 2,755,000                          |  | 2,755,000           |
| Capital lease obligations   | 295,709                            |  | 295,709             |
| KSBIT payable   | 149,028                            |  | 149,028             |
| Sick leave  | 74,672                             |  | 74,672              |
| Total due in more than 1 year   | <u>3,274,409</u>                   | <u>-</u>                                 | <u>3,274,409</u>    |
| Total liabilities   | <u>3,826,579</u>                   | <u>-</u>                                 | <u>3,826,579</u>    |
| <b>NET POSITION</b>   |                                    |  |                     |
| Net Investment in capital assets  | 1,686,377                          | 26,933                                   | 1,713,310           |
| Restricted for:   |                                    |  |                     |
| Expendable restricted for the debt service                                    | 139,040                            |  | 139,040             |
| Expendable restricted for sick leave  | 37,336                             |  | 37,336              |
| Expendable restricted for capital projects                                    | 12,918                             |  | 12,918              |
| Expendable restricted for food services                                       |                                    | 188,501                                  | 188,501             |
| Unrestricted  | <u>271,050</u>                     |  | <u>271,050</u>      |
| Total net position  | <u>\$ 2,146,720</u>                | <u>\$ 215,434</u>                        | <u>\$ 2,362,154</u> |

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Activities**  
Year Ended June 30, 2014

| 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                                    | \$ 5,310,255         | \$ 355,715           | \$ 2,064,583                       | \$                               | \$ (2,889,957)                                    |                          | \$ (2,889,957)      |
| Support Services                               |                      |                      |                                    |                                  |   |                          |                     |
| Student  | 418,986              |                      | 148,061                            |                                  | (270,925)   |                          | (270,925)           |
| Instructional Staff                            | 546,168              |                      | 323,691                            |                                  | (222,476)   |                          | (222,476)           |
| District Administration                        | 371,630              |                      |                                    |                                  | (371,630)   |                          | (371,630)           |
| School Administration                          | 356,242              |                      |                                    |                                  | (356,242)   |                          | (356,242)           |
| Business                                       | 340,861              |                      | 17,605                             |                                  | (323,256)   |                          | (323,256)           |
| Plant Operation & Maintenance                  | 801,707              |                      | 38,647                             | 251,017                          | (512,043)   |                          | (512,043)           |
| Student Transportation                         | 721,015              |                      | 13,202                             |                                  | (707,813)   |                          | (707,813)           |
| Food Services                                  | 18,848               |                      | 229,900                            |                                  | 211,052   |                          | 211,052             |
| Other Instructional                            | 5,390                |                      |                                    |                                  | (5,390)   |                          | (5,390)             |
| Community Services Operations                  | 245,928              |                      | 5,039                              |                                  | (240,889)   |                          | (240,889)           |
| Loss on Retirement of Assets                   | 919                  |                      |                                    |                                  | (919)   |                          | (919)               |
| Amortization                                   | (3,346)              |                      |                                    |                                  | 3,346   |                          | 3,346               |
| Depreciation                                   | 508,541              |                      |                                    |                                  | (508,541)   |                          | (508,541)           |
| Interest on general long-term debt             | 124,250              |                      |                                    | 159,845                          | 35,595  |                          | 35,595              |
| Total governmental activities                  | <u>9,767,393</u>     | <u>355,715</u>       | <u>2,840,728</u>                   | <u>410,862</u>                   | <u>(6,160,089)</u>                                |                          | <u>(6,160,089)</u>  |
| Business-type activities:                      |                      |                      |                                    |                                  |   |                          |                     |
| Food service operations                        | 673,896              | 109,542              | 614,882                            |                                  |   | \$ 50,527                | 50,527              |
| Depreciation                                   | 3,255                |                      |                                    |                                  |   | (3,255)                  | (3,255)             |
| Total business-type activities                 | <u>677,151</u>       | <u>109,542</u>       | <u>614,882</u>                     | <u>-</u>                         | <u>-</u>  | <u>47,272</u>            | <u>47,272</u>       |
| Total primary government                       | \$ <u>10,444,545</u> | \$ <u>465,257</u>    | \$ <u>3,455,609</u>                | \$ <u>410,862</u>                | <u>(6,160,089)</u>                                | <u>47,272</u>            | <u>(6,112,817)</u>  |
| General revenues:                              |                      |                      |                                    |                                  |   |                          |                     |
| Taxes:   |                      |                      |                                    |                                  |   |                          |                     |
| Property taxes                                 |                      |                      |                                    |                                  | 378,761   |                          | 378,761             |
| Motor vehicle taxes                            |                      |                      |                                    |                                  | 98,258  |                          | 98,258              |
| Utility taxes                                  |                      |                      |                                    |                                  | 212,727   |                          | 212,727             |
| Unmined minerals tax                           |                      |                      |                                    |                                  | 23,574  |                          | 23,574              |
| State and formula grants                       |                      |                      |                                    |                                  | 5,124,448   |                          | 5,124,448           |
| Unrestricted investment earnings               |                      |                      |                                    |                                  | 15,477  | 78                       | 15,555              |
| Operating transfers                            |                      |                      |                                    |                                  | 24,995  | (24,995)                 | -                   |
| Total general revenues and operating transfers |                      |                      |                                    |                                  | <u>5,878,240</u>                                  | <u>(24,917)</u>          | <u>5,853,323</u>    |
| Change in net position                         |                      |                      |                                    |                                  | (281,849)   | 22,355                   | (259,494)           |
| Net position - beginning                       |                      |                      |                                    |                                  | 2,416,836   | 193,079                  | 2,609,915           |
| Prior period adjustment                        |                      |                      |                                    |                                  | 11,733  |                          | 11,733              |
| Restated net position - beginning              |                      |                      |                                    |                                  | <u>2,428,569</u>                                  | <u>193,079</u>           | <u>2,621,648</u>    |
| Net position - ending                          |                      |                      |                                    |                                  | \$ <u>2,146,720</u>                               | \$ <u>215,434</u>        | \$ <u>2,362,154</u> |

See the accompanying notes to the financial statements.

Owsley County School District  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2014

|                           | Governmental Funds |                    |                 |                                |            |
|---------------------------|--------------------|--------------------|-----------------|--------------------------------|------------|
|                           | General            | Special<br>Revenue | Debt<br>Service | Other<br>Governmental<br>Funds | Total      |
| <b>ASSETS</b>             |                    |                    |                 |                                |            |
| Cash and cash equivalents | \$ 59,832          | \$ -               | \$ 139,040      | \$ 12,918                      | \$ 211,789 |
| Investments               | 509,968            |                    |                 |                                | 509,968    |
| Receivables, net          |                    |                    |                 |                                |            |
| Taxes-current             | 11,880             |                    |                 |                                | 11,880     |
| Accounts                  | 22,614             | 32,152             |                 |                                | 54,766     |
| Intergovernmental-federal |                    | 328,793            |                 |                                | 328,793    |
| Total assets              | 604,294            | 360,944            | 139,040         | 12,918                         | 1,117,196  |
| <b>LIABILITIES</b>        |                    |                    |                 |                                |            |
| Cash shortage             |                    | 325,820            |                 |                                | 325,820    |
| Unearned revenue          |                    | 35,125             |                 |                                | 35,125     |
| Total liabilities         | -                  | 360,944            | -               | -                              | 360,944    |
| <b>FUND BALANCE</b>       |                    |                    |                 |                                |            |
| Restricted                |                    |                    | 139,040         | 12,918                         | 151,958    |
| Committed                 | 37,336             |                    |                 |                                | 37,336     |
| Unassigned                | 566,958            |                    |                 |                                | 566,958    |
| Total fund balance        | \$ 604,294         | \$ -               | \$ 139,040      | \$ 12,918                      | \$ 756,252 |

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, 2014

|   |           |                  |
|---|-----------|------------------|
| <b>Total fund balance per fund financial statements</b>   | \$        | 756,252          |
| <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>     |           | 4,992,336        |
| <p>Capitalized defeasance costs of refunding bonds and amortized over the life of the refunded bond.</p>  |           | 75,556           |
| <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  |           | (15,608)         |
| Deferred revenue QZAB   |           | (56,600)         |
| Bonds payable   |           | (3,020,000)      |
| Capital lease payable   |           | (361,515)        |
| KSBIT payable   |           | (149,028)        |
| Noncurrent sick leave payable   |           | (74,672)         |
|   |           | (4,677,128)      |
| <b>Net position of governmental activities</b>  | <b>\$</b> | <b>2,146,720</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, 2014

|  | <u>General</u>    | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|-------------------|----------------------------|-------------------------|---|---|
| <b>REVENUES</b>  |                   |                            |                         |   |   |
| From Local Sources                                       |                   |                            |                         |   |   |
| Taxes  |                   |                            |                         |   |   |
| Property   | \$ 317,716        | \$ -                       | \$ -                    | \$ 61,045                               | \$ 378,761                              |
| Motor vehicle  | 98,258            |                            |                         |   | 98,258                                  |
| Unmined minerals   | 23,574            |                            |                         |   | 23,574                                  |
| Utilities  | 212,727           |                            |                         |   | 212,727                                 |
| Earnings on investments                                  | 7,458             |                            | 8,018                   |   | 15,477                                  |
| Other local revenue                                      | 175,342           | 180,373                    |                         |   | 355,715                                 |
| Intergovernmental - state                                | 5,124,448         | 344,307                    | 103,545                 | 251,017                                 | 5,823,316                               |
| Intergovernmental - federal                              | 15,060            | 2,481,361                  | 56,300                  |   | 2,552,721                               |
| Total revenues   | <u>5,974,583</u>  | <u>3,006,040</u>           | <u>167,863</u>          | <u>312,062</u>                          | <u>9,460,549</u>                        |
| <b>EXPENDITURES</b>                                      |                   |                            |                         |   |   |
| Instruction  | 3,134,201         | 2,217,792                  |                         |   | 5,351,993                               |
| Support Services   |                   |                            |                         |   |   |
| Student  | 285,985           | 133,001                    |                         |   | 418,986                                 |
| Instructional Staff                                      | 199,910           | 346,258                    |                         |   | 546,168                                 |
| District Administration                                  | 371,630           |                            |                         |   | 371,630                                 |
| School Administration                                    | 356,242           |                            |                         |   | 356,242                                 |
| Business   | 322,029           | 18,832                     |                         |   | 340,861                                 |
| Plant Operation & Maintenance                            | 760,366           | 41,341                     |                         |   | 801,707                                 |
| Student Transportation                                   | 706,893           | 14,122                     |                         |   | 721,015                                 |
| Food Service Operation                                   | 18,848            |                            |                         |   | 18,848                                  |
| Community Services Operations                            |                   | 245,928                    |                         |   | 245,928                                 |
| Other Instructional                                      |                   | 5,390                      |                         |   | 5,390                                   |
| Debt Service   | 80,184            |                            | 373,343                 |   | 453,527                                 |
| Total expenditures                                       | <u>6,236,288</u>  | <u>3,022,663</u>           | <u>373,343</u>          | <u>-</u>                                | <u>9,632,294</u>                        |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> | (261,705)         | (16,623)                   | (205,479)               | 312,062                                 | (171,745)                               |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                   |                            |                         |   |   |
| Operating transfers in                                   | 161,548           | 16,623                     | 256,633                 |   | 434,804                                 |
| Operating transfers (out)                                | (16,623)          |                            |                         | (393,186)                               | (409,809)                               |
| Total other financing sources and (uses)                 | <u>144,925</u>    | <u>16,623</u>              | <u>256,633</u>          | <u>(393,186)</u>                        | <u>24,995</u>                           |
| <b>NET CHANGE IN FUND BALANCE</b>                        | (116,780)         | -                          | 51,154                  | (81,124)                                | (146,750)                               |
| <b>FUND BALANCE-BEGINNING</b>                            | <u>721,073</u>    | <u>-</u>                   | <u>87,886</u>           | <u>94,042</u>                           | <u>903,001</u>                          |
| <b>FUND BALANCE-ENDING</b>                               | <u>\$ 604,294</u> | <u>\$ -</u>                | <u>\$ 139,040</u>       | <u>\$ 12,918</u>                        | <u>\$ 756,252</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, 2014

|  |           |  |
|--|-----------|--|
| <b>Net change in total fund balances per fund financial statements</b>   | \$        | (146,750)                                |
| <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> |           | (509,461)                                |
| <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.</p>  |           | 3,346                                    |
| <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>   |           | 322,182                                  |
| <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>  |           |  |
| <p>Accrued interest payable</p>  |           | 7,095                                    |
| <p>Noncurrent sick leave payable</p>   |           | 41,738                                   |
|  |           | <hr style="border: 0.5px solid black;"/> |
| <b>Change in net position of governmental activities</b>   | <b>\$</b> | <b><u><u>(281,849)</u></u></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, 2014

|  | <u>Budgeted Amounts</u> |                   | <u>Actual</u>     | <u>Variance<br/>with Final Budget<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|-------------------|-------------------|---|
|  | <u>Original</u>         | <u>Final</u>      |                   |   |
| <b>REVENUES</b>  |                         |                   |                   |   |
| From Local Sources                                       |                         |                   |                   |   |
| Taxes  |                         |                   |                   |   |
| Property   | \$ 316,344              | \$ 316,344        | \$ 317,716        | \$ 1,372  |
| Motor vehicle  | 78,473                  | 78,473            | 98,258            | 19,785  |
| Unmined minerals   | 20,000                  | 20,000            | 23,574            | 3,574   |
| Utilities  | 175,000                 | 175,000           | 212,727           | 37,727  |
| Earnings on investments                                  | 12,000                  | 12,000            | 7,458             | (4,542)   |
| Other local revenue                                      | 130,497                 | 130,497           | 175,342           | 44,845  |
| Intergovernmental - state                                | 5,225,008               | 5,225,008         | 5,124,448         | (100,560)   |
| Intergovernmental - federal                              | 8,643                   | 8,643             | 15,060            | 6,417   |
| Total revenues   | <u>5,965,965</u>        | <u>5,965,965</u>  | <u>5,974,583</u>  | <u>8,618</u>  |
| <b>EXPENDITURES</b>                                      |                         |                   |                   |   |
| Instruction  | 3,282,651               | 3,282,651         | 3,134,201         | 148,450   |
| Support Services   |                         |                   |                   |   |
| Student  | 270,575                 | 270,575           | 285,985           | (15,410)  |
| Instructional Staff                                      | 203,317                 | 203,317           | 199,910           | 3,407   |
| District Administration                                  | 315,222                 | 315,222           | 371,630           | (56,408)  |
| School Administration                                    | 357,615                 | 357,615           | 356,242           | 1,373   |
| Business   | 224,765                 | 224,765           | 322,029           | (97,264)  |
| Plant Operation & Maintenance                            | 856,367                 | 856,367           | 760,366           | 96,002  |
| Student Transportation                                   | 828,675                 | 828,675           | 706,893           | 121,782   |
| Food Service Operations                                  | 18,848                  | 18,848            | 18,848            | 0   |
| Land/site Acquisitions                                   | 2,000                   | 2,000             |                   | 2,000   |
| Land improvements  | 4,000                   | 4,000             |                   | 4,000   |
| Debt service   | 91,900                  | 91,900            | 80,184            | 11,716  |
| Total expenditures                                       | <u>6,455,935</u>        | <u>6,455,935</u>  | <u>6,236,288</u>  | <u>219,647</u>  |
| <b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b> | (489,970)               | (489,970)         | (261,705)         | 228,265   |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                         |                   |                   |   |
| Sale of equipment  | 1,500                   | 1,500             |                   | (1,500)   |
| Operating transfers in                                   | 51,500                  | 51,500            | 161,548           | 110,048   |
| Operating transfers (out)                                | (16,623)                | (16,623)          | (16,623)          | -   |
| Total other financing sources and (uses)                 | <u>36,377</u>           | <u>36,377</u>     | <u>144,925</u>    | <u>108,548</u>  |
| <b>NET CHANGE IN FUND BALANCE</b>                        | (453,593)               | (453,593)         | (116,780)         | 336,814   |
| <b>FUND BALANCE-BEGINNING</b>                            | <u>656,970</u>          | <u>664,320</u>    | <u>721,073</u>    | <u>56,754</u>   |
| <b>FUND BALANCE-ENDING</b>                               | <u>\$ 203,377</u>       | <u>\$ 210,727</u> | <u>\$ 604,294</u> | <u>\$ 393,567</u>   |

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, 2014

|  | <u>Budgeted Amounts</u> |                  | <u>Actual</u>    | <u>Variance<br/>with Final Budget<br/>Favorable<br/>(Unfavorable)</u> |
|--|-------------------------|------------------|------------------|---|
|  | <u>Original</u>         | <u>Final</u>     |                  |   |
| <b>REVENUES</b>  |                         |                  |                  |   |
| From Local Sources                                       |                         |                  |                  |   |
| Other local revenue                                      | \$ 137,252              | \$ 172,143       | \$ 180,373       | \$ 8,229  |
| Intergovernmental - state                                | 312,284                 | 324,913          | 344,307          | 19,394  |
| Intergovernmental - federal                              | 1,198,769               | 2,420,169        | 2,481,361        | 61,192  |
| Total revenues   | <u>1,648,305</u>        | <u>2,917,225</u> | <u>3,006,040</u> | <u>88,815</u>   |
| <b>EXPENDITURES</b>                                      |                         |                  |                  |   |
| Instruction  | 1,095,192               | 2,071,987        | 2,217,792        | (145,805)   |
| Support Services   |                         |                  |                  |   |
| Student  | 124,576                 | 132,963          | 133,001          | (38)  |
| Instructional Staff                                      | 238,228                 | 350,961          | 346,258          | 4,704   |
| Business   | 13,749                  | 13,749           | 18,832           | (5,083)   |
| Plant Operation & Maintenance                            | 10,971                  | 56,596           | 41,341           | 15,255  |
| Student Transportation                                   | -                       | 15,554           | 14,122           | 1,432   |
| Community Services Operations                            | 149,092                 | 259,042          | 245,928          | 13,114  |
| Other Instructional                                      | 5,620                   | 5,497            | 5,390            | 107   |
| Total expenditures                                       | <u>1,637,428</u>        | <u>2,906,348</u> | <u>3,022,663</u> | <u>(116,315)</u>  |
| <b>EXCESS (DEFICIENCY) IN REVENUES OVER EXPENDITURES</b> | 10,877                  | 10,877           | (16,623)         | (27,500)  |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                         |                  |                  |   |
| Operating transfers in                                   | 16,623                  | 16,623           | 16,623           | -   |
| Operating transfers out                                  | (27,500)                | (27,500)         | -                | 27,500  |
| Total other financing sources and (uses)                 | <u>(10,877)</u>         | <u>16,623</u>    | <u>16,623</u>    | <u>-</u>  |
| <b>NET CHANGE IN FUND BALANCE</b>                        | -                       | -                | -                | -   |
| <b>FUND BALANCE-BEGINNING</b>                            | -                       | -                | -                | -   |
| <b>FUND BALANCE-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, 2014

|   |    | <b>School<br/>Food<br/>Services</b> |
|---|----|-------------------------------------|
| <b>ASSETS</b>                             |    |                                     |
| Cash and cash equivalents                 | \$ | 151,202                             |
| Inventories                               |    | 24,761                              |
| Accounts receivable, net                  |    | 12,539                              |
| Capital assets:                           |    |                                     |
| Other capital assets, net of depreciation |    | 26,933                              |
| Total assets                              |    | 215,434                             |
| <b>NET POSITION</b>                       |    |                                     |
| Net Investment in capital assets          |    | 26,933                              |
| Restricted for:                           |    |                                     |
| Expendable Restricted for Food Service    |    | 188,501                             |
| Total net position                        | \$ | 215,434                             |

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, 2014

|   |    | <u>Enterprise Funds</u>             |
|---|----|-------------------------------------|
|   |    | <u>School<br/>Food<br/>Services</u> |
| <b>OPERATING REVENUES</b>               |    |                                     |
| Lunchroom sales                         | \$ | 109,542                             |
| Total operating revenues                |    | <u>109,542</u>                      |
| <b>OPERATING EXPENSES</b>               |    |                                     |
| Depreciation                            |    | 3,255                               |
| Food service operations                 |    |                                     |
| Employee services                       |    | 277,321                             |
| Operational expense                     |    | 396,575                             |
| Total operating expenses                |    | <u>677,151</u>                      |
| Operating income (loss)                 |    | <u>(567,609)</u>                    |
| <b>NONOPERATING REVENUES (EXPENSES)</b> |    |                                     |
| Federal grants                          |    | 569,849                             |
| State grants                            |    | 45,032                              |
| Transfers                               |    | (24,995)                            |
| Earnings from investments               |    | 78                                  |
| Total nonoperating revenues             |    | <u>589,964</u>                      |
| <b>CHANGE IN NET POSITION</b>           |    | 22,355                              |
| <b>NET POSITION-BEGINNING</b>           |    | <u>193,079</u>                      |
| <b>NET POSITION-ENDING</b>              | \$ | <u><u>215,434</u></u>               |

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Cash Flows**  
**Proprietary Funds**  
Year Ended June 30, 2014

Enterprise Funds

**School  
Food  
Services**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |    |                  |
|--|----|------------------|
| Receipts from customers                          | \$ | 109,542          |
| Payments to suppliers                            |    | (371,493)        |
| Payments to employees                            |    | (277,321)        |
| Net cash provided (used) by operating activities |    | <u>(539,271)</u> |

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

|   |  |                |
|---|--|----------------|
| Indirect cost transfer                                      |  | (24,995)       |
| Operating grants and contributions                          |  | 614,882        |
| Net cash provided (used) by noncapital financing activities |  | <u>589,887</u> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|  |  |           |
|--|--|-----------|
| Interest   |  | 78        |
| Net cash provided (used) by investing activities |  | <u>78</u> |

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

50,693

**CASH AND CASH EQUIVALENTS-BEGINNING**

100,509

**CASH AND CASH EQUIVALENTS-ENDING**

\$ 151,202

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

|  |    |                         |
|--|----|-------------------------|
| Operating income (loss)  | \$ | (567,609)               |
| Adjustments to reconcile operating income (loss) to net cash used by operating activities: |    |                         |
| Depreciation   |    | 3,255                   |
| Changes in assets and liabilities:   |    |                         |
| Receivables  |    | 4,330                   |
| Inventories  |    | 20,753                  |
| Net cash used by operating activities  | \$ | <u><u>(539,271)</u></u> |

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$34,852 of food commodities from the U.S. Department of Agriculture.

During the year, the district recognized revenues and expenses for on-behalf payments relating to fringe benefits in the amount of \$40,000 provided by state government.

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
June 30, 2014

|                                   |           | <b>SCHOOL<br/>ACTIVITY<br/>FUNDS</b> |
|-----------------------------------|-----------|--------------------------------------|
|                                   |           | <u>                    </u>          |
| <b>ASSETS</b>                     |           |                                      |
| Cash and cash equivalents         | \$        | 104,290                              |
| Investments                       |           | 28,614                               |
| Accounts Receivable               |           | <u>2,435</u>                         |
| Total Assets                      |           | <u><u>135,340</u></u>                |
| <b>LIABILITIES</b>                |           |                                      |
| Accounts payable                  |           | 965                                  |
| Due to student groups             |           | <u>134,375</u>                       |
| Total Liabilities                 |           | <u><u>135,340</u></u>                |
| <b>NET POSITION HELD IN TRUST</b> | <b>\$</b> | <u><u>-</u></u>                      |

See the accompanying notes to the financial statements.

OWSLEY COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended June 30, 2014

**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)

### 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, 2014, to finance the General Fund operations were \$.453 (including exonerations) per \$100 valuation of real property, \$.453 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:

| <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<br/>Balance</b>        |                           |                      |
|----------------------------------|--------------------------------|---------------------------|----------------------|
| <b><u>Farmers State Bank</u></b> | <b><u>Demand</u></b>           | <b><u>Time</u></b>        | <b><u>Totals</u></b> |
| FDIC                             | \$ 125,000                     | \$ 125,000                | \$ 250,000           |
| Securities pledged to district   | 360,197                        | 384,968                   | 745,165              |
|                                  |                                |                           |                      |
| Bank balance                     | \$ 485,197                     | \$ 509,968                | \$ 995,165           |
|                                  |                                |                           |                      |
|                                  | <b>Book Balance</b>            |                           |                      |
|                                  | <b><u>Cash equivalents</u></b> | <b><u>Investments</u></b> |                      |
| Governmental Activities          | \$ (114,030)                   | \$ 509,968                |                      |
| Business-type Activities         | 151,202                        |                           |                      |
| School Activity Funds            | 104,290                        | 28,614                    |                      |
|                                  |                                |                           |                      |
| Total carrying amount            | \$ 141,462                     | \$ 538,582                |                      |
|                                  |                                |                           |                      |

The debt service fund has accumulated \$139,040 in cash and cash equivalents 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, 2014, was as follows:

| <u>Governmental Activities</u>                 | <u>July 1, 2013</u>  | <u>Additions</u>    | <u>Deductions</u> | <u>June 30, 2014</u> |
|--|----------------------|---------------------|-------------------|----------------------|
| Land   | \$ 216,605           | \$ -                | \$ -              | \$ 216,605           |
| Land improvements                              | 157,923              | -                   | -                 | 157,923              |
| Buildings                                      | 8,482,734            | -                   | -                 | 8,482,734            |
| Technology equipment                           | 1,931,585            | -                   | -                 | 1,931,585            |
| Vehicles                                       | 1,969,754            | -                   | 920               | 1,968,834            |
| General equipment                              | 424,001              | -                   | -                 | 424,001              |
| Construction in progress                       | -                    | -                   | -                 | -                    |
| Total at historical cost                       | <u>\$ 13,182,602</u> | <u>\$ -</u>         | <u>\$ 920</u>     | <u>\$ 13,181,682</u> |
| Less: Accumulated depreciation                 |                      |                     |                   |                      |
| Land improvements                              | \$ 136,259           | \$ 6,862            | \$ -              | \$ 143,121           |
| Buildings                                      | 4,210,650            | 248,944             | -                 | 4,459,594            |
| Technology equipment                           | 1,649,401            | 151,701             | -                 | 1,801,102            |
| Vehicles                                       | 1,433,963            | 91,022              | -                 | 1,524,985            |
| General equipment                              | 250,532              | 10,012              | -                 | 260,544              |
| Total accumulated depreciation                 | <u>\$ 7,680,805</u>  | <u>\$ 508,541</u>   | <u>\$ -</u>       | <u>\$ 8,189,347</u>  |
| Governmental Activities<br>Capital Assets-net  | <u>\$ 5,501,797</u>  | <u>\$ (508,541)</u> | <u>\$ 920</u>     | <u>\$ 4,992,336</u>  |
| <br>   |                      |                     |                   |                      |
| <u>Business-Type Activities</u>                | <u>July 1, 2013</u>  | <u>Additions</u>    | <u>Deductions</u> | <u>June 30, 2014</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                     | \$ 1,998             | \$ 296              | \$ -              | \$ 2,294             |
| Technology equipment                           | 75,351               | 196                 | -                 | 75,547               |
| General equipment                              | 199,200              | 2,763               | -                 | 201,963              |
| Total accumulated depreciation                 | <u>\$ 276,549</u>    | <u>\$ 3,255</u>     | <u>\$ -</u>       | <u>\$ 279,804</u>    |
| Business-Type Activities<br>Capital Assets-net | <u>\$ 30,188</u>     | <u>\$ (3,255)</u>   | <u>\$ -</u>       | <u>\$ 26,933</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 \$3,020,000 and \$265,000 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, 2014 are summarized below:

| <u>Bond Issue</u> | <u>Original Amount</u> | <u>Maturity Dates</u> | <u>Interest Rates</u> | <u>2013 Outstanding Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>2014 Outstanding Balance</u> |
|-------------------|------------------------|-----------------------|-----------------------|---------------------------------|------------------|--------------------|---------------------------------|
| 2004              | \$ 445,000             | 10/1/2023             | 2.75 - 4.50%          | \$ 20,000                       | \$ -             | \$ 10,000          | \$ 10,000                       |
| 2007              | 755,000                | 6/1/2027              | 3.9 - 4.3%            | 580,000                         | -                | 30,000             | 550,000                         |
| 2010R             | 695,000                | 2/1/2021              | .75 - 2.55%           | 510,000                         | -                | 55,000             | 455,000                         |
| 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%          | 1,165,000                       | -                | 160,000            | 1,005,000                       |
| Totals            |                        |                       |                       | \$ 3,275,000                    | \$ -             | \$ 255,000         | \$ 3,020,000                    |

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, 2014 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> |                        |                       |
| 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        | 99,635           | 12,449          | 50,365           | 78,234          | -                     | (56,300)        | 150,000                | 34,383                |
| 2020-2024   | 356,803          | 28,765          | 228,197          | 362,966         | -                     | (281,500)       | 585,000                | 110,231               |
| 2025-2028   | 1,056,830        | 1,385           | 138,170          | 226,424         | -                     | (197,050)       | 1,195,000              | 30,759                |
|             | \$ 2,418,216     | \$ 133,687      | \$ 601,784       | \$ 996,960      | \$ -                  | \$ (760,050)    | \$ 3,020,000           | \$ 370,598            |

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, 2014, there was \$56,600 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 \$139,040 in the escrow fund as of June 30, 2014.

**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> | 2013                       |                  |                    | 2014                       |
|--------------------|------------------------|-----------------------|-----------------------|----------------------------|------------------|--------------------|----------------------------|
|                    |                        |                       |                       | <u>Outstanding Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Outstanding Balance</u> |
| 2006 KISTA         | \$ 65,103              | 3/1/2016              | 3.3 - 4.0%            | \$ 19,463                  | \$ -             | \$ 7,090.00        | \$ 12,373                  |
| 2008 KISTA         | 153,110                | 3/1/2018              | 3.0 - 3.75%           | 77,258                     | -                | 15,465             | 61,793                     |
| 2009 KISTA         | 158,239                | 3/1/2019              | 2.0 - 3.9%            | 94,500                     | -                | 15,468             | 79,032                     |
| 2011 KISTA         | 190,065                | 3/1/2021              | 1.0 - 4.0%            | 148,564                    | -                | 17,925             | 130,639                    |
| 2012 KISTA         | \$ 99,782              | 3/1/2022              | 2.0 - 2.625%          | 88,912                     | -                | 11,234             | 77,678                     |
|                    |                        |                       |                       | <u>\$ 428,697</u>          | <u>\$ -</u>      | <u>\$ 67,182</u>   | <u>\$ 361,515</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, 2014:

| <u>Fiscal Year Ended</u>                    | <u>June 30,</u>   |                  |                   |
|---|-------------------|------------------|-------------------|
|   | <u>Principal</u>  | <u>Interest</u>  | <u>Total</u>      |
| 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  | 45,462            | 3,550            | 49,012            |
| 2020-2022                                   | <u>63,440</u>     | <u>3,467</u>     | <u>66,907</u>     |
|   | <u>\$ 361,515</u> | <u>\$ 40,324</u> | <u>\$ 401,839</u> |
| Total minimum lease payments                |                   | \$               | 401,839           |
| Less: Amount representing interest          |                   |                  | (40,324)          |
| Present Value of Net Minimum Lease Payments |                   | \$               | 361,515           |

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 Assembly 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 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contribution of 14.605%.

#### Medical Insurance Plan

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

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, four and a half percent (4.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percent (.75%) from state appropriation and one and a half percent (1.5%) 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 \$5,501,074. The payroll for employees covered under KTRS was \$3,587,702. For the year ended June 30, 2014, the Commonwealth contributed \$374,124 to KTRS for the benefit of our participating employees. The School district's

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contributions to KTRS for the year ending June 30, 2014 were \$111,870, 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, 2014, 2013, and 2012 were \$563,440, \$630,702, and \$661,310 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 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 18.89%. The District contributed \$355,177 of the employee's compensation during the fiscal year ended June 30, 2014.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$451,400, \$476,074, and \$471,123 respectively.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, will require that unfunded portions of future pension benefit obligations shall be recorded as a liability of governments. This pronouncement will be mandatory for fiscal periods beginning after June 15, 2015. Although the data is not available from the Kentucky Teachers Retirement System or the County Employees Retirement System at this time, we believe that this implementation will have a material effect on future financial statements.

### **NOTE H – COMMITMENTS**

The District has committed \$37,336 in the general fund for future payouts for accrued sick leave.

The District has the following commitments for operating leases:

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

| <b>Fiscal<br/>Year Ended<br/><u>30-Jun</u></b> | <b>Minimum Lease<br/><u>Payments</u></b> |
|--|--|
| 2015   | \$ 2,992                                 |
|  | <hr/>                                    |
|  | <u>\$ 2,992</u>                          |

**NOTE I – RESTRICTED FUND BALANCES**

| <b><u>Fund</u></b> | <b><u>Amount</u></b> | <b><u>Purpose</u></b>                     |
|--------------------|----------------------|---|
| Debt Service       | \$ 139,040           | Escrow for 2010 QZAB Bond                 |
| FSPK               | 12,918               | School Facilities Construction Commission |
| Food Service       | \$ 188,501           | 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.

**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.

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

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.

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

The following funds 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<br/>Fund Balance / Net Position</u> |
|-------------------------|---|
| Governmental Activities | \$ (281,849)  |
| General Fund            | (116,780)   |
| FSPK                    | (81,124)  |
| School Activity         | \$ (6,045)  |

**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).

**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 | \$ 16,623     | KETS Transfer  |
| FSPK Fund           | General Fund         | 136,553       | Operations     |
| Food Service        | General Fund         | 24,995        | Indirect Costs |
| Capital Outlay Fund | Debt Service Fund    | 67,473        | Debt Payments  |
| FSPK Fund           | Debt Service Fund    | \$ 189,160    | Debt Payments  |

**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 \$1,295,738 for the General Fund and \$40,000 for the School Food Service Fund.

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

**NOTE R – PRIOR PERIOD ADJUSTMENT**

Due to the liability for KSBIT being overstated in the prior year the beginning net position was understated as follows:

|                                    |                     |
|------------------------------------|---------------------|
| Net Position July 1, 2013          | \$ 2,416,836        |
| Prior Period Adjustment            | 11,733              |
| Restated Net Position July 1, 2013 | <u>\$ 2,428,569</u> |

**NOTE S – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through October 23, 2014, the date the financial statements were available to be issued.

Owsley County School District  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
 June 30, 2014

|                           |    | <b>Other Governmental Funds</b> |             |              |
|---------------------------|----|---------------------------------|-------------|--------------|
|                           |    | <b>Capital<br/>Outlay</b>       | <b>FSPK</b> | <b>Total</b> |
| <b>Assets</b>             |    |                                 |             |              |
| Cash and Cash Equivalents | \$ | -                               | \$ 12,918   | \$ 12,918    |
| Total Assets              |    | -                               | 12,918      | 12,918       |
| <b>Fund Balances</b>      |    |                                 |             |              |
| Restricted                |    |                                 | 12,918      | 12,918       |
| Total Fund Balances       | \$ | -                               | \$ 12,918   | \$ 12,918    |

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, 2014

|   | <b>Other Governmental Funds</b> |             |              |
|---|---------------------------------|-------------|--------------|
|   | <b>Capital<br/>Outlay</b>       | <b>FSPK</b> | <b>Total</b> |
| <b>Revenues</b>   |                                 |             |              |
| From Local Sources  |                                 |             |              |
| Taxes   |                                 |             |              |
| Property  | \$ -                            | \$ 61,045   | \$ 61,045    |
| Intergovernmental - State                                 | 67,473                          | 183,544     | 251,017      |
| Total Revenues  | 67,473                          | 244,589     | 312,062      |
| <b>Expenditures</b>                                       |                                 |             |              |
| Building Acquisitions & Construction                      | -                               | -           | -            |
| Total Expenditures  | -                               | -           | -            |
| <b>Excess (Deficit) of Revenues<br/>Over Expenditures</b> | 67,473                          | 244,589     | 312,062      |
| <b>Other Financing Sources (Uses)</b>                     |                                 |             |              |
| Transfers Out   | (67,473)                        | (325,713)   | (393,186)    |
| Total Other Financing Sources (Uses)                      | (67,473)                        | (325,713)   | (393,186)    |
| <b>Net change in fund balances</b>                        | -                               | (81,124)    | (81,124)     |
| <b>Fund Balance beginning</b>                             | -                               | 94,042      | 94,042       |
| <b>Fund Balance ending</b>                                | \$ -                            | \$ 12,918   | \$ 12,918    |

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, 2014

|                                   | <b>SCHOOL ACTIVITY FUND</b>          |                                     |                   |
|-----------------------------------|--------------------------------------|-------------------------------------|-------------------|
|                                   | <b>OWSLEY COUNTY<br/>HIGH SCHOOL</b> | <b>OWSLEY COUNTY<br/>ELEMENTARY</b> | <b>TOTAL</b>      |
| <b>ASSETS</b>                     |                                      |                                     |                   |
| Cash and cash equivalents         | \$ 78,250                            | \$ 26,040                           | \$ 104,290        |
| Investments                       | 28,614                               | -                                   | 28,614            |
| Accounts receivable               | 96                                   | 2,340                               | 2,435             |
|                                   | <u>106,960</u>                       | <u>28,380</u>                       | <u>135,340</u>    |
| <b>LIABILITIES</b>                |                                      |                                     |                   |
| Accounts payable                  | 140                                  | 825                                 | 965               |
|                                   | <u>140</u>                           | <u>825</u>                          | <u>965</u>        |
| <b>FUND BALANCE</b>               |                                      |                                     |                   |
| Student activities                | 106,820                              | 27,554                              | 134,375           |
|                                   | <u>106,820</u>                       | <u>27,554</u>                       | <u>134,375</u>    |
| Total Liabilities & Fund Balances | \$ <u>106,960</u>                    | \$ <u>28,380</u>                    | \$ <u>135,340</u> |

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, 2014

|  | <b>SCHOOL ACTIVITY FUND</b>          |                                     |              |
|--|--------------------------------------|-------------------------------------|--------------|
|  | <b>OWSLEY COUNTY<br/>HIGH SCHOOL</b> | <b>OWSLEY COUNTY<br/>ELEMENTARY</b> | <b>TOTAL</b> |
| <b>REVENUES</b>                                      |                                      |                                     |              |
| Student revenues                                     | \$ 192,942                           | \$ 72,507                           | \$ 265,449   |
| <b>EXPENSES</b>                                      |                                      |                                     |              |
| Student activities                                   | 208,342                              | 63,152                              | 271,495      |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b> | (15,400)                             | 9,355                               | (6,045)      |
| <b>FUND BALANCES BEGINNING</b>                       | 122,220                              | 18,200                              | 140,420      |
| <b>FUND BALANCES ENDING</b>                          | \$ 106,820                           | \$ 27,554                           | \$ 134,375   |

See the accompanying notes to the financial statements.

Owsley County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Owsley County High School**  
As of June 30, 2014

|                        | <b>FUND<br/>BALANCE<br/>BEGINNING</b> | <b>REVENUES</b>   | <b>EXPENSES</b>   | <b>FUND<br/>BALANCE<br/>ENDING</b> |
|------------------------|---------------------------------------|-------------------|-------------------|------------------------------------|
| OUTDOORS CLUB          | \$ 657                                | \$ 1,467          | \$ 1,664          | \$ 459                             |
| BAND FUND              | 740                                   | 1,826             | 1,867             | 699                                |
| BASEBALL BOYS          | 3,294                                 | 2,046             | 4,703             | 637                                |
| BETA CLUB              | 701                                   | 5,184             | 5,708             | 177                                |
| BOYS BASKETBALL        | 2,881                                 | 4,020             | 6,710             | 190                                |
| CC STAFF               | 6,115                                 | 1,067             | 2,019             | 5,163                              |
| CHEERLEADERS           | 1,099                                 | 4,574             | 4,561             | 1,112                              |
| CLASS OF 2014          | 4,058                                 | 34,633            | 38,691            | -                                  |
| CLASS OF 2015          | 1,866                                 | 2,556             | 1,534             | 2,888                              |
| CLASS OF 2016          | 331                                   | -                 | -                 | 331                                |
| CLASS OF 2017          | 678                                   | 3,526             | 1,800             | 2,404                              |
| CLASSROOM CREATIONS    | 1,297                                 | -                 | 10                | 1,287                              |
| CONCESSIONS SALES      | -                                     | 12,030            | 12,030            | -                                  |
| D. WILSON MEMORIAL SCH | -                                     | 1,000             | 1,000             | -                                  |
| DESTINATION I.         | -                                     | 3,158             | 3,158             | -                                  |
| FFA                    | 702                                   | 9,309             | 9,231             | 781                                |
| FARMERS MARKET         | -                                     | 4,652             | 3,228             | 1,425                              |
| FBLA                   | 976                                   | 1,720             | 1,548             | 1,148                              |
| GENERAL ATHLETICS      | 6,215                                 | 22,094            | 22,500            | 5,809                              |
| GIRLS BASKETBALL       | 2,244                                 | 9,249             | 10,914            | 580                                |
| GOLF                   | 3,578                                 | 2,593             | 2,467             | 3,705                              |
| ACADEMICS HIGH SCHOOL  | 262                                   | 100               | 178               | 184                                |
| HEALTH                 | 110                                   | -                 | 23                | 87                                 |
| GRANT                  | 339                                   | -                 | -                 | 339                                |
| HOSA                   | -                                     | -                 | -                 | -                                  |
| LIBRARY                | 7,501                                 | 1,114             | 4,899             | 3,715                              |
| MS BOYS BASKETBALL     | 1,984                                 | 5,937             | 7,370             | 550                                |
| MS GIRLS BASKETBALL    | 998                                   | -                 | 608               | 390                                |
| MISC                   | 10,405                                | 27,612            | 26,557            | 11,460                             |
| NAC                    | 1,296                                 | -                 | 554               | 742                                |
| PROJECT PROM           | 11                                    | -                 | -                 | 11                                 |
| SCHOOL TO WORK         | 205                                   | -                 | -                 | 205                                |
| SNACK                  | 8,906                                 | 7,119             | 11,143            | 4,882                              |
| SOFTBALL               | 3,034                                 | 2,749             | 4,397             | 1,386                              |
| STEWART MEMORIAL SCH   | -                                     | 250               | 250               | -                                  |
| SCHOLARSHIPS           | -                                     | 13,495            | 6,894             | 6,601                              |
| TECHNOLOGY             | 16,219                                | -                 | 843               | 15,376                             |
| TRACK                  | 2,926                                 | 814               | 2,951             | 790                                |
| VOLLEYBALL             | 1,135                                 | 4,997             | 4,681             | 1,450                              |
| CROSS COUNTRY          | -                                     | -                 | -                 | -                                  |
| YEARBOOK               | 859                                   | 1,985             | 1,609             | 1,235                              |
| YOUTH SERVICE CENTER   | 63                                    | -                 | 45                | 18                                 |
| CD                     | 28,536                                | 67                | -                 | 28,602                             |
| <b>TOTALS</b>          | <b>\$ 122,220</b>                     | <b>\$ 192,942</b> | <b>\$ 208,342</b> | <b>\$ 106,820</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, 2014

**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, 2014, the District had food commodities totaling \$34,852.

Owsley County School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2014

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title              | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Program<br>or Award<br>Amount | Expenditures     |
|---|---------------------------|-------------------------------------|-------------------------------|------------------|
| US Department of Agriculture  |                           |                                     |                               |                  |
| Passed Through State Department of Education                            |                           |                                     |                               |                  |
| <b>School Breakfast Program</b>   | 10.553                    |                                     |                               |                  |
| Fiscal Year 13  |                           | 7760005 13                          | \$                            | N/A \$ 36,609    |
| Fiscal Year 14  |                           | 7760005 14                          |                               | N/A 119,079      |
| <b>National School Lunch Program</b>                                    | 10.555                    |                                     |                               |                  |
| Fiscal Year 13  |                           | 7750002 13                          |                               | N/A 82,365       |
| Fiscal Year 14  |                           | 7750002 14                          |                               | N/A 260,556      |
| <b>Summer Food Service Program For Children</b>                         | 10.559                    |                                     |                               |                  |
| Fiscal Year 13  |                           | 7690024 13                          |                               | N/A 1,075        |
| <b>Summer Food Service Program For Children</b>                         | 10.559                    |                                     |                               |                  |
| Fiscal Year 13  |                           | 7740023 13                          |                               | N/A 10,382       |
| Child Nutrition Cluster Subtotal  |                           |                                     |                               | <u>510,067</u>   |
| <b>Fruit &amp; Vegetable Program</b>                                    | 10.582                    |                                     |                               |                  |
| Fiscal Year 13  |                           | 7720012 13                          |                               | N/A 4,179        |
| Fiscal Year 14  |                           | 7720012 14                          |                               | N/A 21,489       |
|   |                           |                                     |                               | <u>25,668</u>    |
| Passed Through State Department of Agriculture                          |                           |                                     |                               |                  |
| <b>Food Donation-Commodities</b>  | 10.565                    |                                     |                               |                  |
| Fiscal Year 14  |                           | 510.4950                            |                               | N/A 34,852       |
| Total US Department of Agriculture                                      |                           |                                     |                               | <u>570,587</u>   |
| US Department of Education  |                           |                                     |                               |                  |
| Passed Through State Department of Education                            |                           |                                     |                               |                  |
| * <b>Title I Grants to Local Educational Agencies</b>                   | 84.010A                   |                                     |                               |                  |
| Fiscal Year 13  |                           | 3100002 13                          | 631,829                       | 232,891          |
| Fiscal Year 13M   |                           | 3100002 13                          | 42,000                        | 19,590           |
| Fiscal Year 14  |                           | 3100002 14                          | 594,569                       | 440,534          |
| Fiscal Year 14M   |                           | 3100002 14                          | 45,358                        | 33,865           |
|   |                           |                                     |                               | <u>726,881</u>   |
| <b>Special Education Grants to States</b>                               | 84.027A                   |                                     |                               |                  |
| Fiscal Year 14  |                           | 3810002 14                          | 179,700                       | 179,700          |
| <b>Special Education - Preschool Grants</b>                             | 84.173A                   |                                     |                               |                  |
| Fiscal Year 13  |                           | 3800002 13                          | 21,477                        | 13,899           |
| Fiscal Year 14  |                           | 3800002 14                          | 21,365                        | 2,060            |
| Special Education Cluster Subtotal                                      |                           |                                     |                               | <u>195,658</u>   |
| <b>Vocation Education - Basic Grants to States</b>                      | 84.048                    |                                     |                               |                  |
| Fiscal Year 13A   |                           | 4621132 13                          | 652                           | 652              |
| Fiscal Year 14  |                           | 4621132 14                          | 12,500                        | 12,500           |
|   |                           |                                     |                               | <u>13,152</u>    |
| <b>Race to the Top</b>  | 84.413A                   |                                     |                               |                  |
| Fiscal Year 11  |                           | 3960002 11                          | 28,603                        | 13,715           |
| <b>Rural Education</b>  | 84.358B                   |                                     |                               |                  |
| Fiscal Year 12  |                           | 314002 12                           | 16,725                        | 1,005            |
| Fiscal Year 13  |                           | 314002 13                           | 14,568                        | 5,457            |
|   |                           |                                     |                               | <u>6,462</u>     |
| <b>Improving Teacher Quality State Grants</b>                           | 84.367A                   |                                     |                               |                  |
| Fiscal Year 14  |                           | 3230002 14                          | 103,482                       | 103,482          |
| Passed through Reading is Fundamental, Inc.                             |                           |                                     |                               |                  |
| <b>Reading is Fundamental</b>   | 81.000                    |                                     |                               |                  |
| Fiscal Year 13  |                           | 6873                                | 2,000                         | 199              |
| Fiscal Year 14  |                           | 6874                                | 2,000                         | 1,914            |
|   |                           |                                     |                               | <u>2,112</u>     |
| Passed through Berea College  |                           |                                     |                               |                  |
| <b>Gaining Early Awareness and Readiness for Undergraduate Programs</b> | 84.334A                   |                                     |                               |                  |
| Fiscal Year 14G   |                           | 3794G                               | 206,530                       | 185,225          |
| Total US Department of Education  |                           |                                     |                               | <u>1,246,688</u> |
| US Environmental Protection Agency                                      |                           |                                     |                               |                  |
| Passed through Florida Department of Financial Services                 |                           |                                     |                               |                  |
| <b>Environmental Education</b>  | 66.591                    |                                     |                               |                  |
| Fiscal Year 14  |                           | 6024                                | 4,933                         | 4,933            |
| Total US Environmental Protection Agency                                |                           |                                     |                               | <u>4,933</u>     |
| US Department of Commerce   |                           |                                     |                               |                  |
| Passed through Bluegrass Pride  |                           |                                     |                               |                  |
| <b>Pride Grant-Wetlands Project</b>                                     | 11.420                    |                                     |                               |                  |
| Fiscal Year 14A   |                           | 2704A                               | 1,500                         | 1,481            |
| Fiscal Year 14B   |                           | 2704B                               | 250                           | 250              |
| Fiscal Year 14C   |                           | 2704C                               | 1,500                         | 1,310            |
| Fiscal Year 14D   |                           | 2704D                               | 250                           | 247              |
| Total U.S. Department of Commerce                                       |                           |                                     |                               | <u>3,289</u>     |
| US Department of Labor  |                           |                                     |                               |                  |

Owsley County School District  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2014

| Federal Grantor/<br>Pass-Through Grantor/<br>Program Title  | Federal<br>CFDA<br>Number | Pass-Through<br>Grantor's<br>Number | Program<br>or Award<br>Amount | Expenditures        |
|---|---------------------------|-------------------------------------|-------------------------------|---------------------|
| Passed Through Middle Kentucky Community Action Partnership |                           |                                     |                               |                     |
| <b>WIA Year Round Youth Program</b>                         | 17.259                    |                                     |                               |                     |
| Fiscal Year 14Y   |                           | 5954Y                               | 17,242                        | 17,241              |
| Total US Department of Labor                                |                           |                                     |                               | <u>17,241</u>       |
| US Department of Health and Human Services                  |                           |                                     |                               |                     |
| * <b>Head Start</b>   | 93.600                    |                                     |                               |                     |
| Fiscal Year 14  |                           | 04CH0329                            | 645,938                       | 463,216             |
| Fiscal Year 15  |                           | 04CH0329                            | 690,106                       | 173,978             |
| * <b>Early Head Start</b>                                   | 93.600                    |                                     |                               |                     |
| Fiscal Year 14A   |                           | 04CH0329                            | 476,533                       | 345,181             |
| Fiscal Year 15A   |                           | 04CH0329                            | 508,733                       | 112,439             |
|   |                           |                                     |                               | <u>1,094,814</u>    |
| Passed Through Kentucky School Board Association            |                           |                                     |                               |                     |
| <b>Medical Assistance Program</b>                           | 93.778                    |                                     |                               |                     |
| Fiscal Year 14  |                           | 110.4810                            | N/A                           | 15,060              |
| Passed Through Kentucky River District Health Department    |                           |                                     |                               |                     |
| <b>Postponing Sexual Involvement</b>                        | 93.994                    |                                     |                               |                     |
| Fiscal Year 14  |                           | 6004                                | 328                           | 328                 |
| Total US Department of Health and Human Services            |                           |                                     |                               | <u>1,110,203</u>    |
| <b>Total Expenditure of Federal Awards</b>                  |                           |                                     |                               | <u>\$ 2,952,941</u> |

\* 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, 2014, 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 23, 2014.

**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 of 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. 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*.

We noted certain matters that we reported to management of the Owsley County School District, in a separate letter dated October 23, 2014.

In addition, the results of our tests disclosed no material 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 District's Audit Contract and Requirements or Appendices.

### **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, P.C.*

Richmond, Kentucky  
October 23, 2014



**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, 2014. 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, 2014.

### **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, PSC*

Richmond, Kentucky  
October 23, 2014

OWSLEY COUNTY SCHOOL DISTRICT  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2014

**SUMMARY OF AUDITOR’S RESULTS**

|  |   |
|--|---|
| What type of report was issued for the financial statements?   | Unmodified  |
| Were there significant deficiencies in internal control disclosed?<br>If so, was any significant deficiencies material (GAGAS)?                    | None Reported                                     |
| Was any material noncompliance reported (GAGAS)?   | No  |
| Were there material weaknesses in internal control disclosed<br>For major programs?  | No  |
| Were there any significant deficiencies in internal control disclosed<br>that were not considered to be material weaknesses?                       | None Reported                                     |
| What type of report was issued on compliance for major programs?   | Unmodified  |
| Did the audit disclose findings as it relates to major programs that<br>Is required to be reported as described in Section 510(a) of OMB<br>A-133? | No  |
| Major Programs   | Head Start[CFDA 93.600]<br>Title I [CFDA 84.010A] |
| 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.

OWSLEY COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2014

There were no prior audit findings.