

HARRISON COUNTY  
SCHOOL DISTRICT

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL SCHEDULES

For the year ended June 30, 2013

Prepared by:

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TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2013

	<u>Page</u>
Independent Auditor’s Report .....	1-3
Management’s Discussion & Analysis (MD&A).....	4-9
Statement of Net Position.....	10
Statement of Activities.....	11
Balance Sheet-Governmental Funds.....	12
Reconciliation of the Balance Sheet- Governmental Funds to the Statement of Net Position .....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Fund.....	17
Statement of Net Position – Proprietary Funds.....	18
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	19
Statement of Cash Flows – Proprietary Funds.....	20
Statement of Fiduciary Net Position – Fiduciary Funds.....	21
Statement of Changes in Net Position – Fiduciary Funds.....	22
Notes to the Financial Statements.....	23-39

TABLE OF CONTENTS (CONTINUED)

**Supplemental Schedules**

Combining Balance Sheet – Nonmajor Governmental Funds .....	40
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds .....	41
Combining Balance Sheet – School Activity and Private Purpose Trust .....	42
Combining Statement of Revenues, Expenses, and Changes in Fund Balance - School Activity and Private Purpose Trust.....	43
Statement of Revenues, Expenses, and Changes in Fund Balance – Harrison County High School.....	44
Notes to the Schedule of Expenditures of Federal Awards.....	45
Schedule of Expenditures of Federal Awards.....	46-47
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 <i>Government Auditing Standards</i> .....	48-49
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.....	50-51
Schedule of Findings and Questioned Costs.....	52
Summary Schedule of Prior Audit Findings.....	53
Management Letter .....	54-57



## INDEPENDENT AUDITOR'S REPORT

To the Harrison County Board of Education and  
State Committee for School District Audits  
Cynthiana, 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 Harrison County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinions***

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

### ***Other Matters***

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

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

#### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013, on our consideration of the Harrison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison County School District's internal control over financial reporting and compliance.

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

**HARRISON COUNTY SCHOOL DISTRICT  
CYNTHIANA, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

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

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$2,817,535 and the ending balance was \$5,982,518, an increase of \$3,164,983 for the year.
- Following the completion of the district long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need. The Board expended \$2,087,018 for completion of a project at the Middle School, continuation of an ongoing project at the High School/Fieldhouse and for beginning work on a new construction project for Safety and Security at each of our six schools.
- The board initiated one new construction project during the year ended June 30, 2013. A Safety and Security Update Project was started for all six schools. This project includes updating the main entrances of each school building. The project is expected to cost approximately \$149,700 and should be complete by the end of FY 2014. The Middle School Project to replace a portion of the roof, to update HVAC, and to replace gym bleachers was completed during FY 2012-2013. The total cost of the project was \$988,728. The High School/Fieldhouse Project is still ongoing. This project includes updates to the Band Room, Project Lead the Way Lab and the Vo-Ag Classroom. This same project also includes construction of a Fieldhouse at the new Athletic complex. The total spent as of June 30, 2013 was \$1,454,392. The total anticipated cost will be \$4,375,000.
- At the end of fiscal 2013, the District contingency balance was \$2,239,482. The balance for fiscal year 2012 was \$2,631,144. This was a decrease of \$391,662 and is partly due to increased costs to provide instruction to students, as well as decreased state and federal funding. The decrease in the contingency balance is also due to a new Assignment of Funds on the Balance Sheet. We have reserved \$283,257 on the Balance Sheet for a potential KSBIT Assessment. KSBIT (KY School Board Insurance Trust) was an insurance fund, in which we were a member for many years. Over the years we have had both liability and worker's comp insurance through the fund. KSBIT has ceased business and is unable to pay their insurance claims. Under the agreement of the fund, past and current members can be assessed to cover any deficit.
- The General Fund had \$21,408,763 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was \$21,466,692 in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district's total debt increased by \$3,185,000 during the current fiscal year.

**HARRISON COUNTY SCHOOL DISTRICT  
CYNTHIANA, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

The statement of net position presents information on all of the District's assets and deferred outflows, and liabilities and deferred inflows, 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 district is improving or deteriorating.

The statement of activities presents information showing how the 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 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 proprietary funds are food service operations and community education. 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 government-wide and fund financial statements. The notes to the financial statements can be found on the table of contents in this report.

**HARRISON COUNTY SCHOOL DISTRICT  
CYNTHIANA, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets plus deferred outflows exceeded liabilities by \$9,012,372 as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

**Net Position for the period ending June 30, 2013**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current Assets	\$ 6,607,806	\$ 5,033,585
Noncurrent Assets	<u>\$ 18,805,957</u>	<u>\$17,929,343</u>
<b>Total Assets</b>	<b>\$ 25,413,763</b>	<b>\$22,962,928</b>
Loss for the difference in reacquisition and carrying Value of refunded debt	\$ 196,735	
Current Liabilities	\$ 1,329,313	\$ 1,507,217
Noncurrent Liabilities	<u>\$15,268,814</u>	<u>\$11,545,450</u>
<b>Total Liabilities</b>	<b>\$16,598,127</b>	<b>\$13,052,667</b>
<b>Net Position</b>		
Investment in capital assets (net of debt)	\$ 3,372,692	\$ 5,484,343
Restricted	\$ 4,120,027	\$1,405,531
Unassigned Fund Balance	<u>\$ 1,519,652</u>	<u>\$ 3,020,387</u>
<b>Total Net Position</b>	<b>\$ 9,012,372</b>	<b>\$ 9,910,261</b>

**GOVERNMENTAL ACTIVITIES**

Net position decreased due mainly to a large decrease in federal and state grant revenue.

**BUSINESS-TYPE ACTIVITIES**

Net position decreased due to decreased lunchroom sales revenue. The School Food Service programs goal is to be self sustaining with increases in net position annually.

**HARRISON COUNTY SCHOOL DISTRICT  
CYNTHIANA, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**Statement of Activities**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
<b>Revenue</b>				
Charges for services	\$ 20,441	\$ 192,055	\$ 755,418	\$ 681,722
Operating grants and contributions	7,170,333	2,524,975	1,076,290	1,096,352
Capital grants and contributions	1,128,563	1,182,664	-	-
General revenues	17,632,551	21,757,180	14,644	34,813
Total revenue	25,951,888	25,656,874	1,846,352	1,812,887
<b>Expenses</b>				
Instruction	13,594,521	13,829,910		
Student	955,148	1,408,179		
Instructional staff	1,290,927	1,214,635		
District administration	495,679	633,355		
School administration	1,633,587	1,689,937		
Business	889,809	888,667		
Plant operation & maintenance	3,108,143	2,651,689		
Student transportation	1,638,480	1,506,871		
Other instructional	4,064			
Community service operation	303,318	321,085	226,957	221,297
Debt service	144,861	115,735		
Depreciation	1,202,346	1,208,634	12,844	14,149
Amortization	75,949	27,546		
Loss on retirement of assets	23,312	68,413		
Interest on long-term debt	279,476	388,131		
Food service operations	-	283,257	1,716,549	1,652,004
Extraordinary Item				
Total expenses	25,639,619	26,236,044	1,956,350	1,887,450
<b>Change in net position</b>	312,269	(579,169)	(109,998)	(74,563)
<b>Net position beginning</b>	9,246,110	9,568,996	451,263	341,265
<b>Prior Period Adjustment</b>	10,617	(244,158)		
<b>Net position ending</b>	\$ 9,568,996	\$ 8,745,670	\$ 341,265	\$ 266,702

**HARRISON COUNTY SCHOOL DISTRICT  
CYNTHIANA, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**Budgetary Implications**

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal operate on a different fiscal year, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The district adopted a budget with \$1,816,448 in contingency, which is 9.8% of the General Fund budget. The beginning cash balance for the fiscal year was \$5,982,518.

**Comments on Budget Comparisons**

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

The District recorded “On-Behalf” payments as revenues and expenditures during the fiscal year. The On-Behalf revenues and expenditures were also included in the budget.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2012 and 2013 and includes On-Behalf payments.

	2013	2012
Revenues:		
Local revenue	\$ 5,528,598	\$ 5,315,459
State revenue	\$18,099,071	\$18,034,087
Federal revenue	\$ 2,027,286	\$ 2,581,077
Other	<u>\$ 21,527</u>	<u>\$ 34,097</u>
Total Revenues	\$25,676,482	\$25,964,720
Expenses		
Instruction	\$13,807,830	\$13,770,503
Student Support Services	\$ 1,408,179	\$ 955,148
Instructional Support	\$ 1,214,635	\$ 1,290,927
District administration	\$ 633,355	\$ 495,679
School administration	\$ 1,689,937	\$ 1,633,587
Business support	\$ 888,667	\$ 889,809
Plant operations	\$ 2,728,189	\$ 3,242,369
Student transportation	\$ 1,523,871	\$ 1,909,794
Community services	\$ 321,086	\$ 303,318
Facilities acquisition & construction	\$ 1,971,283	\$ 646,809
Other	<u>\$ 1,586,572</u>	<u>\$ 1,480,856</u>
Total Expenses	\$27,773,604	\$26,618,800
Expenses in excess of revenues	(\$ 2,097,122)	(\$ 654,080)

**Analysis of balances and transactions of individual funds (in thousands)**

Fund	Beginning	Revenues	Expenses	Transfer/Other	Ending
General Fund	\$3,241,544	\$21,408,763	\$21,466,692	(\$186,006)	\$2,997,609
Special Revenue	\$0	\$2,582,656	\$2,749,056	\$166,400	\$0
Capital Outlay	\$9,064	\$276,096	\$0	(\$212,029)	\$ 73,131
Building	\$111,968	\$1,000,849	\$0	(\$1,009,688)	\$103,129
Construction	\$645,626	\$0	\$2,087,018	\$4,458,997	\$3,017,605
Debt Service	\$0	\$408,117	\$1,470,837	\$1,062,720	\$0

**HARRISON COUNTY SCHOOL DISTRICT  
CYNTHIANA, KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2013**

**CAPITAL ASSETS**

At the end of fiscal year 2013, the District had \$18.8 million invested in capital assets, including land, buildings, buses, computers, and other equipment.

**Capital Assets and Long-Term Debt Activity (in thousands)**

**Capital Assets and Long-Term Debt Activity (in thousands)**

<b>Governmental</b>	<b>Beginning</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending</b>
Capital Assets	\$38,311,079	\$3,156,538	(\$2,330,818)	\$39,136,800
Accumulated Depreciation	\$20,494,552	\$1,208,634	(\$1,273,677)	\$20,429,509
<b>Business-Type</b>				
Capital Assets	\$604,700	\$0	(\$19,310)	\$585,390
Accumulated Depreciation	\$491,884	\$14,149	(\$19,310)	\$486,723
Bonds Payable	\$12,445,000	\$4,300,000	(\$1,115,000)	\$15,630,000
Capital Leases Payable	\$0	\$0	(\$0)	\$0
Notes Payable	\$0	\$0	(\$0)	\$0

**DEBT**

The District had one bond sale during fiscal year 2013 for renovations at Harrison County High School and to build the field house at the Athletic Complex. Debt increased by \$3,185,000 from 2012 to 2013.

**Current Issues**

The federal and state budget situation is of enormous concern to us. We are continuously monitoring our spending and our funding sources.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent, Mr. Andy Dotson, or to the Director of Finance, Julie Asher, or by phone at 859-234-7110 or by mail at 308 Webster Ave., Cynthiana, KY 41031.

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

	Primary Government		
	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,939,347	\$ 43,170	\$ 5,982,518
Receivables (net)	492,483	106,205	598,689
Inventories		25,096	25,096
Prepays	1,504		1,504
Capital assets:			
Land, improvements, and construction in progress	2,701,069		2,701,069
Other capital assets, net of depreciation	16,006,221	98,667	16,104,888
Total capital assets	18,707,291	98,667	18,805,957
Total assets	25,140,625	273,139	25,413,763
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Loss for the difference in reacquisition and carrying value of refunding debt	196,735		196,735
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	105,006	2,980	107,985
Accrued salaries and benefits payable	30,114	3,457	33,571
Accrued interest payable	96,016		96,016
Unearned revenue	106,740		106,740
Long-term liabilities:			
Due within 1 year:			
Bond obligations	985,000		985,000
Total due within 1 year	985,000	-	985,000
Due in more than 1 year:			
Bond obligations	14,645,000		14,645,000
KSBIT payable	283,257		283,257
Sick leave	340,557		340,557
Total due in more than 1 year	15,268,814	-	15,268,814
Total liabilities	16,591,690	6,436	16,598,127
<b>NET POSITION</b>			
Net Investment in capital assets	3,274,026	98,667	3,372,692
Restricted for:			
Nonexpendable for prepaids	1,504		1,504
Expendable restricted for capital projects	3,193,865		3,193,865
Expendable restricted for site based	38,087		38,087
Expendable restricted for sick leave	170,279		170,279
Expendable restricted for preschool	125,000		125,000
Expendable restricted for KSBIT assessment	283,257		283,257
Expendable restricted for day care operations	140,000		140,000
Expendable restricted for technology		8,169	8,169
Expendable restricted for food services		159,866	159,866
Unrestricted	1,519,652		1,519,652
Total net position	\$ 8,745,670	\$ 266,702	\$ 9,012,372

See the accompanying notes to the financial statements.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>PRIMARY GOVERNMENT:</b>							
Governmental activities:							
Instruction	\$ 13,829,910	\$ 72,759	\$ 1,540,235	\$ -	\$ (12,216,916)		\$ (12,216,916)
Support Services							
Student	1,408,179	106,456	126,249		(1,175,474)		(1,175,474)
Instructional Staff	1,214,635		126,249		(1,088,386)		(1,088,386)
District Administration	633,355		50,500		(582,856)		(582,856)
School Administration	1,689,937		176,748		(1,513,188)		(1,513,188)
Business	888,667		75,749		(812,917)		(812,917)
Plant Operation & Maintenance	2,651,689		252,498	774,547	(1,624,645)		(1,624,645)
Student Transportation	1,506,871	12,840	151,499		(1,342,533)		(1,342,533)
Community Services Operations	321,086		25,250		(295,836)		(295,836)
Depreciation	1,208,634				(1,208,634)		(1,208,634)
Amortization	27,546				(27,546)		(27,546)
Debt Service	115,735				(115,735)		(115,735)
Loss on retirement of assets	68,413				(68,413)		(68,413)
Interest on Long-term Debt	388,131			408,117	19,986		19,986
Total governmental activities	<u>25,952,787</u>	<u>192,055</u>	<u>2,524,975</u>	<u>1,182,664</u>	<u>(22,053,092)</u>		<u>(22,053,092)</u>
Business-type activities:							
Food service operations	1,939,386	533,700	1,336,207			\$ (69,480)	(69,480)
Daycare operations	267,630	148,022	93,861			(25,747)	(25,747)
Depreciation	14,149					(14,149)	(14,149)
Total business-type activities	<u>2,221,166</u>	<u>681,722</u>	<u>1,430,068</u>	<u>-</u>	<u>-</u>	<u>(109,376)</u>	<u>(109,376)</u>
Total primary government	\$ <u>28,173,952</u>	\$ <u>873,778</u>	\$ <u>3,955,043</u>	\$ <u>1,182,664</u>	<u>(22,053,092)</u>	<u>(109,376)</u>	<u>(22,162,468)</u>
General revenues:							
Taxes:							
Property taxes					3,810,759		3,810,759
Motor vehicle taxes					596,435		596,435
Utility taxes					1,027,036		1,027,036
State formula grant					16,321,029		16,321,029
Unrestricted investment earnings					21,527	897	22,424
Sale of equipment					14,309		14,309
Transfers					(33,916)	33,916	-
Total general revenues, and transfers					<u>21,757,180</u>	<u>34,813</u>	<u>21,791,993</u>
Extraordinary item					(283,257)		(283,257)
Total general revenues transfers and extraordinary item					<u>21,473,923</u>	<u>34,813</u>	<u>21,508,736</u>
Change in net position					(579,169)	(74,563)	(653,732)
Net position - beginning					9,568,996	341,265	9,910,261
Prior period adjustment					(244,158)		(244,158)
Restated net position - beginning					<u>9,324,838</u>	<u>341,265</u>	<u>9,666,104</u>
Net position - ending					\$ <u>8,745,670</u>	\$ <u>266,702</u>	\$ <u>9,012,372</u>

See the accompanying notes to the financial statements.

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

	<b>Governmental Funds</b>					
	<b>General</b>	<b>Special Revenue</b>	<b>Construction</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 2,937,728	\$ -	\$ 3,029,268	\$ -	\$ 176,260	\$ 6,143,256
Receivables, net						
Taxes-current	123,685					123,685
Accounts	16,492					16,492
Intergovernmental-federal	5,712	346,594				352,306
Prepays	1,504					1,504
Total assets	3,085,121	346,594	3,029,268	-	176,260	6,637,243
<b>LIABILITIES</b>						
Accounts payable	85,430	7,913	11,663			105,006
Cash shortage		203,909				203,909
Accrued salaries & benefits payable	2,082	28,032				30,114
Unearned revenue		106,740				106,740
Total liabilities	87,512	346,594	11,663	-	-	445,769
<b>FUND BALANCE</b>						
Nonspendable	1,504					1,504
Restricted			3,017,605		176,260	3,193,865
Committed	265,000					265,000
Assigned	491,623					491,623
Unassigned	2,239,482					2,239,482
Total fund balance	\$ 2,997,609	\$ -	\$ 3,017,605	\$ -	\$ 176,260	\$ 6,191,474

See the accompanying notes to the financial statements.

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

<b>Total fund balance per fund financial statements</b>	\$	6,191,474
<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>		18,707,291
<p>Capitalized the bond issue costs for the sale/refunding of bonds and amortized over the life of the bonds.</p>		196,735
<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.</p>		
<p>Accrued interest payable</p>		(96,016)
<p>KSBIT payable</p>		(283,257)
<p>Bond obligations</p>		(15,630,000)
<p>Sick leave payable</p>		<u>(340,557)</u>
<b>Net position of governmental activities</b>	<b>\$</b>	<b><u><u>8,745,670</u></u></b>

See the accompanying notes to the financial statements.

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

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
From Local Sources						
Taxes						
Property	\$ 3,308,361	\$ -	\$ -	\$ -	\$ 502,398	\$ 3,810,759
Motor vehicle	596,435					596,435
Utilities	1,027,036					1,027,036
Tuition	300	4,520				4,820
Transportation	12,840					12,840
Food services		403				403
Student activities		3,546				3,546
Earnings on investments	21,245	283				21,527
Other local revenue	23,829	48,930				72,759
Intergovernmental - state	16,321,029	595,377		408,117	774,547	18,099,071
Intergovernmental - federal	97,688	1,929,598				2,027,286
Total revenues	<u>21,408,763</u>	<u>2,582,656</u>	<u>-</u>	<u>408,117</u>	<u>1,276,945</u>	<u>25,676,481</u>
<b>EXPENDITURES</b>						
Instruction	11,758,226	2,049,603				13,807,830
Support Services						
Student	1,317,003	91,175				1,408,179
Instructional Staff	919,060	295,575				1,214,635
District Administration	633,355					633,355
School Administration	1,689,937					1,689,937
Business	836,202	52,465				888,667
Plant Operation & Maintenance	2,728,189					2,728,189
Student Transportation	1,523,871					1,523,871
Community Services	60,848	260,238				321,086
Building Improvements			1,971,283			1,971,283
Debt Service			115,735	1,470,837		1,586,572
Total expenditures	<u>21,466,692</u>	<u>2,749,056</u>	<u>2,087,018</u>	<u>1,470,837</u>	<u>-</u>	<u>27,773,603</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(57,929)	(166,400)	(2,087,018)	(1,062,720)	1,276,945	(2,097,122)
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds from sale of a bond			4,300,000			4,300,000
Sale of equipment	14,309					14,309
Operating transfers in		166,400	158,997	1,062,720		1,388,116
Operating transfers (out)	(200,316)				(1,221,716)	(1,422,032)
Total other financing sources and (uses)	<u>(186,006)</u>	<u>166,400</u>	<u>4,458,997</u>	<u>1,062,720</u>	<u>(1,221,716)</u>	<u>4,280,394</u>
<b>NET CHANGE IN FUND BALANCE</b>	(243,935)	-	2,371,979	-	55,229	2,183,272
<b>FUND BALANCE -BEGINNING</b>	3,241,544	-	645,626	-	121,032	4,008,202
<b>FUND BALANCE - ENDING</b>	<u>\$ 2,997,609</u>	<u>\$ -</u>	<u>\$ 3,017,605</u>	<u>\$ -</u>	<u>\$ 176,260</u>	<u>\$ 6,191,474</u>

See the accompanying notes to the financial statements.

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

<b>Net change in total fund balances per fund financial statements</b>	\$	2,183,272
<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 depreciation exceeds capital outlays for the year.</p>		890,763
<p>The cost of issuance of bonds are reported as expenditures in the fund financial statements, but the costs are capitalized and amortized over the life of the bond in the statement of activities.</p>		(27,546)
<p>Bond, capital lease, and note 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>		(3,185,000)
<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>		(32,294)
<p>KSBIT payable extraordinary item</p>		(283,257)
<p>Noncurrent accrued sick leave payable</p>		(125,107)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b>(579,169)</b>

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>with Final Budget Favorable (Unfavorable)</b>
<b>REVENUES</b>				
From Local Sources				
Taxes				
Property	\$ 3,256,000	\$ 3,256,000	\$ 3,308,361	\$ 52,361
Motor vehicle	580,000	580,000	596,435	16,435
Utilities	1,150,000	1,150,000	1,027,036	(122,964)
Tuition	600	600	300	(300)
Transportation	10,000	10,000	12,840	2,840
Earnings on investments	35,000	35,000	21,245	(13,755)
Other local revenue	20,000	20,000	23,829	3,829
Intergovernmental - state	15,906,686	15,896,595	16,321,029	424,434
Intergovernmental - federal	100,000	100,000	97,688	(2,312)
Total revenues	<u>21,058,286</u>	<u>21,048,195</u>	<u>21,408,763</u>	<u>360,568</u>
<b>EXPENDITURES</b>				
Instruction	11,461,494	11,417,145	11,758,226	(341,081)
Support Services				
Student	1,193,571	1,214,265	1,317,003	(102,738)
Instructional Staff	999,030	1,005,454	919,060	86,394
District Administration	680,830	702,673	633,355	69,318
School Administration	1,681,030	1,679,464	1,689,937	(10,473)
Business	824,545	817,853	836,202	(18,349)
Plant Operation & Maintenance	3,307,636	3,299,092	2,728,189	570,903
Student Transportation	1,731,221	1,764,471	1,523,871	240,600
Community Services	48,661	48,761	60,848	(12,087)
Total expenditures	<u>21,928,018</u>	<u>21,949,178</u>	<u>21,466,692</u>	<u>482,486</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(869,732)	(900,983)	(57,929)	843,054
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of equipment			14,309	14,309
Operating transfers in	64,067	64,067		(64,067)
Operating transfers (out)	(66,656)	(166,656)	(200,316)	(33,660)
Total other financing sources and (uses)	<u>(2,589)</u>	<u>(102,589)</u>	<u>(186,006)</u>	<u>(83,417)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(872,321)	(1,003,572)	(243,935)	759,637
<b>FUND BALANCE -BEGINNING</b>	<u>2,720,020</u>	<u>2,820,020</u>	<u>3,241,544</u>	<u>421,524</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 1,847,699</u>	<u>\$ 1,816,448</u>	<u>\$ 2,997,609</u>	<u>\$ 1,181,161</u>

See the accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
From Local Sources				
Tuition	\$ -	\$ -	\$ 4,520	\$ 4,520
Food services			403	403
Student activities		(4,667)	3,546	8,213
Earnings on investments	50	50	283	233
Other local revenue	(305)	7,850	48,930	41,080
Intergovernmental - state	607,878	611,136	595,377	(15,758)
Intergovernmental - federal	1,843,463	1,842,319	1,929,598	87,279
Total revenues	<u>2,451,086</u>	<u>2,456,687</u>	<u>2,582,656</u>	<u>125,968</u>
<b>EXPENDITURES</b>				
Instruction	1,917,898	1,926,487	2,049,603	(123,116)
Support Services				
Student	101,421	101,421	91,175	10,246
Instructional Staff	193,110	291,940	295,575	(3,635)
Business	50,973	50,973	52,465	(1,492)
Community Services	254,340	252,522	260,238	(7,715)
Total expenditures	<u>2,517,742</u>	<u>2,623,343</u>	<u>2,749,056</u>	<u>(125,712)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(66,656)	(166,656)	(166,400)	256
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	66,656	166,656	166,400	(256)
Total other financing sources and (uses)	<u>66,656</u>	<u>166,656</u>	<u>166,400</u>	<u>(256)</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.

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

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 39,550	\$ 3,621	\$ 43,170
Receivables	98,175	8,030	106,205
Inventories	25,096		25,096
Capital assets:			
Other capital assets, net of depreciation	98,101	565	98,667
Total assets	260,922	12,216	273,139
<b>LIABILITIES</b>			
Accounts payable	1,130	1,850	2,980
Accrued salaries and benefit payable	1,825	1,632	3,457
Total liabilities	2,955	3,482	6,436
<b>NET POSITION</b>			
Net Investment in capital assets	98,101	565	98,667
Restricted for:			
Expendable restricted for day care operation		8,169	8,169
Expendable restricted for food service	159,866		159,866
Total net position	\$ 257,968	\$ 8,734	\$ 266,702

See the accompanying notes to the financial statements.

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

	<b>Enterprise Funds</b>		
	<b>School Food Services</b>	<b>Other Proprietary Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Lunchroom sales	\$ 533,700	\$ -	\$ 533,700
Tuition		148,022	148,022
Total operating revenues	<u>533,700</u>	<u>148,022</u>	<u>681,722</u>
<b>OPERATING EXPENSES</b>			
Depreciation	13,744	405	14,149
Daycare Operations			
Salaries and benefits		248,413	248,413
Other operating expenses		19,217	19,217
Food service operations			
Salaries and benefits	974,734		974,734
Other operating expenses	964,652		964,652
Total operating expenses	<u>1,953,131</u>	<u>268,035</u>	<u>2,221,166</u>
Operating income (loss)	<u>(1,419,431)</u>	<u>(120,013)</u>	<u>(1,539,444)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Federal grants	1,031,771	9,777	1,041,548
State grants	17,054	37,751	54,805
State on-behalf payments received	183,103	46,334	229,437
Donated commodities received	104,279		104,279
Transfers		33,916	33,916
Earnings from investments	897		897
Total nonoperating revenues	<u>1,337,103</u>	<u>127,777</u>	<u>1,464,881</u>
<b>CHANGE IN NET POSITION</b>	(82,327)	7,764	(74,563)
<b>NET POSITION - BEGINNING</b>	<u>340,295</u>	<u>970</u>	<u>341,265</u>
<b>NET POSITION - ENDING</b>	<u>\$ 257,968</u>	<u>\$ 8,734</u>	<u>\$ 266,702</u>

See the accompanying notes to the financial statements.

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

	Enterprise Funds		
	School Food Services	Other Proprietary Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 533,700	\$ 148,022	\$ 681,722
Payments to suppliers	(1,055,773)	(16,892)	(1,072,665)
Payments to employees	(974,734)	(248,413)	(1,223,148)
Net cash provided (used) by operating activities	(1,496,807)	(117,283)	(1,614,091)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds		33,916	33,916
Operating grants and contributions	1,336,207	93,861	1,430,068
Net cash provided (used) by noncapital financing activities	1,336,207	127,777	1,463,984
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest	897		897
Net cash provided (used) by investing activities	897	-	897
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(159,704)	10,494	(149,210)
<b>CASH BALANCE - BEGINNING</b>	199,254	(6,873)	192,380
<b>CASH BALANCE - ENDING</b>	\$ 39,550	\$ 3,621	\$ 43,170
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>			
Operating income (loss)	\$ (1,419,431)	\$ (120,013)	\$ (1,539,444)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:			
Depreciation	13,744	405	14,149
Changes in assets and liabilities:			
Receivables	(93,508)	1,722	(91,786)
Accounts payable	(1,909)	371	(1,537)
Accruals	920	232	1,152
Inventories	3,376		3,376
Net cash used by operating activities	\$ (1,496,807)	\$ (117,283)	\$ (1,614,091)

**NONCASH NONCAPITAL FINANCING ACTIVITIES**

During the year, the district received \$104,279 of food commodities from the U.S. Department of Agriculture.

See the accompanying notes to the financial statements.

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

	<u>School Activity Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Fiduciary Fund Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 383,449	\$ 1,734,348	\$ 2,117,796
Accounts receivable	4,675	2,695	7,370
	<u>388,124</u>	<u>1,737,042</u>	<u>2,125,166</u>
Total Assets	<u><u>388,124</u></u>	<u><u>1,737,042</u></u>	<u><u>2,125,166</u></u>
<b>LIABILITIES</b>			
Accounts payable	2,458	1,146	2,458
Due to student groups	385,666		385,666
	<u>388,124</u>	<u>1,146</u>	<u>388,124</u>
Total Liabilities	<u><u>388,124</u></u>	<u><u>1,146</u></u>	<u><u>388,124</u></u>
<b>NET POSITION HELD IN TRUST</b>	<u><u>\$ -</u></u>	<u><u>\$ 1,735,897</u></u>	<u><u>\$ 1,737,042</u></u>

See the accompanying notes to the financial statements.

Harrison County School District  
**Statement of Changes in Net Position**  
**Fiduciary Funds**  
Year ended June 30, 2013

		<u>Private Purpose Trust Funds</u>
<b>Additions</b>		
Trust activities	\$	343,971
<b>Deductions</b>		
Benefits paid		<u>60,821</u>
<b>Increase in net position</b>		283,150
<b>Net position, June 30, 2012</b>		<u>1,452,747</u>
<b>Net position, June 30, 2013</b>	\$	<u><u>1,735,897</u></u>

See the accompanying notes to the financial statements.

HARRISON COUNTY SCHOOL DISTRICT  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED JUNE 30, 2013

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

Reporting Entity

The Harrison 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 Harrison 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 Harrison 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:

Harrison County Board of Education Finance Corporation

The Board authorized establishment of the Harrison 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 Harrison 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 programs are identified in the Schedule of Expenditures of Federal Awards included in this report. KDE requires this fund to be a major fund.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### (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. This is a major fund.

### (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.

## II. Proprietary Funds (Enterprise Funds)

### (A) Food Service Fund

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

### (B) Day Care Fund

The Day Care Fund is used to account for child care activities.

The District applies all GASB pronouncements to proprietary funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### III. Fiduciary Fund Types

#### (A) Agency Funds

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

#### (B) Private Purpose Trust Funds

The Private Purpose Trust Funds is used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

### 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

### 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. Property taxes collected are recorded as revenues in the fiscal year for which they were levied.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations (including exonerations) were \$.412 per \$100 valuation of real property, \$.412 per \$100 valuation for business personal property and \$.50 per \$100 valuation for motor vehicles.

### 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:

*SEE SCHEDULE ON NEXT PAGE*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Activities	
<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

### Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund 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 noncurrent 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 Statement 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 June 30, 2013 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 noncurrent 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:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 are 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### **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 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**

The District's cash and cash equivalents were interest bearing demand accounts at a local bank. Due to the liquidity nature of these accounts the carrying value is the fair market value. Federal Depository Insurance and pledged securities covers all account balances June 30, 2013.

*SEE SCHEDULE ON NEXT PAGE*

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

	<b>Bank</b>	
	<b><u>Balance</u></b>	
		<b><u>Demand</u></b>
<b><u>Farmers National Bank</u></b>		
FDIC	\$	250,000
Securities pledged to district		<u>114,916</u>
Bank balance	\$	<u><u>364,916</u></u>

	<b>Bank</b>	
	<b><u>Balance</u></b>	
		<b><u>Demand</u></b>
<b><u>Kentucky Bank</u></b>		
FDIC	\$	250,000
Securities pledged to district		<u>8,652,413</u>
Bank balance	\$	<u><u>8,902,413</u></u>

	<b>Book</b>	
	<b><u>Balance</u></b>	
		<b><u>Cash equivalents</u></b>
Governmental Activities	\$	5,939,347
Business-type Activities		43,170
Agency funds		
School activity funds		383,449
Private-purpose trust funds		<u>1,734,348</u>
Total carrying amount	\$	<u><u>8,100,314</u></u>

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

**NOTE D – CAPITAL ASSETS**

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

<b>Governmental Activities</b>	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2013</b>
Land	\$ 1,164,371	\$ -	\$ -	\$ 1,164,371
Land improvements	130,920	-	54,020	76,900
Buildings	30,905,421	997,868	-	31,903,289
Technology equipment	1,962,981	103,027	1,064,437	1,001,570.38
Vehicles	2,982,514	17,000	207,482	2,792,032
General equipment	776,993	13,340	16,150	774,183
Infrastructure	30,263	54,020	-	84,283
Construction in progress	357,617	1,971,283	988,728	1,340,172
<b>Total at historical cost</b>	<b>\$ 38,311,079</b>	<b>\$ 3,156,538</b>	<b>\$ 2,330,818</b>	<b>\$ 39,136,800</b>
Less: Accumulated depreciation				
Land improvements	\$ 17,500	\$ -	\$ -	\$ 17,500
Buildings	16,492,616	833,491	-	17,326,108
Technology equipment	1,566,850	158,052	1,056,223	668,678.99
Vehicles	2,022,457	162,318	207,482	1,977,294
General equipment	378,883	50,559	9,972	419,470
Infrastructure	16,245	4,214	-	20,459
<b>Total accumulated depreciation</b>	<b>\$ 20,494,552</b>	<b>\$ 1,208,634</b>	<b>\$ 1,273,677</b>	<b>\$ 20,429,509</b>
Governmental Activities				
Capital Assets-net	\$ 17,816,528	\$ 1,947,904	\$ 1,057,141	\$ 18,707,291
<b>Business-Type Activities</b>	<b>Balance</b>			<b>Balance</b>
	<b>July 1, 2012</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2013</b>
Technology equipment	\$ 32,884	\$ -	\$ 18,231	\$ 14,653
General equipment	571,816	-	1,079	570,737
<b>Total at historical cost</b>	<b>\$ 604,700</b>	<b>\$ -</b>	<b>\$ 19,310</b>	<b>\$ 585,390</b>
Less: Accumulated depreciation				
Technology equipment	\$ 21,817	\$ 2,493	\$ 18,231	\$ 6,080
General equipment	470,067	11,656	1,079	480,644
<b>Total accumulated depreciation</b>	<b>\$ 491,884</b>	<b>\$ 14,149</b>	<b>\$ 19,310</b>	<b>\$ 486,723</b>
Business-Type Activities				
Capital Assets-net	\$ 112,816	\$ (14,149)	\$ -	\$ 98,667

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

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

**NOTE E – BONDED DEBT OBLIGATIONS**

The amount shown in the accompanying financial statements as bonded debt obligations represent the District’s future obligations to make payments relating to the bonds issued by the Harrison County School District Finance Corporation aggregating \$15,630,000 and \$985,000 is the portion due within one year. 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 Harrison 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 proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

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

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	<u>2012 Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013 Outstanding Balance</u>
2012R	\$ 2,210,000	8/1/2023	.50-2.25%	\$ 2,210,000		\$ 40,000	\$ 2,170,000
1998R-2nd	3,165,000	9/1/2013	3.50-4.20%	595,000		595,000	-
2013	4,300,000	2/1/2033	1.0-3.0%	-	4,300,000		4,300,000
2010R	1,075,000	6/1/2021	.60-2.60%	995,000		35,000	960,000
2012	995,000	6/1/2032	1.15-3.2%	995,000		45,000	950,000
2003	1,540,000	8/1/2023	1.25-4.18%	125,000		60,000	65,000
2003R	320,000	6/1/2014	1.30-3.30%	35,000		10,000	25,000
2004	1,635,000	5/1/2024	2.55-4.90%	145,000		65,000	80,000
2008	5,595,000	5/1/2028	3.00-3.90%	5,265,000		90,000	5,175,000
2008R	\$ 3,110,000	6/1/2019	2.25-3.50%	2,080,000		175,000	1,905,000
Totals				\$ 12,445,000	\$ 4,300,000	\$ 1,115,000	\$ 15,630,000

The District has entered into “participation agreements” with the Kentucky School Facility Construction Commission. The Kentucky Legislature, for the purpose of assisting local school districts in meeting school construction needs, created the Commission. The table following sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

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

*SEE SCHEDULE ON NEXT PAGE*

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

<u>YEAR</u>	<u>LOCAL</u>		<u>KSFCC</u>		<u>TOTAL</u>		<u>TOTAL</u>	
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2014	\$ 718,567	\$ 362,548	\$ 266,433	\$ 92,100	\$ 985,000	\$ 454,648		
2015	732,869	340,550	262,131	85,186	995,000	425,736		
2016	753,221	319,898	266,779	80,881	1,020,000	400,779		
2017	755,532	297,970	254,468	75,462	1,010,000	373,431		
2018	780,230	275,543	259,770	69,698	1,040,000	345,241		
2019-2023	3,341,771	1,055,705	1,318,229	253,997	4,660,000	1,309,703		
2024-2028	3,277,824	569,864	767,176	107,354	4,045,000	677,219		
2029 - 2033	1,625,000	149,250	250,000	20,320	1,875,000	169,570		
	<u>\$ 11,985,014</u>	<u>\$ 3,371,328</u>	<u>\$ 3,644,986</u>	<u>\$ 784,998</u>	<u>\$ 15,630,000</u>	<u>\$ 4,156,327</u>		

The Kentucky School Boards Insurance Trust (“KSBIT”) notified the District during the year that their self-insurance pools for worker’s compensation and liability insurance were underfunded. As a result, an assessment will be required under a fair methodology to be approved by the Kentucky Department of Insurance, of current and past participating members to fund the deficit and the transfer of liability to a qualified insurer/reinsurer. On June 24, 2013, the KSBIT Board voted to submit a plan to the Kentucky Department of Insurance using the novation option. A novation transfers all existing KSBIT claims and risk to a highly rated reinsurer which will continue to make claims payments. Under the novation method, the District’s liability would be \$283,357. Members will have the option of making a lump-sum payment of their assessment or to take advantage of bond financing for up to 20 years. This plan is still subject to approval and no payment is estimated for the year ending June 30, 2014. This is presented as an extraordinary item on the government-wide financial statements because it is both infrequent and unusual in nature.

**NOTE F – COMMITMENTS**

The Construction fund balance of \$3,017,605 is committed for future construction.

The District has committed the General fund balance for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Preschool	\$ 125,000
Technology	\$ 140,000

**NOTE G– RETIREMENT PLANS**

Kentucky Teachers’ Retirement System

Plan Description – The Harrison 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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### Medical Insurance Plan

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

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

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

The Harrison County Schools' total payroll for the year was \$16,596,306. The payroll for employees covered under KTRS was \$12,081,333. For the year ended June 30, 2013, the Commonwealth contributed \$1,434,197 KTRS for the benefit of our participating employees. The School district's contributions to KTRS for the year ending June 30, 2013 were \$173,727, which represents those employees covered by federal programs.

The District's required contributions (both withholding and match) for pension obligations to KTRS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,780,741, \$1,799,033, and \$1,881,833 respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 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 19.55%. The District contributed \$209,774 of the employee's compensation during the fiscal year ended June 30, 2013.

The District's required contributions (both withholding and match) for pension obligations to CERS for the fiscal years ended June 30, 2013, 2012, and 2011 were \$1,001,183, \$999,570, and \$920,003 respectively.

### **NOTE H - 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 I - LITIGATION**

The District is currently involved in pending litigation but an outcome in the District's favor is anticipated.

### **NOTE J – 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 which include Workers' Compensation insurance.

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

**NOTE K – RISK MANAGEMENT**

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

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

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

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

The following funds had an operating deficit at the end of the fiscal year causing a reduction in balance.

<u>Fund</u>	<u>Reduction in Fund Balance / Net Position</u>
Governmental Activities	\$ (579,169)
Business-Type Activities	(74,563)
General Fund	(243,935)
FSPK	(8,838)
School Food Service	\$ (82,327)

**NOTE M - 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 N – TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>From</u>	<u>To</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS Offers	\$ 66,400
General Fund	Special Revenue Fund	Operations	100,000
General Fund	Day Care Fund	Operations	33,916
Capital Outlay Fund	Construction Fund	Construction	156,219
FSPK Fund	Construction Fund	Construction	2,777
Capital Outlay Fund	Debt Service Fund	Debt Payments	55,809
FSPK Fund	Debt Service Fund	Debt Payments	\$ 1,006,910

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

**NOTE P – ON-BEHALF PAYMENTS**

The financial statements include payments made by the State of Kentucky on – behalf of the Harrison County School District for teacher’s retirement, health insurance, life insurance, administrative fees, and state operated vocational schools where applicable. The amounts were recorded within the General Fund, School Food Services Fund, and Day Care Fund. The amounts recorded for both revenues and expenditures (expenses) are \$3,944,319 for the General Fund, \$183,103 for the School Food Service Fund, and \$46,334 for Day Care Operations.

**NOTE Q – RESTRICTED FUND BALANCE**

The following is a description of the District’s restricted fund balances:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
Construction	\$ 3,017,605	Future Construction
Capital Outlay	73,131	School Facilities Construction Commission Requirement
FSPK	\$ 103,129	School Facilities Construction Commission Requirement

**NOTE R – CHANGE IN ACCOUNTING POLICY**

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

**NOTE S – PRIOR PERIOD ADJUSTMENT**

Due to the implementation of GASB 63 and GASB 65, bond issue costs, discounts, and premiums are no longer capitalized causing beginning net position to be overstated as follows:

Net Position July 1, 2012	\$ 9,568,996
Prior Period Adjustment	(244,158)
Restated Net Position July 1, 2012	<u>\$ 9,324,838</u>

**NOTE T – SUBSEQUENT EVENTS**

The District has evaluated subsequent events through October 21, 2013, the date of the Auditor’s report.

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

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK Fund</b>	<b>Total</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ <u>73,131</u>	\$ <u>103,129</u>	\$ <u>176,260</u>
Total Assets	<u>73,131</u>	<u>103,129</u>	<u>176,260</u>
<b>Fund Balances</b>			
Restricted	<u>73,131</u>	<u>103,129</u>	<u>176,260</u>
Total Fund Balances	\$ <u>73,131</u>	\$ <u>103,129</u>	\$ <u>176,260</u>

See the accompanying notes to the financial statements.

Harrison County School District  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor  
 Governmental Funds**  
 Year ended June 30, 2013

	<b>Other Governmental Funds</b>		
	<b>Capital Outlay</b>	<b>FSPK Fund</b>	<b>Total</b>
<b>Revenues</b>			
From Local Sources			
Property Taxes	\$ -	\$ 502,398	\$ 502,398
Intergovernmental - State	276,096	498,451	774,547
Total Revenues	276,096	1,000,849	1,276,945
<b>Expenditures</b>			
Debt Service			-
Total Expenditures	-	-	-
<b>Excess (Deficit) of Revenues Over Expenditures</b>	276,096	1,000,849	1,276,945
<b>Other Financing Sources (Uses)</b>			
Operating transfers (out)	(212,029)	(1,009,687)	(1,221,716)
Total Other Financing Sources (Uses)	(212,029)	(1,009,687)	(1,221,716)
<b>Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	64,067	(8,838)	55,229
<b>Fund Balance Beginning</b>	9,064	111,968	121,032
<b>Fund Balance Ending</b>	\$ 73,131	\$ 103,129	\$ 176,260

See the accompanying notes to the financial statements.

Harrison County School District  
**Combining Balance Sheet - School Activity and Private Purpose Trust**  
As of June 30, 2013

	<b>SCHOOL ACTIVITY FUNDS</b>											<b>FIDUCIARY FUND TOTAL</b>
	<b>HARRISON CO HIGH SCHOOL</b>	<b>HARRISON CO GAMING FUND</b>	<b>HARRISON CO MIDDLE SCHOOL</b>	<b>EASTSIDE ELEMENTARY</b>	<b>EASTSIDE GAMING FUND</b>	<b>NORTHSIDE ELEMENTARY</b>	<b>NORTHSIDE GAMING FUND</b>	<b>SOUTHSIDE ELEMENTARY</b>	<b>WESTSIDE ELEMENTARY</b>	<b>WESTSIDE GAMING FUND</b>	<b>Private Purpose Trust Funds</b>	
<b>ASSETS</b>												
Cash and cash equivalents	\$ 195,859	\$ 501	\$ 53,987	\$ 41,075	\$ 500	\$ 14,314	\$ 502	\$ 47,398	\$ 28,812	\$ 502	\$ 1,734,348	\$ 2,117,796
Accounts receivable	3,643	-	-	-	-	1,032	-	-	-	-	2,695	7,370
Total Assets	<u>199,502</u>	<u>501</u>	<u>53,987</u>	<u>41,075</u>	<u>500</u>	<u>15,346</u>	<u>502</u>	<u>47,398</u>	<u>28,812</u>	<u>502</u>	<u>1,737,042</u>	<u>2,125,166</u>
<b>LIABILITIES</b>												
Accounts payable	241	-	249	12	-	-	-	132	678	-	1,146	2,458
Total Liabilities	<u>241</u>	<u>-</u>	<u>249</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132</u>	<u>678</u>	<u>-</u>	<u>1,146</u>	<u>2,458</u>
<b>FUND BALANCE</b>												
School Activities	\$ 199,261	\$ 501	\$ 53,738	\$ 41,063	\$ 500	\$ 15,346	\$ 502	\$ 47,266	\$ 28,134	\$ 502	\$ 1,735,897	\$ 2,122,709

See the accompanying notes to the financial statements.

Harrison County School District  
**Combining Statement of Revenues, Expenses and Changes in Fund Balance - School Activity and Private Purpose Trust**  
 For the period ended June 30, 2013

	<b>SCHOOL ACTIVITY FUNDS</b>												
	<u>HARRISON CO HIGH SCHOOL</u>	<u>HARRISON CO GAMING FUND</u>	<u>HARRISON CO MIDDLE SCHOOL</u>	<u>EASTSIDE ELEMENTARY</u>	<u>EASTSIDE GAMING FUND</u>	<u>NORTHSIDE ELEMENTARY</u>	<u>NORTHSIDE GAMING FUND</u>	<u>SOUTHSIDE ELEMENTARY</u>	<u>WESTSIDE ELEMENTARY</u>	<u>WESTSIDE GAMING FUND</u>	<u>Private Purpose Trust Funds</u>	<u>FIDUCIARY FUND TOTAL</u>	
<b>REVENUES</b>													
Student/Trust revenues	\$ 623,852	\$ 6,436	\$ 230,032	\$ 83,236	\$ 581	\$ 39,088	\$ 951	\$ 58,355	\$ 53,841	\$ 1,803	\$ 343,971	\$ 1,442,146	
<b>EXPENSES</b>													
Student/Trust activities	632,702	6,436	224,217	62,675	580	40,206	950	54,083	50,124	1,801	60,821	1,134,596	
<b>Excess (Deficit) of Revenues Over Expenses</b>	(8,851)	1	5,814	20,561	0	(1,118)	2	4,272	3,718	2	283,150	307,551	
<b>Fund balance, Beginning</b>	<u>208,112</u>	<u>500</u>	<u>47,924</u>	<u>20,501</u>	<u>500</u>	<u>16,464</u>	<u>500</u>	<u>42,994</u>	<u>24,416</u>	<u>500</u>	<u>1,452,747</u>	<u>1,815,158</u>	
<b>Fund balance, Ending</b>	<u>\$ 199,261</u>	<u>\$ 501</u>	<u>\$ 53,738</u>	<u>\$ 41,063</u>	<u>\$ 500</u>	<u>\$ 15,346</u>	<u>\$ 502</u>	<u>\$ 47,266</u>	<u>\$ 28,134</u>	<u>\$ 502</u>	<u>\$ 1,735,897</u>	<u>\$ 2,122,709</u>	

See the accompanying notes to the financial statements.

Harrison County School District  
**Statement of Revenues, Expenses and Changes in Fund Balance - Harrison County High School**  
For the period ended June 30, 2013

	FUND BALANCE BEGINNING	REVENUES	EXPENSES	FUND BALANCE ENDING
AFJROTC	\$ 11,837	\$ 6,027	\$ 12,856	\$ 5,008
ACADEMIC BOOSTERS	2,858	2,835	2,182	3,510
ACADEMIC TEAM	82	1,883	1,328	637
ANNUAL FUND	10,667	22,816	11,287	22,196
ARCHERY	-	11,523	8,548	2,975
ART CLUB	1,524	175	571	1,128
ART CLASS FEE	1	1,800	1,622	179
ATHLETIC DIRECTOR	4,747	21,742	21,789	4,699
BASEBALL	9,586	23,973	23,409	10,150
BOYS BASKETBALL	9,569	41,133	42,439	8,263
BOYS BASKETBALL BOOSTERS	-	-	-	-
BOWLING	-	1,491	588	904
GIRLS BASKETBALL	4,769	15,677	17,113	3,333
BOYS SOCCER	2,586	8,402	7,266	3,722
BOYS VARSITY CHEERLEADING	1,114	6,597	6,504	1,207
CHESS CLUB	29	6	32	3
CLASS OF 2009-2010	-	-	-	-
CLASS OF 2011-2012	-	-	-	-
CLASS OF 2012-2013	912	13,532	14,444	-
CLASS OF 2013-2014	1,235	187	216	1,206
CLASS OF 2014-2015	1,072	444	456	1,060
CLASS OF 2015-2016	-	1,034	-	1,034
SPANISH CLUB	915	1,390	1,478	827
SOFTBALL	1,125	6,552	7,079	598
CROSS COUNTRY	-	4,375	3,841	534
DANCE TEAM	930	-	(230)	1,160
FOOTBALL	591	24,864	19,184	6,271
FOOTBALL BOOSTERS	1,022	13,325	10,468	3,879
BOYS GOLF	-	-	-	-
TENNIS	627	2,290	1,438	1,478
TENNIS BOOSTERS	666	-	666	-
BOYS TRACK	1,469	2,753	2,619	1,603
GIRLS TRACK	1,137	2,013	2,426	724
TRACK BOOSTERS	1,486	1,015	2,089	411
VOLLEYBALL	1,126	8,466	7,892	1,700
WRESTLING	168	4,656	4,418	405
WRESTLING BOOSTERS	-	2,893	-	2,893
BAND FUND	240	1,399	1,369	270
BAND BOOSTERS	4,193	33,189	33,172	4,210
BETA CLUB	1,416	3,323	3,120	1,619
CHORUS	799	13,334	12,790	1,343
COMPUTER CLASS	7	200	205	2
CONCESSIONS ATHLETIC	2,321	34,975	33,515	3,781
TEACHERS DRINK FUND	1,579	1,370	1,710	1,239
COUNSELORS FUND	2,515	24,684	25,237	1,962
VOLLEYBALL DISTRICT	-	1,145	1,145	-
VOLLEYBALL REGIONAL	-	-	-	-
FCA	81	1,120	747	454
FFA	9	17,807	16,815	1,002
FFA FARM	3,919	22,318	18,985	7,252
AG SHOP	231	-	-	231
FFA-SOIL CONSERVATION	735	508	213	1,030
FLORAL DESIGN	136	935	980	90
FCCLA	457	645	630	472
FRESHMAN ACADEMY	869	1,000	986	883
FRIENDS OF RACHEL	455	300	286	470
GAMING	-	-	-	-
GENERAL	70,589	43,027	83,793	29,822
GENERAL STUDENT FEES	-	-	-	-
GOLF TEAM	1,208	5,716	3,907	3,018
FAMILY & CONSUMER SCIENCE	-	12,793	11,161	1,632
JOURNALISM	211	125	259	77
JR. CLASS	6,341	18,270	18,693	5,919
LIBRARY	3,311	2,940	3,937	2,314
GREENHOUSE	6,969	11,152	10,726	7,395
ENGLISH DEPARTMENT	473	1,645	1,540	578
FRENCH CLASS 1 THRU	56	276	333	-
PROJECT GRADUATION	1,456	37,462	37,790	1,129
PEP CLUB	1,725	1,617	1,673	1,669
PHYSICAL EDUCATION	122	2,000	1,619	503
PTSO	65	-	-	65
MATH DEPARTMENT	1,456	2,085	1,096	2,445
AP ENGLISH	62	460	497	25
BIOLOGY CLUB	220	-	220	-
SCIENCE LAB FEES	5,538	3,966	3,416	6,088
SENIOR CLASS	-	-	-	-
PROJECT LEAD THE WAY	1,382	2,333	1,919	1,795
SWIM TEAM	-	-	-	-
SPECIAL ED	109	800	649	260
SPECIAL ED PROJECT	1,196	190	596	790
SPEECH CLUB	138	4,820	4,885	73
STUDENT COUNCIL	730	300	685	345
TRI-M	-	225	-	225
WHHS	2,296	-	2,078	218
BUSINESS PRINCIPLES	-	-	-	-
FINE ARTS DEPARTMENT	422	1,200	1,288	334
GIRLS SOCCER	1,396	24,570	22,071	3,896
VO AG CLASS	100	1,500	1,153	447
38TH DISTRICT BASKETBALL	-	12,280	12,280	-
NEW BEGINNINGS LEARNING	1,262	1,150	2,412	-
VOCATIONAL DEPARTMENT	-	1,200	351	849
SOCIAL STUDIES DEPARTMENT	560	2,765	1,700	1,625
GIRLS GOLF	-	-	-	-
BOYS SOCCER DISTRICT	-	2,065	2,065	-
FBLA	-	-	-	-
BOYS SOCCER/REGIONAL	-	5,987	5,987	-
FRENCH CLUB	336	2,823	2,702	457
REGIONAL BASKETBALL	-	615	615	-
YOUTH SERVICES CENTER	1,465	375	337	1,503
YSC SHOE FUND	-	-	-	-
CAROL SMITH MEMORIAL	3,108	1,000	346	3,761
<b>TOTALS</b>	<b>\$ 208,112</b>	<b>\$ 623,852</b>	<b>\$ 632,702</b>	<b>\$ 199,261</b>

See the accompanying notes to the financial statements.

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

**NOTE A – BASIS OF PRESENTATION**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2013, the District had received food commodities totaling \$104,279.

HARRISON COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
US Department of Agriculture				
Passed Through State Department of Education				
* <b>School Breakfast Program</b>	10.553			
Fiscal Year 12		7760005 12	N/A	\$ 50,809
Fiscal Year 13		7760005 13	N/A	188,338
* <b>National School Lunch Program</b>	10.555			
Fiscal Year 12		7750002 12	N/A	155,230
Fiscal Year 13		7750002 13	N/A	614,222
* <b>Summer Food Service Program for Children</b>	10.559			
Fiscal Year 12		7740023 12	N/A	7,433
Fiscal Year 12		7690024 12	N/A	777
Child Nutrition Cluster Subtotal				<u>1,016,809</u>
<b>Child and Adult Care Food Program</b>	10.558			
Fiscal Year 12		7790021 12	N/A	3,322
Fiscal Year 12		7800016 12	N/A	247
Fiscal Year 13		7790021 13	N/A	3,092
Fiscal Year 13		7800016 13	N/A	120
				<u>6,781</u>
Passed Through State Department of Agriculture				
<b>Food Donation-Commodities</b>	10.565			
Fiscal Year 13		510.4950	N/A	104,279
Total US Department of Agriculture				<u><u>1,127,869</u></u>
US Department of Education				
Passed Through State Department of Education				
<b>Title I Grants to Local Educational Agencies</b>	84.010A			
Fiscal Year 11		3100002 11	721,800	3,974
Fiscal Year 12		3100002 12	873,824	138,354
Fiscal Year 13		3100002 13	858,337	748,505
				<u>890,834</u>
<b>Math Science Partnership</b>	84.366B			
Fiscal Year 12		3522	6,164	6,164
<b>Rural Education</b>	84.358			
Fiscal Year 13		3140002 13	58,782	58,782
<b>Migrant Education-State Grant Programs</b>	84.011A			
Fiscal Year 12		3110002 12	47,700	4,231
Fiscal Year 13		3110002 13	68,900	56,447
				<u>60,678</u>
<b>Special Education Grants to States</b>	84.027A			
Fiscal Year 12		3810002 12	660,210	71,487
Fiscal Year 13		3810002 13	662,787	581,406
				<u>652,894</u>
<b>Special Education-Preschool Grants</b>	84.173A			
Fiscal Year 12		3800002 12	23,873	22,149
Fiscal Year 13		3800002 13	23,719	8,775
				<u>30,925</u>
Special Education Cluster Subtotal				<u>683,818</u>
<b>Education Jobs Fund</b>	84.410			
Fiscal Year 11		EJOB00 11	709,972	52,256
<b>English Language Acquisition Grants</b>	84.365A			
Fiscal Year 11		3300002 11	22,031	163
Fiscal Year 12		3300002 12	18,987	615
				<u>778</u>
<b>Vocation Education-Basic Grants to States</b>	84.048			
Fiscal Year 11A		4621132 11	1,102	1,102
Fiscal Year 13		4621332 13	19,741	19,741
				<u>20,843</u>
<b>Race to the Top</b>	84.413A			
Fiscal Year 11		3960002 11	35,237	5,347

HARRISON COUNTY SCHOOL DISTRICT  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 For the year ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Expenditures
<b>Improving Teacher Quality State Grants</b> Fiscal Year 13	84.367A	3230002 13	150,053	150,053
<b>Education Technology State Grants-Title IID</b> Fiscal Year 11 Education Technology Cluster	84.318X	3210002 11	2,406	45
				<u>45</u>
Total US Department of Education				<u>1,929,598</u>
US Department Health and Human Services Passed Through Kentucky School Board Association <b>Medical Assistance Program</b> Fiscal Year 13 Total US Department of Health and Human Services	93.778	110.4810	\$ 44,325	44,324
				<u>44,324</u>
Total Expenditure of Federal Awards				<u>\$ 3,101,790</u>

\* Major Programs

**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 Harrison County Board of Education and  
State Committee for School District Audits  
Cynthiana, 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 Harrison County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Harrison County School District's basic financial statements, and have issued our report thereon dated October 21, 2013.

**Internal Control Over Financial Reporting**

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

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Harrison 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 Harrison County School District, in a separate letter dated October 21, 2013.

### **Purpose of this Report**

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013



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

To the Harrison County Board of Education and  
State Committee for School District Audits  
Cynthiana, Kentucky

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

We have audited Harrison 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 Harrison County School District’s major federal programs for the year ended June 30, 2013. Harrison 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 Harrison 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 Harrison 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 Harrison County School District’s compliance.

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

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

## Report on Internal Control Over Compliance

Management of Harrison 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 Harrison 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 Harrison County School District's internal control over compliance.

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

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

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

*White & Associates, P.C.*

Richmond, Kentucky  
October 21, 2013

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

**SUMMARY OF AUDITOR'S RESULTS**

What type of report was issued for the financial statements?	Unmodified
Were there significant deficiencies in internal control disclosed? 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 For major programs?	No
Were there any significant deficiencies in internal control disclosed 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 Is required to be reported as described in Section 510(a) of OMB A-133?	No
Major Programs	
	Child Nutrition Cluster [CFDA 10.555, 10.553, 10.559]
Dollar threshold of Type A and B programs	\$300,000
Low risk auditee?	Yes

**FINDINGS - FINANCIAL STATEMENT AUDIT**

No findings at the financial statement level.

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

No findings at the major federal award programs level.

HARRISON COUNTY SCHOOL DISTRICT  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2013

There were no prior year findings.

## MANAGEMENT LETTER

Harrison County School District  
Cynthiana, Kentucky

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

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

### **HARRISON COUNTY HIGH SCHOOL**

#### 1-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: As required by the Redbook, the school bookkeeper is making daily deposits. The deposits are generally made in the early afternoon. Our bank closes their lobby at 4:00 p.m. each day. Although the drive-thru is open until at least 5 p.m., you cannot deposit any coins at the drive-thru and the canisters will not accommodate large amounts of cash. As with most schools, often times the money collected during a day is given to the bookkeeper at the end of the school day, which is around 3:15. If this happens, there is simply not enough time to get the money counted, receipted, ready for deposit and to the bank before 4:00 p.m. If this happens, the money is securely locked up in a fire-proof safe overnight. We are working on a solution for this problem.

#### 2-13

Statement of Condition: Instances of receipts not written at the time monies were received by the school treasurer.

Recommendation for Correction: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

Management's Response to the Recommendation: This management point is a direct result of the issue above in 1-13. When someone brings money to the bookkeeper after school and there is not enough time to get it to the bank, the bookkeeper locks the money up overnight and issues a receipt dated the next day. Of course the receipt is dated one day later than the Multiple Receipt Form. I have instructed the bookkeeper to issue a receipt to the individual turning the money over to the school treasurer at the time the money is received.

**HARRISON COUNTY HIGH SCHOOL GAMING ACCOUNT**

3-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management's Response to the Recommendation: As required by the Redbook, the school bookkeeper is making daily deposits. The deposits are generally made in the early afternoon. Our bank closes their lobby at 4:00 p.m. each day. Although the drive-thru is open until at least 5 p.m., you cannot deposit any coins at the drive-thru and the canisters will not accommodate large amounts of cash. As with most schools, often times the money collected during a day is given to the bookkeeper at the end of the school day, which is around 3:15. If this happens, there is simply not enough time to get the money counted, receipted, ready for deposit and to the bank before 4:00 p.m. If this happens, the money is securely locked up in a fire-proof safe overnight. We are working on a solution for this problem.

**HARRISON COUNTY MIDDLE SCHOOL**

No conditions.

**EASTSIDE ELEMENTARY**

No conditions

**EASTSIDE ELEMENTARY GAMING ACCOUNT**

No conditions

**NORTHSIDE ELEMENTARY**

No conditions

**NORTHSIDE ELEMENTARY GAMING ACCOUNT**

No conditions

**SOUTHSIDE ELEMENTARY**

No conditions

**WESTSIDE ELEMENTARY**

4-13

Statement of Condition: Instances of receipts not being deposited timely.

Recommendation for Correction: All monies should be deposited on a daily basis. In the event that less than \$100 is on hand to deposit, smaller amounts may be held in a secure location until \$100 is collected. At a minimum, deposits shall be made on a weekly basis even if the deposit amount is less than \$100. The total of the deposit slip shall match the total receipts written since the last deposit. Each deposit shall be verified by a second person daily.

Management Response to the Recommendation: As required by the Redbook, the school bookkeeper is making daily deposits. The deposits are generally made in the early afternoon. Our bank closes their lobby at 4:00 p.m. each day. Although the drive-thru is open until at least 5 p.m., you cannot deposit any coins at the drive-thru and the canisters will not accommodate large amounts of cash. As with most schools, often times the money collected during a day is given to the bookkeeper at the end of the school day, which is around 3:15. If this happens, there is simply not enough time to get the money counted, receipted, ready for deposit and to the bank before 4:00 p.m. If this happens, the money is securely locked up in a fire-proof safe overnight.

5-13

Statement of Condition: Instances of receipts not written at the time monies were received by the school treasurer.

Recommendation for Correction: Receipts shall be written to the individual giving the monies to the school treasurer at the time the monies are received.

Management's Response to the Recommendation: This management point is a direct result of the issue above in 1-13. When someone brings money to the bookkeeper after school and there is not enough time to get it to the bank, the bookkeeper locks the money up overnight and issues a receipt dated the next day. Of course the receipt is dated one day later than the Multiple Receipt Form. I have instructed the bookkeeper to issue a receipt to the individual turning the money over to the school treasurer at the time the money is received.

**WESTSIDE ELEMENTARY GAMING ACCOUNT**

No conditions

We will review the status of these conditions during our next audit engagement. We have already discussed many of these conditions and suggestions with various District personnel, and we will be pleased to discuss these conditions in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. We would like to add that we have seen a tremendous improvement from the previous year throughout all the schools in the area of internal control compliance.

The following are repeat conditions from the prior year: 1-13. All other prior year conditions have been implemented and corrected. Mr. Andy Dotson, Superintendent, is the person responsible for initiation of

the corrective action plan for the above conditions which will be implemented immediately. The corrective action plan is the management response for each condition.

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

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

*White & Associates, PSC*

White & Associates, PSC  
Richmond, Kentucky  
October 21, 2013