

HART COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year Ended June 30, 2013

HART COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, 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 the Hart 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 accompanying 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; 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 *Independent Auditor's Contract*, including *Appendix I – Audit Extension Request and Appendix II – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 on the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

As discussed in Note 1 to the financial statements, the District adopted GASB No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53* during the fiscal year.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 38 through 39 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 Hart County School District's basic financial statements. The combining financial statements, school schedules and schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements, school schedules 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 accounting standards generally accepted in the United States of America. In our opinion, the combining financial statements, school schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated August 15, 2013, on our consideration of Hart 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 the 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 Hart County School District's internal control over financial reporting and compliance.

Stiles Carter & Associates

Certified Public Accountants
Elizabethtown, Kentucky
August 15, 2013

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

The discussion and analysis of Hart County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to review the School District’s financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District’s financial performance.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$367 thousand. Ending cash was \$647 thousand.
- 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 District’s governmental fund balances improved. Fund balances increased by \$536 thousand.
- The General Fund had \$18.4 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments for retirement and health insurance and property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$18.1 million in General Fund expenditures.
- Bonds are issued as the District builds and 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 remained stable during the fiscal year and the District partially advance refunded the 2006A and 2006B issues.
- The District purchased two buses through the KISTA program.

USING THIS ANNUAL REPORT

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.

Government-wide financial statements. The government-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 liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the 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 government-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. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting 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 and fiduciary funds. The proprietary funds include the food service operation. The fiduciary funds are agency funds and private purpose trust funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$12.1 million as of June 30, 2013.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles and furniture and equipment), less any related debt used to acquire those assets that is 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 periods ending June 30, 2013 and 2012
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 1,301,532	\$ 1,198,933	\$ 219,615	\$ 188,278	\$ 1,521,147	\$ 1,387,211
Capital Assets	29,761,795	30,794,624	756,924	798,916	30,518,719	31,593,540
Total Assets	31,063,327	31,993,557	976,539	987,194	32,039,866	32,980,751
Long-term Debt	17,899,327	18,516,836			17,899,327	18,516,836
Other Liabilities	1,947,580	2,182,856	3,593	810	1,951,173	2,183,666
Total Liabilities	19,846,907	20,699,692	3,593	810	19,850,500	20,700,502
Net Position						
Net investment in capital assets	11,764,305	12,096,793	756,924	798,916	12,521,229	12,895,709
Restricted	95,308	118,585			95,308	118,585
Unrestricted	(643,193)	(921,513)	216,022	187,468	(427,171)	(734,045)
Total Net Position	\$ 11,216,420	\$ 11,293,865	\$ 972,946	\$ 986,384	\$ 12,189,366	\$ 12,280,249

The following are significant current year transactions that have had an impact on the Statement of Net Position.

The District put in service \$228 thousand in capital assets and partially advance refunded the 2006A and 2006B bonds.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2013, net of Interfund transfers, were \$25.4 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$3.7 million more than budget or approximately 25%. This variance was related to on-behalf payments that were not budgeted.
- The total cost of all programs and services including debt service was \$24.9 million.
- General fund budget expenditures to actual varied significantly in Instruction and Other Expenses. This resulted from the District not budgeting on-behalf payments made by the State of Kentucky and not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net position for the fiscal years ended June 30, 2013 and 2012.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
REVENUES:						
Program revenues:						
Charges for services	\$ 202	\$ 410	\$ 377,761	\$ 386,432	\$ 377,963	\$ 386,842
Operating grants and contributions	8,341,054	8,352,112	1,197,128	1,157,321	9,538,182	9,509,433
Capital grants	800,410	802,432	-	-	800,410	802,432
General revenues:						
Property taxes	2,609,011	2,689,174	-	-	2,609,011	2,689,174
Motor vehicle taxes	390,559	376,585	-	-	390,559	376,585
Utility taxes	1,129,089	1,024,027	-	-	1,129,089	1,024,027
Revenue in lieu of taxes	114,529	113,767	-	-	114,529	113,767
Other taxes	10,918	7,542	-	-	10,918	7,542
Gain on disposal of capital assets	9,911	10,265	-	-	9,911	10,265
Investment earnings	10,198	16,239	406	1,073	10,604	17,312
State and formula grants	10,363,119	10,015,868	-	-	10,363,119	10,015,868
Miscellaneous	27,641	40,848	-	-	27,641	40,848
Total revenues	23,806,641	23,449,269	1,575,295	1,544,826	25,381,936	24,994,095
EXPENSES						
Program Activities						
Instruction	13,246,887	13,321,907	-	-	13,246,887	13,321,907
Student support	1,271,541	1,210,554	-	-	1,271,541	1,210,554
Instructional staff support	975,786	1,338,532	-	-	975,786	1,338,532
District administrative support	830,987	821,808	-	-	830,987	821,808
School administrative support	1,330,383	1,471,154	-	-	1,330,383	1,471,154
Business support	609,189	797,505	-	-	609,189	797,505
Plant operation and maintenance	1,869,335	1,849,693	-	-	1,869,335	1,849,693
Student transportation	1,883,078	1,994,042	-	-	1,883,078	1,994,042
Community service activities	255,890	250,327	-	-	255,890	250,327
Other	205,808	272,393	-	-	205,808	272,393
Interest costs	914,226	834,411	-	-	914,226	834,411
Business-type Activities:						
Food service	-	-	1,588,733	1,591,654	1,588,733	1,591,654
Total expenses	23,393,110	24,162,326	1,588,733	1,591,654	24,981,843	25,753,980
Change in net position before extraordinary item	413,531	(713,057)	(13,438)	(46,828)	400,093	(759,885)
Extraordinary item	(490,976)	-	-	-	(490,976)	-
Change in net position	\$ (77,445)	\$ (713,057)	\$ (13,438)	\$ (46,828)	\$ (90,883)	\$ (759,885)

Governmental Activities

Instruction comprises 57% of governmental program expenses. Support services expenses make up 37% of government expenses. The remaining expense for community services, interest and other expense accounts for the remaining 6% of total government expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

(Table 3)
Governmental Activities
Total Cost of Services **Net Cost of Services**

	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Instruction	\$ 13,246,887	\$ 13,321,907	\$ 6,765,826	\$ 7,333,103
Support Services	8,770,299	9,483,288	7,372,726	7,640,642
Community services	255,890	250,327	4,102	838
Other	205,808	272,393	(5,026)	810
Interest costs	914,226	834,411	113,816	31,979
Total Expenses	<u>\$ 23,393,110</u>	<u>\$ 24,162,326</u>	<u>\$ 14,251,444</u>	<u>\$ 15,007,372</u>

Business-Type Activities

The business-type activities include the food service operation. This program had total revenues of \$1,575,295 and expenses of \$1,588,733 for fiscal year 2013. Of the revenues, \$377,761 was charges for services, \$1,197,128 was from State and Federal grants and \$406 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$33.6 million and expenditures and other financing uses of \$33.1 million.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

For the General Fund, revenues were budgeted at \$14.7 million. With actual amounts of \$18.4 million. Budgeted expenditures of \$15.1 million compare with actual expenditures of \$18.1 million. The most significant fluctuation is for unbudgeted on-behalf payments of \$3.7 million. If on-behalf payments were not included in revenues, revenues would be \$14.7 million, which is the amount budgeted. If on-behalf payments were not included in expenditures, expenditures would be \$14.4 million, which is \$700 thousand under budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2013 the School District had \$30.5 million invested in land, buildings, vehicles and equipment and \$29.9 million in governmental activities. Table 4 shows fiscal year 2013 and 2012 balances.

(Table 4)
Capital Assets at June 30, 2013 and 2012
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 948,795	\$ 948,795	\$ -	\$ -	\$ 948,795	\$ 948,795
Construction in progress	-	-	-	-	-	-
Buildings and improvements	27,191,091	27,933,831	587,518	607,644	27,778,609	28,541,475
Technology	579,082	818,810	6,799	2,914	585,881	821,724
Vehicles	959,694	994,439	-	-	959,694	994,439
General equipment	83,133	98,749	162,607	188,358	245,740	287,107
Total	\$29,761,795	\$30,794,624	\$756,924	\$798,916	\$30,518,719	\$31,593,540

Table 5 shows changes in capital assets for the years ended June 30, 2013 and 2012.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Beginning balance	\$30,794,624	\$31,465,649	\$798,916	\$850,309	\$31,593,540	\$32,315,958
Additions	228,284	1,359,556	7,159	2,480	235,443	1,362,036
Retirements	-	(730,597)	-	(2,433)	-	(733,030)
Depreciation	(1,261,113)	(1,299,984)	(49,151)	(51,440)	(1,310,264)	(1,351,424)
Ending balance	\$29,761,795	\$30,794,624	\$756,924	\$798,916	\$30,518,719	\$31,593,540

Debt

At June 30, 2013, the School District had \$18.9 million in bonds outstanding, of this amount \$8.1 million is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$1.2 million is due within one year. The District partially advance refunded the 2006A and 2006B issues which result in a net present value savings of \$520 thousand.

District Challenges for the Future

Hart County School District's financial status has improved in the last fiscal year. However, as we look forward, we expect unfunded mandates and the national economic climate to have an impact on our District.

The School District has experienced consistent growth in student enrollment during the past year. The need to build a new high school will create more challenges for the School District. Depending on legislative appropriations, the expected timetable for building a new high school is 2 to 4 years.

The District is experiencing increased personnel costs associated with preschool and special needs programs that have not been funded through state or federal programs. In addition, retirement costs of KTRS and CERS continue to increase.

Most costs associated with growth have, in the past, been offset due to increased student enrollment producing additional state funding, and continued increases in business and residential property subject to tax within the School District. Our property tax base continues to grow; however our School District, like all Kentucky School Districts, is limited to a 4% annual growth in property tax revenue on existing property.

Also, the District is facing a liability from the Kentucky School Boards' Insurance Trust of \$491 thousand.

With careful planning and monitoring of our finances, Hart County Schools' goal is to continue to provide a quality education for our students and a secure financial future for the School District.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2013 - 2014 with a 5% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Ricky Line, Superintendent, 25 Quality Street, Munfordville, Kentucky, 42765, (270) 524-2631.

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

Assets	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<u>Current Assets</u>			
Cash and cash equivalents	\$ 553,757	\$ 93,667	\$ 647,424
Inventory		48,363	48,363
Receivables:			
Taxes-current	137,793		137,793
Taxes-delinquent	2,485		2,485
Other receivables	17,413		17,413
Intergovernmental-State	28,132		28,132
Intergovernmental-Indirect Federal	437,006	77,585	514,591
Total Current Assets	1,176,586	219,615	1,396,201
<u>Noncurrent Assets</u>			
Deferred charges	124,946		124,946
Capital assets, net of accumulated depreciation	29,761,795	756,924	30,518,719
Total Noncurrent Assets	29,886,741	756,924	30,643,665
Total Assets	31,063,327	976,539	32,039,866
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	77,364	3,593	80,957
Accrued payroll and related expenses	161,138		161,138
Unearned revenue	34,638		34,638
Bond obligations	1,200,000		1,200,000
Capital lease obligations	207,525		207,525
Compensated absences	154,537		154,537
Interest payable	112,378		112,378
Total Current Liabilities	1,947,580	3,593	1,951,173
<u>Noncurrent Liabilities</u>			
Bond obligations	16,543,529		16,543,529
Capital lease obligations	171,382		171,382
Compensated absences	693,440		693,440
KSBIT	490,976		490,976
Total Noncurrent Liabilities	17,899,327	-	17,899,327
Total Liabilities	19,846,907	3,593	19,850,500
<u>Net Position</u>			
Net investment in capital assets	11,764,305	756,924	12,521,229
Restricted	95,308		95,308
Unrestricted	(643,193)	216,022	(427,171)
Total Net Position	\$ 11,216,420	\$ 972,946	\$ 12,189,366

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

HART COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
Instruction	\$ 13,246,887	\$ 202	\$ 6,480,859	\$ -	\$ (6,765,826)	\$ -	\$ (6,765,826)
Support services:							
Student	1,271,541		165,578		(1,105,963)		(1,105,963)
Instruction staff	975,786		343,656		(632,130)		(632,130)
District administrative	830,987		81,792		(749,195)		(749,195)
School administrative	1,330,383		311,729		(1,018,654)		(1,018,654)
Business	609,189		75,946		(533,243)		(533,243)
Plant operation and maintenance	1,869,335		163,717		(1,705,618)		(1,705,618)
Student transportation	1,883,078		255,155		(1,627,923)		(1,627,923)
Community service activities	255,890		251,788		(4,102)		(4,102)
Other	205,808		210,834		5,026		5,026
Interest on long-term debt	914,226			800,410	(113,816)		(113,816)
Total Governmental Activities	23,393,110	202	8,341,054	800,410	(14,251,444)	-	(14,251,444)
Business-Type Activities:							
Food service	1,588,733	377,761	1,197,128	-	-	(13,844)	(13,844)
Total Business-Type Activities	1,588,733	377,761	1,197,128	-	-	(13,844)	(13,844)
Total Primary Government	\$ 24,981,843	\$ 377,963	\$ 9,538,182	\$ 800,410	(14,251,444)	(13,844)	(14,265,288)
General Revenues:							
Taxes:							
Property taxes					2,609,011		2,609,011
Motor vehicle taxes					390,559		390,559
Utility taxes					1,129,089		1,129,089
Revenue in lieu of taxes					114,529		114,529
Other					10,918		10,918
Gain on disposal of capital assets					9,911		9,911
Investment earnings					10,198	406	10,604
State and formula grants					10,363,119		10,363,119
Miscellaneous					27,641		27,641
<i>Extraordinary item - KSBIT</i>					(490,976)		(490,976)
Total general revenues and extraordinary item					14,173,999	406	14,174,405
Change in net position					(77,445)	(13,438)	(90,883)
Net position - beginning					11,293,865	986,384	12,280,249
Net position - ending					\$ 11,216,420	\$ 972,946	\$ 12,189,366

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

HART COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 885,236	\$ -	\$ 193	\$ 885,429
Receivables:				
Taxes - current	137,793			137,793
Taxes - delinquent	2,485			2,485
Other receivables	9,634	7,779		17,413
Intergovernmental - State		28,132		28,132
Intergovernmental - Indirect Federal		437,006		437,006
Total Assets	\$ 1,035,148	\$ 472,917	\$ 193	\$ 1,508,258
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ 69,370	\$ 7,994	\$ -	\$ 77,364
Cash overdraft		331,672		331,672
Accrued payroll and related expenses	161,138			161,138
Unearned revenue		34,638		34,638
Total Liabilities	230,508	374,304	-	604,812
Fund Balances				
Restricted		95,115	193	95,308
Committed	13,058			13,058
Assigned	75,969	3,498		79,467
Unassigned	715,613			715,613
Total Fund Balances	804,640	98,613	193	903,446
Total Liabilities and Fund Balances	\$ 1,035,148	\$ 472,917	\$ 193	\$ 1,508,258

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

HART COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET POSITION**

June 30, 2013

Total fund balance per fund financial statements	\$ 903,446
Amounts reported for governmental activities in the statement of net assets are different because:	
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.	29,761,795
Debt issuance charges are reported as expenditures in the governmental funds when first incurred; however, they are included as deferred charges in the statement of net position.	124,946
Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:	
Bonds payable (net of discounts/premiums and deferred amounts on refundings)	(17,743,529)
Capital lease obligations	(378,907)
Interest payable	(112,378)
Compensated absences	(847,977)
KSBIT	<u>(490,976)</u>
Net position for governmental activities	<u>\$ 11,216,420</u>

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
From local sources:				
Taxes:				
Property	\$ 2,609,011	\$ -	\$ 322,267	\$ 2,931,278
Motor vehicle	390,559			390,559
Utilities	1,129,089			1,129,089
Revenue in lieu of taxes	114,529			114,529
Other taxes	10,918			10,918
Earnings on investments	10,198			10,198
Other local revenues	27,843	37,589		65,432
Intergovernmental - State	14,029,824	1,468,139	1,462,441	16,960,404
Intergovernmental - Indirect Federal	42,506	2,141,816		2,184,322
Total Revenues	18,364,477	3,647,544	1,784,708	23,796,729
Expenditures:				
Instruction	9,436,383	2,892,783		12,329,166
Support services:				
Student	1,227,782	30,266		1,258,048
Instruction staff	780,821	179,051		959,872
District administrative	896,793	20,770		917,563
School administrative	1,328,201			1,328,201
Business	754,386			754,386
Plant operation and maintenance	1,829,765	34,348		1,864,113
Student transportation	1,795,473	50,998		1,846,471
Community service activities		251,789		251,789
Other non-instruction	5,597	210,834		216,431
Bond issuance costs				
			69,450	69,450
Debt service:				
Principal			1,035,000	1,035,000
Interest			701,977	701,977
Total Expenditures	18,055,201	3,670,839	1,806,427	23,532,467
Excess (Deficit) of Revenues over Expenditures	309,276	(23,295)	(21,719)	264,262
Other Financing Sources (Uses):				
Proceeds from sale of capital assets	9,911			9,911
Capital lease proceeds	192,480			192,480
Bond proceeds from refunding bonds			8,590,000	8,590,000
Bond discount			(57,055)	(57,055)
Payment to refunded bond escrow agent			(8,463,303)	(8,463,303)
Transfers in	77,799	33,392	936,567	1,047,758
Transfers out	(33,392)		(1,014,366)	(1,047,758)
Total Other Financing Sources (Uses)	246,798	33,392	(8,157)	272,033
Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	556,074	10,097	(29,876)	536,295
Fund Balance, July 1, 2012	248,566	88,516	30,069	367,151
Fund Balance, June 30, 2013	\$ 804,640	\$ 98,613	\$ 193	\$ 903,446

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

HART COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Net change in total fund balances per fund financial statements	\$ 536,295
Amounts reported for governmental activities in the statement of activities are different because:	
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 expense exceeds capital outlays for the year.	(1,032,829)
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(192)
The proceeds for the issuance of capital leases provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net position.	(192,480)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	1,222,370
Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.	(490,976)
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.	<u>(119,633)</u>
Change in net position of governmental activities	<u>\$ (77,445)</u>

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

HART COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	<u>Food Service Fund</u>
Assets	
<u>Current Assets</u>	
Cash and cash equivalents	\$ 93,667
Intergovernmental - Indirect Federal	77,585
Inventory	<u>48,363</u>
Total Current Assets	219,615
<u>Noncurrent Assets</u>	
Capital assets, net of accumulated depreciation	<u>756,924</u>
Total Noncurrent Assets	<u>756,924</u>
Total Assets	<u>976,539</u>
Liabilities	
<u>Current Liabilities</u>	
Accounts payable	<u>3,593</u>
Total Current Liabilities	<u>3,593</u>
<u>Net Position</u>	
Net investment in capital assets	756,924
Unrestricted	<u>216,022</u>
Total Net Position	<u><u>\$ 972,946</u></u>

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2013

	<u>Food Service Fund</u>
Operating Revenues:	
Lunchroom sales	\$ 328,194
Other operating revenues	<u>49,567</u>
Total Operating Revenues	377,761
Operating Expenses:	
Salaries and wages	855,919
Materials and supplies	624,892
Depreciation	49,151
Other operating expenses	<u>58,771</u>
Total Operating Expenses	<u>1,588,733</u>
Operating loss	(1,210,972)
Non-Operating Revenues (Expenses):	
Federal grants	977,011
Donated commodities	75,350
State on-behalf payments	131,810
State grants	12,957
Interest income	<u>406</u>
Total Non-Operating Revenues (Expenses)	1,197,534
Changes in net position	(13,438)
Net Position, July 1, 2012	<u>986,384</u>
Net Position June 30, 2013	<u><u>\$ 972,946</u></u>

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2013

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from:	
Lunchroom sales	\$ 328,194
Other activities	49,567
Cash paid to/for:	
Employees	724,109
Supplies	542,767
Other activities	<u>58,771</u>
Net Cash Used by Operating Activities	(947,886)
Cash flows from Non-Capital Financing Activities	
Federal grants	899,426
State grants	<u>12,957</u>
Net Cash Provided by Non-Capital Financing Activities	912,383
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	<u>(7,159)</u>
Net Cash Used by Capital and Related Financing Activities	(7,159)
Cash Flows from Investing Activities	
Receipt of interest income	<u>406</u>
Net decrease in cash and cash equivalents	(42,256)
Balances, beginning of year	<u>135,923</u>
Balances, end of year	<u>\$ 93,667</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,210,972)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	49,151
State on-behalf payments	131,810
Donated commodities	75,350
Change in assets and liabilities:	
Inventory	3,991
Accounts payable	<u>2,784</u>
Net cash used by operating activities	<u>\$ (947,886)</u>
Schedule of non-cash transactions:	
Donated commodities received from federal government	<u>\$ 75,350</u>
State on-behalf payments	<u>\$ 131,810</u>

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

HART COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2013

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
Assets		
Cash and cash equivalents	\$ 22,235	\$ 272,247
Receivables		279
Total Assets	<u>22,235</u>	<u>272,526</u>
Liabilities		
Accounts payable		704
Due to student groups		271,822
Total Liabilities	<u>-</u>	<u>272,526</u>
Net Position Held in Trust	<u>\$ 22,235</u>	<u>\$ -</u>

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

Year Ended June 30, 2013

	<u>Private Purpose Trust Funds</u>
Additions	
Net interest and investment gains (losses)	<u>\$ 75</u>
	75
Deductions	
Scholarships paid	<u>-</u>
	-
Change in net position	75
Net Position, July 1, 2012	<u>22,235</u>
Net Position, June 30, 2013	<u><u>\$ 22,310</u></u>

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

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hart County School District (the "District") have been prepared to conform with Accounting Principles Generally Accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. REPORTING ENTITY

The Hart 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 Hart County School District. 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.

For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District is financially accountable for organizations that make up its legal entity, as well as legally separate organizations that meet certain criteria. In accordance with GASB 14, "The Financial Reporting Entity," as amended by GASB 39, "Determining Whether Certain Organizations Are Component Units", the criteria for inclusion in the reporting entity involve those cases where the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits to or to impose specific financial burdens on the District or the nature and significance of the relationship between the District and the organization is such that exclusion would cause the District's financial statements to be incomplete. Applying this definition, District management has determined that the component unit reportable within the accompanying financial statements is the Hart County School District Finance Corporation, (the "Corporation"). The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Boosters, Parent-Teacher Associations, etc.

Blended Component Unit - Hart County School District Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Hart County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors. Therefore, the financial activities of the Corporation have been blended (reported as if it were part of the District) with those of the District. The Corporation does not publish individual component unit financial statements.

B. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT 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.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. 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 Governmental Funds are accounted for on the "flow of current financial resources" measurement focus. This measurement focus is based on the concept of accountability, which includes measuring interperiod equity whether current year revenues were sufficient to pay for current year services. The Proprietary Funds are accounted for on an "economic resources" measurement focus. Accordingly, the Statement of Revenues, Expenses and Changes in Fund Net Position for the Proprietary Funds reports increases and decreases in total economic net worth. The private purpose trust fund is reported using the economic resources measurement focus.

Governmental Funds

Governmental Funds are those through which most District functions are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities (except those accounted for in the Proprietary Fund and Fiduciary Funds) are accounted for through Governmental Funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the District's major Governmental Funds:

- (A) 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 a major fund of the District.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.
- (C) 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 Funds).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest and related costs; and for the payment of interest on notes payable, as required by Kentucky Law.

Proprietary Funds

Proprietary Funds are used to account for ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Proprietary Fund's principal ongoing operations. Operating expenses include salaries, benefits, supplies and other items. All items not meeting this definition are reported as nonoperating revenues and expenses. The District has one Proprietary Fund. The Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA and for on-behalf payments for retirement and health insurance paid by the State of Kentucky. The Food Service Fund is a major fund.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the District on behalf of outside related organizations or on behalf of other funds within the District.

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.
- B. The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments. Revenues consist of donations and interest income. Expenditures represent scholarships.

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.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e., both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants and interest on investments. The District considers all revenues (with the exception of the expenditure-driven grants) as available if they are collected within sixty (60) days after year-end. The expenditure driven grants are considered available if received within one year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at year end when revenue is recognized for taxes received by the District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due/paid.

In applying the susceptible to accrual concept to revenues from Federal and State sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the District will receive any amounts; therefore, revenues are recognized based upon the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In all cases, monies received before the revenue recognition criteria have been met are reported as unearned revenue.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

State Revenue Sources - Revenues from State sources for current operations are primarily from the Support Education Excellence in Kentucky ("SEEK"), administered by the Kentucky Department of Education ("KDE"). The District files reports on average daily attendance ("ADA") student membership with the KDE. The KDE accumulates information from these reports and calculates the allocation of SEEK funds to the District. After review and verification of ADA reports and supporting documentation, the KDE may adjust subsequent fiscal period allocations of SEEK funding. Normally, such adjustments are treated as reductions of revenue in the year the reduction is made, as amounts are not significant.

Property Taxes - On an accrual basis, property tax revenue anticipated to be collected is recognized in the fiscal year for which it is levied. Delinquent taxes collected in subsequent periods are recognized as revenue during the fiscal year in which they are received.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. BUDGETARY POLICIES

Budgetary Process

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

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

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

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget appropriations lapse at year-end.

D. ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of an applicable appropriation, is utilized for budgetary control purposes. Encumbrances are not the equivalent of expenditures, and accordingly, amounts assigned for encumbrances at the governmental fund level indicate that portion of the fund balance segregated for expenditure upon vendor performance.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents are considered to be demand deposits, money market funds, and other investments with an original maturity of 90 days or less.

F. INVENTORIES

Inventories are valued at cost, which approximates market. The food service fund uses the specific identification method and the general fund uses the first-in, first-out method. The District's inventories include various items consisting of school supplies, paper, books, maintenance items, transportation items, commodities, etc. USDA commodities received from the Federal government are recorded at the value established by the Federal government using the average cost method.

G. PREPAID ITEMS

Expenditures for insurance and similar services extending over more than one accounting period are not allocated between or among accounting periods in the governmental funds and are instead accounted for as expenditures in the period of acquisition (Purchase method).

H. CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds. All capital assets greater than \$5,000 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 does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets' life are not. All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	25-50 years
Technology equipment	5 years
Vehicles	5-10 years
General equipment	5-15 years
Food service equipment	5-12 years

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

I. LONG-TERM DEBT

In the fund-level financial statements, governmental funds report the face amount of debt issued, as well as any premiums (discounts) as other financing sources (uses). Debt issuance costs are reported as debt service expenditures. In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net position. Bond premiums/discounts and issuance cost are amortized over the life of the bonds while deferred amounts on advance refundings are amortized over the shorter of the remaining life of the refunded bonds or the life of the new bonds both in a systematic and rational method, which approximates the effective-interest method.

J. COMPENSATED ABSENCES

Compensated absences are payments to employees for accumulated sick leave. These amounts also include the related employer's share of applicable taxes and retirement contributions. District employees may accumulate unused sick leave up to a specified amount depending on their date of hire. Sick leave is payable to employees upon termination or retirement at 30% of the current rate of pay on the date of termination or retirement. The District uses the termination method to calculate the compensated absences amounts. The entire compensated absence liability is reported on the government-wide financial statements. The current portion is the amount estimated to be used in the following year. An expenditure is recognized in the governmental fund as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

K. ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

L. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

Recently Issued And Adopted Accounting Principles

In May 2009, the GASB issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires the use of new fund balance classifications and clarifies existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 54 in fiscal year 2011. Required disclosure is reported in Note 9.

In June 2010, the GASB issued Statement 59, *Financial Instruments Omnibus*. GASB 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for financial statements for periods beginning after June 15, 2010. The District adopted GASB Statement 59 in fiscal year 2011. The adoption of GASB 59 did not have any impact on the District's financial statements.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In November 2010, the GASB issued Statement 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 60 in fiscal year 2013. The District does not have any SCAs and therefore the adoption of GASB 60 does not have any impact on the District's financial statements.

In November 2010, the GASB issued Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. GASB 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This statement is effective for periods beginning after June 15, 2012 and the District adopted GASB 61 in fiscal year 2013.

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AJCPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011 and the District adopted GASB 62 in fiscal year 2013. The adoption of GASB 62 does not have any impact on the District's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, and the District adopted GASB 63 in fiscal year 2013.

In June 2011, the GASB issued Statement 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53*. GASB 64 provides clarification on whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement is effective for periods beginning after June 15, 2011 and the District adopted GASB 64 in fiscal year 2013. The adoption of GASB 64 does not have any impact on the District's current financial statements.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

In March 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements.

NOTE 2 – PROPERTY TAXES

Property Taxes

Property Tax Revenues – Property taxes are normally 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. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2013, to finance operations were \$.505 per \$100 valuation for real property, \$.505 per \$100 valuation for business personal property and \$.551 per \$100 valuation for motor vehicles.

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

NOTE 3 – DEPOSITS

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2013, \$1,917,811 of the District's bank balance of \$2,168,003 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology Match	\$ 33,392
SEEK Capital Outlay	General	COFT	77,799
SEEK Capital Outlay	Debt Service	Debt Service	135,022
FSPK Fund	Debt Service	Debt Service	801,545

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 5 - CAPITAL ASSETS

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

Governmental Activities	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Non-Depreciable Assets:				
Land	\$ 948,795	\$ -	\$ -	\$ 948,795
Depreciable Assets:				
Buildings and improvements	37,766,404			37,766,404
Technology equipment	2,826,789	41,184	(19,589)	2,848,384
Vehicles	4,091,590	181,560	(119,001)	4,154,149
General equipment	1,078,687	5,540		1,084,227
Totals at historical cost	46,712,265	228,284	(138,590)	46,801,959
Accumulated depreciation:				
Buildings and improvements	9,832,573	742,740		10,575,313
Technology equipment	2,007,979	280,912	(19,589)	2,269,302
Vehicles	3,097,151	216,305	(119,001)	3,194,455
General equipment	979,938	21,156		1,001,094
Total accumulated depreciation	15,917,641	1,261,113	(138,590)	17,040,164
Governmental Activities Capital Assets - Net	\$ 30,794,624	\$ (1,032,829)	\$ -	\$ 29,761,795
Business-Type Activities				
Buildings and improvements	\$ 1,006,305	\$ -	\$ -	\$ 1,006,305
Technology equipment	9,143	5,650		14,793
Food service equipment	484,680	1,509		486,189
Totals at historical cost	1,500,128	7,159	-	1,507,287
Accumulated depreciation:				
Buildings and improvements	398,661	20,126		418,787
Technology equipment	6,229	1,765		7,994
Food service equipment	296,322	27,260		323,582
Total accumulated depreciation	701,212	49,151	-	750,363
Business-Type Activities Capital Assets - Net	\$ 798,916	\$ (41,992)	\$ -	\$ 756,924

Depreciation was charged to governmental functions as follows:

Instruction	\$ 934,687
Student support	13,493
Instructional staff	33,931
District administration	8,055
School administration	7,955
Business support	31,550
Plant	7,761
Transportation	219,579
Community services	4,102
	<u>\$ 1,261,113</u>

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 6 – RISK MANAGEMENT

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

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

NOTE 7 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2013, is as follows:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
Revenue bonds	\$ 18,925,000	\$ 8,590,000	\$ 8,590,000	\$ 18,925,000	\$ 1,200,000
Capital leases	373,797	192,480	187,370	378,907	207,525
	19,298,797	8,782,480	8,777,370	19,303,907	1,407,525
Less Discount	(87,824)	(57,055)	24,165	(120,714)	-
Less Deferred Amount on Refundings	(295,532)	(908,303)	143,078	(1,060,757)	-
Total Bonds and Leases Payable	18,915,441	7,817,122	8,944,613	18,122,436	1,407,525
Other Liabilities:					
Compensated absences	940,587	43,485	136,095	847,977	154,537
Claims	-	490,976	-	490,976	-
Total Other Liabilities	940,587	534,461	136,095	1,338,953	154,537
Total Governmental Activities Long-Term Liabilities	\$ 19,856,028	\$ 8,351,583	\$ 9,080,708	\$ 19,461,389	\$ 1,562,062

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying compensated absences.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

Bond Liabilities

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

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2003	\$ 3,200,000	2.00% - 4.125%
2006	2,980,000	3.25% - 4.00%
2006A	10,005,000	3.25% - 4.25%
2006B	1,560,000	4.00% - 4.60%
2008R	2,685,000	2.75% - 3.45%
2011	1,435,000	3.00% - 4.50%
2011R	2,540,000	2.30% - 4.60%
2013R	8,590,000	2.00% - 2.35%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hart 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 District has “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

On March 1, 2013, the District issued \$8,590,000 in Refunding Revenue Bonds with an average interest rate of 2.12 percent to advance refund \$6,265,000 of outstanding 2006 Series A and \$1,290,000 of outstanding 2006 Series B revenue bonds. The refunding was a partial advance refunding. The net proceeds of \$8,463,303 (after \$69,450 in cost of issuance, \$57,055 in bond discount and \$192 in excess cash which was deposited in the bond payment fund) were used to purchase U.S. Government securities. These securities were deposited in an irrevocable trust to call the bonds.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$908,303. This difference, reported in the accompanying government-wide financial statements as a deduction from bonds payable, is being charged to operations through the year 2027 using the effective-interest method.

The District completed the refunding to reduce its total debt service payments over the next 12 years by \$587,239 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$520,563. The 2006A bonds will be called on February 1, 2016 and the 2006B bonds will be called on August 1, 2017. Therefore the \$7,555,000 is considered defeased.

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

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 7 – LONG-TERM LIABILITIES - CONTINUED

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2014	\$ 1,200,000	\$ 492,692	\$ 797,089	\$ 895,603
2015	1,205,000	477,628	799,089	883,539
2016	1,255,000	438,786	801,252	892,534
2017	1,295,000	398,999	798,356	895,643
2018	1,325,000	355,839	795,767	885,072
2019-2023	6,650,000	1,268,660	3,415,272	4,503,388
2024-2028	5,145,000	502,169	1,891,299	3,755,870
2029-2031	850,000	76,238		926,238
	<u>\$ 18,925,000</u>	<u>\$ 4,011,011</u>	<u>\$ 9,298,124</u>	<u>\$ 13,637,887</u>

Capital Lease Liabilities

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

Classes of Property

Buses and computers

Gross amount of assets	\$ 922,660
Accumulated amortization	421,470

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

2014	221,519
2015	24,868
2016	21,298
2017	21,273
2018	21,242
2019-2023	<u>99,526</u>
Total minimum lease payments	409,726
Less: Amount representing interest	<u>(30,819)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 378,907</u>

During FY 2013, the District purchased two buses under capital lease with a cost of \$192,480.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 8 – PENSION PLANS

Plan Descriptions

The Hart County School District participates in the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky (KTRS) and the County Employees' Retirement System, a component unit of the Commonwealth of Kentucky (CERS), cost-sharing multiple-employer defined benefit plans. KTRS and CERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. KTRS is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). Under the provisions of KRS Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KERS) administers the CERS. The KTRS and CERS issue a publicly available financial report that includes financial statements and required supplementary information. KTRS' report may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 or by calling (502) 573-3266. CERS' report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling (502) 564-5656.

Funding Policy

KTRS plan members are required to contribute 10.855% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 14.105% of annual covered payroll. The rate for CERS fiscal year 2013 is 19.55% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2013, 2012 and 2011 were \$591,227, \$664,598 and \$567,688, respectively, equal to the required contributions for each year.

For the year ended June 30, 2013, the Commonwealth contributed \$1,295,654 to KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the year ended June 30, 2013 were \$145,673.

The amount recognized for revenues and expenditures for on-behalf payments relating to fringe benefits such as pension and health care costs, and other operating costs, for the year ended June 30, 2013 was \$3,666,705 for governmental funds and \$131,810 for proprietary funds.

Medical Insurance Plan

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

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

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2013

NOTE 8 – PENSION PLANS – CONTINUED

Funding Policy

In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 1.75% of salary. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay 1.5% of members' salary for the 2013 fiscal year.

Deferred Compensation

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 401(k) and 403(b). The Plans, available to all employees, permits them to defer a portion of their salary until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, allows entities with little or no administrative involvement who do not perform the investing function for these plans to omit plan assets and related liabilities from their financial statements. The District, therefore, does not show these assets and liabilities on these financial statements.

NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2013, there were no nonspendable fund balances

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2013, the District had \$95,115 restricted for grants in the special revenue fund, \$1 restricted for capital projects in the FSPK Fund and \$193 restricted for debt service in the debt service fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following general fund commitments at June 30, 2013: \$13,058 for site-based carryforward.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amounts assigned related to encumbrances at June 30, 2013, were \$75,969 recorded in the general fund and \$3,498 recorded in the special revenue fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

HART COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

NOTE 9 – FUND BALANCES – CONTINUED

The District considers unrestricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed and restricted when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

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

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

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

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount. The option resulted in an estimated liability for the District of \$490,976. This estimate is recorded because the payment is probable and reasonably estimable. The estimate is recorded as a noncurrent liability in the Statement of Net Position as it is not expected to be paid by June 30, 2014, and as an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence. The estimate is not recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances because the amount has not been billed and is not mature.

NOTE 11 – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/net position:

FSPK Fund	\$ 30,068
Food Service Fund	13,438

HART COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

GENERAL FUND

Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
From local sources:			
Taxes:			
Property	\$ 2,446,000	\$ 2,536,562	\$ 2,609,011
Motor vehicle	375,000	390,000	390,559
Utilities	1,190,000	1,091,112	1,129,089
Revenue in lieu of taxes	143,000	120,000	114,529
Other taxes	15,000	15,000	10,918
Earnings on investments	16,500	15,000	10,198
Other local revenues	43,500	46,000	27,843
Intergovernmental - State	9,900,325	10,369,663	14,029,824
Intergovernmental - Indirect Federal	75,000	100,000	42,506
Total Revenues	14,204,325	14,683,337	18,364,477
Expenditures:			
Instruction	6,798,653	6,925,178	9,436,383
Support services:			
Student	1,050,021	1,048,816	1,227,782
Instruction staff	634,683	632,928	780,821
District administrative	770,405	787,896	896,793
School administrative	1,068,249	1,130,095	1,328,201
Business	613,257	684,326	754,386
Plant operation and maintenance	1,713,903	1,715,104	1,829,765
Student transportation	1,353,229	1,350,340	1,795,473
Community service activities	755	755	5,597
Other non-instruction	361,170	830,508	
Total Expenditures	14,364,325	15,105,946	18,055,201
Excess (Deficit) of Revenues over Expenditures	(160,000)	(422,609)	309,276
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	10,000	15,000	9,911
Capital lease proceeds			192,480
Transfers in		58,740	77,799
Transfers out	(25,000)	(25,000)	(33,392)
Total Other Financing Sources (Uses)	(15,000)	48,740	246,798
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	(175,000)	(373,869)	556,074
Fund Balance, July 1, 2012	175,000	373,869	248,566
Fund Balance, June 30, 2013	\$ -	\$ -	\$ 804,640

Both inflows and outflows are equally different in the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds by the amount of on-behalf payments of \$3,666,705.

HART COUNTY SCHOOL DISTRICT

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL**

SPECIAL REVENUE FUND

Year Ended June 30, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
Revenues:			
Other local revenues	\$ 14,400	\$ 13,000	\$ 37,589
Intergovernmental - State	1,202,624	1,370,416	1,468,139
Intergovernmental - Indirect Federal	<u>1,981,948</u>	<u>2,122,633</u>	<u>2,141,816</u>
Total Revenues	3,198,972	3,506,049	3,647,544
Expenditures:			
Instruction	2,226,541	2,740,071	2,892,783
Support services:			
Student	17,365	24,126	30,266
Instruction staff	524,575	212,702	179,051
District administrative		369	20,770
School administrative	26,945	26,945	
Plant operation and maintenance	2,954	2,954	34,348
Student transportation	18,969	50,987	50,998
Community service activities	245,144	321,070	251,789
Other	<u>161,487</u>	<u>160,217</u>	<u>210,834</u>
Total Expenditures	<u>3,223,980</u>	<u>3,539,441</u>	<u>3,670,839</u>
Excess (Deficit) of Revenues over Expenditures	(25,008)	(33,392)	(23,295)
Other Financing Sources (Uses):			
Transfers in	<u>25,008</u>	<u>33,392</u>	<u>33,392</u>
Total Other Financing Sources (Uses)	<u>25,008</u>	<u>33,392</u>	<u>33,392</u>
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	-	10,097
Fund Balance, July 1, 2012	-	-	<u>88,516</u>
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,613</u>

HART COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2013

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets:					
Cash and cash equivalents	\$ -	\$ 1	\$ -	\$ 192	\$ 193
Total Assets	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 192</u>	<u>\$ 193</u>
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances					
Restricted		1	-	192	193
Total Fund Balances	<u>-</u>	<u>1</u>	<u>-</u>	<u>192</u>	<u>193</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 192</u>	<u>\$ 193</u>

HART COUNTY SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2013

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources:					
Property taxes	\$ -	\$ 322,267	\$ -	\$ -	\$ 322,267
Intergovernmental - State	212,821	449,210		800,410	1,462,441
Total Revenues	212,821	771,477	-	800,410	1,784,708
Expenditures					
Bond issue costs				69,450	69,450
Debt service:					
Principal				1,035,000	1,035,000
Interest				701,977	701,977
Total Expenditures	-	-	-	1,806,427	1,806,427
Excess (Deficit) of Revenues over Expenditures	212,821	771,477	-	(1,006,017)	(21,719)
Other Financing Sources (Uses)					
Bond proceeds from refunding bonds				8,590,000	8,590,000
Bond discount				(57,055)	(57,055)
Payment to refunded escrow agent				(8,463,303)	(8,463,303)
Transfers in				936,567	936,567
Transfers out	(212,821)	(801,545)			(1,014,366)
Total Other Financing Sources (Uses)	(212,821)	(801,545)	-	1,006,209	(8,157)
Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses	-	(30,068)	-	192	(29,876)
Fund balance, July 1, 2012	-	30,069	-	-	30,069
Fund balance, June 30, 2013	\$ -	\$ 1	\$ -	\$ 192	\$ 193

HART COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2013

	Bonnieville Elementary	Cub Run Elementary	Hart County High School	LeGrande Elementary	Memorial Elementary	Munfordville Elementary	Total Agency Fund
Assets							
Cash and cash equivalents	\$ 20,955	\$ 9,905	\$ 181,506	\$ 19,043	\$ 12,726	\$ 28,112	\$272,247
Receivables	-	175	-	-	104	-	279
Total Assets	\$ 20,955	\$ 10,080	\$ 181,506	\$ 19,043	\$ 12,830	\$ 28,112	\$272,526
Liabilities							
Accounts payable	\$ -	\$ -	\$ 96	\$ -	\$ 608	\$ -	\$ 704
Due to student groups	20,955	10,080	181,410	19,043	12,222	28,112	271,822
Total Liabilities	\$ 20,955	\$ 10,080	\$ 181,506	\$ 19,043	\$ 12,830	\$ 28,112	\$272,526

HART COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
AGENCY FUNDS
YEAR ENDED JUNE 30, 2013

<u>SCHOOL</u>	<u>CASH BALANCE July 1, 2012</u>	<u>RECEIPTS</u>	<u>DISBURSE- MENTS</u>	<u>CASH BALANCE June 30, 2013</u>	<u>RECEIVABLES June 30, 2013</u>	<u>ACCOUNTS PAYABLE June 30, 2013</u>	<u>DUE TO STUDENT GROUPS June 30, 2013</u>
Bonnieville Elementary	\$ 22,990	\$ 16,669	\$ 18,704	\$ 20,955	\$ -	\$ -	\$ 20,955
Cub Run Elementary	10,487	14,092	14,674	9,905	175		10,080
Hart County High School	158,651	223,591	200,736	181,506		96	181,410
LeGrande Elementary	22,917	34,670	38,544	19,043			19,043
Memorial Elementary	10,361	23,188	20,823	12,726	104	608	12,222
Munfordville Elementary	27,324	29,378	28,590	28,112			28,112
	<u>\$ 252,730</u>	<u>\$ 341,588</u>	<u>\$ 322,071</u>	<u>\$ 272,247</u>	<u>\$ 279</u>	<u>\$ 704</u>	<u>271,822</u>

HART COUNTY SCHOOL DISTRICT
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES
HART COUNTY HIGH SCHOOL
YEAR ENDED JUNE 30, 2013

NAME OF ACTIVITY	CASH		DISBURSE- MENTS	CASH		RECEIVABLES June 30, 2013	ACCOUNTS PAYABLE June 30, 2013	DUE TO STUDENT GROUPS June 30, 2013
	BALANCES July 1, 2012	RECEIPTS		BALANCES June 30, 2013				
2013 District Basketball	\$ -	\$ 10,333	\$ 10,333	\$ -	\$ -	\$ -	\$ -	\$ -
2013 Regional Basketball	-	20,862	20,862	-	-	-	-	-
Academic Team	353	800	492	661	-	-	-	661
Agriculture	45,535	20,616	20,722	45,429	-	-	-	45,429
Art Club	145	210	-	355	-	-	-	355
Athletic	1,669	46,402	45,949	2,122	-	-	-	2,122
Attendance Increase	1,975	3,575	1,326	4,224	-	-	-	4,224
Beta Club	2,549	4,970	5,093	2,426	-	-	-	2,426
Broadcasting	5,446	929	1,860	4,515	-	-	-	4,515
CKMSAC	-	1,890	909	981	-	-	-	981
Class of 2012	2,294	-	2,294	-	-	-	-	-
Class of 2013	2,254	5,013	6,953	314	-	-	-	314
Class of 2014	3,624	11,650	7,870	7,404	-	-	-	7,404
Class of 2015	1,135	1,158	123	2,170	-	-	-	2,170
Class of 2016	-	1,372	270	1,102	-	-	-	1,102
Coke machines	6,687	5,339	6,687	5,339	-	-	-	5,339
Concessions	1,286	4,228	1,286	4,228	-	-	-	4,228
Faculty Commission	548	1,733	1,994	287	-	-	-	287
FBLA	198	1,248	720	726	-	-	-	726
FCCLA	-	130	130	-	-	-	-	-
FEA	225	-	122	103	-	-	-	103
FFA	751	24,500	22,205	3,046	-	-	-	3,046
Foreign Language	560	455	436	579	-	-	-	579
General Fund	20,238	17,259	14,718	22,779	-	-	-	22,779
Lou Walton- Grant	1,423	-	-	1,423	-	-	-	1,423
Ind. Arts	865	-	-	865	-	-	-	865
Laptop Annual Fee	33,068	18,578	5,647	45,999	-	-	-	45,999
Laptop - Standard Repair	-	370	-	370	-	-	-	370
Laptop AUP Related Repair	-	640	-	640	-	-	-	640
Library	130	110	-	240	-	-	-	240
Lockers	4,357	1,823	92	6,088	-	-	-	6,088
National Honor Society	1,047	1,420	1,063	1,404	-	-	-	1,404
Parking	2,362	680	335	2,707	-	-	-	2,707
Pep Club	-	1,020	664	356	-	-	-	356
Political Science	418	-	90	328	-	-	-	328
Reg/District Hospitality	-	525	525	-	-	-	-	-
SADD HOPE	210	3,150	2,666	694	-	96	-	598
Science Club	278	108	97	289	-	-	-	289
Stand Club	-	326	-	326	-	-	-	326
STLP	-	85	-	85	-	-	-	85
Student Council	49	170	94	125	-	-	-	125
Y Club	175	4,005	4,102	78	-	-	-	78
Yearbook	16,797	18,115	24,213	10,699	-	-	-	10,699
TOTALS	158,651	235,797	212,942	181,506	-	96	-	181,410
Transfers	-	12,206	12,206	-	-	-	-	-
TOTALS	\$ 158,651	\$ 223,591	\$ 200,736	\$ 181,506	\$ -	\$ 96	\$ -	\$ 181,410

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster -			
Passed Through State Department of Education:			
National School Lunch	10.555	7750002-12	\$ 141,639
		7750002-13	549,683
School Breakfast Program	10.553	7760005-12	59,605
		7760005-13	226,084
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	75,350
TOTAL CHILD NUTRITION CLUSTER			<u>1,052,361</u>
TOTAL U.S. DEPT. OF AGRICULTURE			<u>1,052,361</u>
<u>APPALACHIAN REGIONAL COMMISSION</u>			
Passed Through State Department of Education			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6882	2,742
TOTAL APPALACHIAN REGIONAL COMMISSION			<u>2,742</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster -			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3373	513,019
		GRREC	54,497
			<u>567,516</u>
Special Education - Preschool Grants	84.173	3432	226
		3433	7,719
			<u>7,945</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>575,461</u>
<u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through Kentucky Council on Postsecondary Education			
Adult Education - State Grant Program	84.002	3651	(2,375)
		3653	9,922
		3731	(5,191)
		3732S	1,226
		3733	90,421
			<u>94,003</u>
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	3102	121,506
		3102M	4,033
		3103	873,897
		3103M	8,041
			<u>1,007,477</u>
Migrant Education - State Grant Program	84.011	3112	4,844
		3112S	13,948
		3113	60,186
			<u>78,978</u>
Vocational Education - Basic Grants to States	84.048	3482	6,584
		3483	30,805
			<u>37,389</u>

The accompanying notes are an integral part of this schedule.

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2013

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
Even Start - State Educational Agencies	84.213	3231	2,300
Twenty-First Century Community Learning Centers	84.287	5500 5501 5501J 5502	(5,186) 4,681 6,000 75,000
			<u>80,495</u>
Rural Education	84.358	3503	43,957
Improving Teacher Quality - State Grants	84.367	4012 4013	4,667 175,872
			<u>180,539</u>
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	6973	14,031
Education Jobs	84.410	4411	<u>4,061</u>
Race to the Top	84.413A	4521	<u>20,385</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,139,076</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,194,179</u>

The accompanying notes are an integral part of this schedule.

HART COUNTY SCHOOL DISTRICT

NOTES TO 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 Hart County School District under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Hart County School District, it is not intended to and does not present the financial position, changes in net assets or cash flows of Hart County School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting for proprietary funds and the modified accrual basis of accounting for governmental funds. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE C – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE D – SUBRECIPIENTS

There were no subrecipients during the fiscal year.

Section I-Summary of Auditor's Results - Continued

Identification of major programs:

CFDA Number	Federal Program or Cluster
	DEPARTMENT OF AGRICULTURE
	Child Nutrition Cluster
10.555	National School Lunch Program
10.553	School Breakfast Program
	DEPARTMENT OF EDUCATION
	Special Education Cluster
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

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

Auditee qualified as low-risk auditee? yes no

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

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

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, Kentucky

We have audited, in accordance with the 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 the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hart County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hart County School District's basic financial statements, and have issued our report thereon dated August 15, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Hart County School District in a separate letter dated August 15, 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 District'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.



Certified Public Accountants
Elizabethtown, Kentucky
August 15, 2013

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

CHRIS R. CARTER, CPA
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BRIAN S. WOOSLEY, CPA



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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Hart County School District
Munfordville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Hart 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 Hart County School District's major federal programs for the year ended June 30, 2013. Hart 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 Hart 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; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract. 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 Hart 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 Hart County School District's compliance

Opinion on Each Major Federal Program

In our opinion, Hart County School District complied, in all material respects, with the 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 Hart 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 Hart 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 in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major 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 Hart 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 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.



Certified Public Accountants
Elizabethtown, Kentucky
August 15, 2013

CHRIS R. CARTER, CPA
SCOTT KISSELBAUGH, CPA
BRIAN S. WOOSLEY, CPA



STILES, CARTER & ASSOCIATES, P.S.C.

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Members of the Board of Education of
Hart County School District
Munfordville, Kentucky

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated August 15, 2013, contains our report on the District's internal control. This letter does not affect our report dated August 15, 2013, on the financial statements of the Hart County School District.

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

This report is intended solely for the information and use of management, the members of the Hart County Board of Education, others within the District, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Stiles, Carter & Associates".

Certified Public Accountants
Elizabethtown, Kentucky
August 15, 2013

HART COUNTY SCHOOL DISTRICT

COMMENTS

June 30, 2013

UNCORRECTED PRIOR YEAR COMMENTS

None

CURRENT YEAR COMMENTS

BONNIEVILLE ELEMENTARY

BOOSTER CLUBS

We noted the Cheerleading Booster Club F-SA-15A, Annual Financial Report did not list receipts by category or expenditures by payee but instead listed receipts as monthly totals.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

STANDARD INVOICE

We noted the following disbursements without an F-SA-8, Standard Invoice, or a vendor invoice attached: check #2940 in the amount of \$1,073.22, dated 6/13/13, written to The University of Kentucky and check #2878 in the amount of \$100.00, dated 11/01/12, written to Larry Peters, Referee.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

PURCHASE ORDER

We noted check #2913 in the amount of \$437.84, dated 2/21/13, written to Hands On, had a purchase order attached that was not dated.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

CUB RUN ELEMENTARY

MULTIPLE RECEIPT FORM

We noted a deposit of \$757.08, dated 5/24/13 for yearbook sales, with F-SA-6, Multiple Receipt Form, for all grade levels, attached without student signatures or initials.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

PURCHASE ORDER

We noted check #228 in the amount of \$100.00, dated 11/30/12, written to Eugene Brown, Referee, without an F-SA-7, Purchase Order, attached.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

HART COUNTY SCHOOL DISTRICT

COMMENTS-CONTINUED

June 30, 2013

HART COUNTY HIGH SCHOOL

BOOSTER CLUBS

We noted the Boys Basketball Booster Club F-SA-15A, Annual Financial Report did not list receipts by category or expenditures by payee as required by Redbook standards. The report contained totals by month only with no detail. We also noted the FBLA F-SA-15A, Annual Financial Report did not list expenditures by payee but instead by category and the Cheerleading F-SA-15A, Annual Financial Report did not list receipts by category but instead listed each deposit without description.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

MULTIPLE RECEIPT FORM

We noted a deposit of \$1,735.39, dated 12/16/12 with an F-SA-6, Multiple Receipt Form, for the Pep Club attached without student signatures or initials. We also noted a deposit of \$2,597.64, dated 2/19/13 with an F-SA-6, Multiple Receipt Form, for yearbook sales without student signatures or initials.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

STANDARD INVOICE

We noted check #7792 in the amount of \$107.50, dated 4/11/13, written to Thomas Hagan, Referee, did not have F-SA-8, Standard Invoice, or a vendor invoice attached.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

LEGRANDE ELEMENTARY

TICKET SALES

We noted the following athletic games with an F-SA-1, Requisition and Report of Ticket Sales with the same signature for ticket seller and ticket taker: boys' basketball game held on 11/08/12 and football game held on 8/28/12.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

UNALLOWABLE PURCHASES

We noted the following checks for unallowable purchases paid out of the general fund: check #2470 in the amount of \$190.95, dated 7/26/12, written to Sherwin Williams for the purchase of paint used to paint the gymnasium locker rooms, check #2481 in the amount of \$219.50, dated 8/9/12, written to The Vance Store and check #2490 in the amount of \$806.00, dated 8/31/12, written to Southern States both used to purchase mulch for the school grounds.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

HART COUNTY SCHOOL DISTRICT

COMMENTS-CONTINUED

June 30, 2013

MEMORIAL ELEMENTARY

MULTIPLE RECEIPT FORMS

We noted a deposit of \$270.75, dated 3/28/13 that did not have F-SA-6, Multiple Receipt Forms, attached with students signatures or initials.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

PURCHASE ORDER

We noted check #3445 in the amount of \$100.50, dated 12/13/12, written to Laurie Myers, with a purchase order dated 12/13/12, two days after the invoice dated 12/11/12.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

MUNFORDVILLE ELEMENTARY

MULTIPLE RECEIPT FORM/UNTIMELY DEPOSITS

We noted the following deposits without an F-SA-6, Multiple Receipt Form, attached: a deposit of \$835.00, dated 10/17/12, for KYA payments, deposit of \$550.00, dated 2/12/13 for yearbook sales and a deposit of \$893.61, dated 5/21/13, for yearbook sales.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.

PURCHASE ORDER

We noted check #2608 in the amount of \$366.00, dated 2/26/13, written to Quad Printing, with a purchase order dated 2/26/13, one day after the invoice dated 2/25/13. We noted check #2629 in the amount of \$300.00, dated 5/02/13, written to Hot Rods, with a purchase order dated 5/02/13, seven days after the invoice dated 4/24/13.

MANAGEMENT RESPONSE

District finance personnel have discussed with school management to ensure the item is not repeated.