

Henderson County School District

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

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Henderson County School District
Henderson, Kentucky

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters-Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, and budgetary comparison information on pages 3 to 8 and page 36, respectively, be presented to supplement the basic financial statements, and is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted principally of inquiries of management regarding the methods preparation of the supplemental information, and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information:

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to auditing applied in our audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material aspects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 on our consideration of the Henderson County School District’s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Henderson County School District’s internal control over financial reporting and compliance.



Henderson, Kentucky
September 10, 2013

Henderson County Schools

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HENDERSON COUNTY BOARD OF EDUCATION Henderson, Kentucky MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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

Financial Highlights:

- The beginning Governmental Fund balance for the District was \$24,424,919. The ending fund balance was \$20,541,100 which was a decrease of \$3,883,819.
- The District is in excellent financial condition as it has been able to withstand the financial pressures of a very tight state education budget over the past several years without impairing the educational programs or facilities maintenance requirements for the District.
- The District's current assets decreased by \$3,127,789 during the year, while current liabilities increased by \$1,173,522 resulting in a current ratio of 2.67, which is indicative of the District's solid financial position and operating efficiency.
- The District continues to make significant investments in the facilities of the district.
- The District continues to invest in technology utilized in instructional programs with the district investing over \$2.8 million dollars in technology related equipment, software, and supplies during the 2012-2013 school year. The district continues to pursue its efforts to have wireless technology available in all schools.

Overview of the Financial Statements

Management's 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, 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 the 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 assets may serve as a useful indicator of whether the financial position of the District is improving.
- The *Statement of Change in Financial Position* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing if the related cash transactions. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

**HENDERSON COUNTY BOARD OF EDUCATION
Henderson, Kentucky
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Both of these district wide statements are divided into two District types of activities:

- *Government Activities*- 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. The fixed assets and related debt that are also supported by taxes and intergovernmental revenues are reported in this section.
- *Business-Type Activities*- These services are provided on a charge for goods and services basis to recover all of the expenses of the goods or services provided. The types of activities reported in this category are the food service operations, child care centers, and adult education courses. These activities are funded through fees charged and supported by federal grants and federal commodities used in the food service operations.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software system. 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.

- *Governmental Funds*- Most of the School District's activities are reported in the governmental funds that include: general fund, special revenue (grants), capital outlay, building fund (FSPK), construction fund, and debt service fund. These funds are reported using an accounting method referred to as modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The government fund statements provide a detailed short-term view of the School District's general government operations and basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the financial statements provided.
- *Proprietary Funds*- The proprietary funds include the food service, child care centers, and adult education programs found in the business type activity funds. These funds utilize the same basis of accounting as business type activities, therefore, the statements for the proprietary fund will correspond to the statement of net assets.
- *Fiduciary Funds*- The fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The District's fiduciary funds, referred to as "activity funds" are maintained at the school level.
- *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 financial statements. These notes may better explain data found in the financial statements, or provide additional information that is not found in the financial statements provided.

GOVERNMENT WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets, which is outstanding at year end.

HENDERSON COUNTY BOARD OF EDUCATION
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FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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 those capital assets.

Net Financial Position For the Fiscal Year Ended June 30, 2013

	June 30, 2013	June 30, 2012	Change
Current assets	\$ 26,707,907	\$ 29,835,696	\$ (3,127,789)
Capital or non-current assets	37,840,907	39,359,258	(1,518,351)
Total Assets	\$ 64,548,814	\$ 69,194,954	\$ (4,646,140)
Current liabilities	\$ 6,525,345	\$ 5,519,663	\$ 1,005,682
Non-current liabilities	20,563,461	22,385,878	(1,822,417)
Total Liabilities	27,088,806	27,905,541	(816,735)
Investment in capital assets, net of related debt	15,870,523	15,483,068	387,455
Restricted	(580,173)	2,268,810	(2,848,983)
Nonspendable	234,236	346,145	(111,909)
Committed	2,620,265	2,091,017	529,248
Assigned	5,909,207	5,468,434	440,773
Unassigned	13,405,950	15,631,939	(2,225,989)
Total Net Financial Position	\$ 37,460,008	\$ 41,289,413	\$ (3,829,405)

The net total assets exceeded the total liabilities by \$37,460,008 which indicates that the district is in very good financial condition.

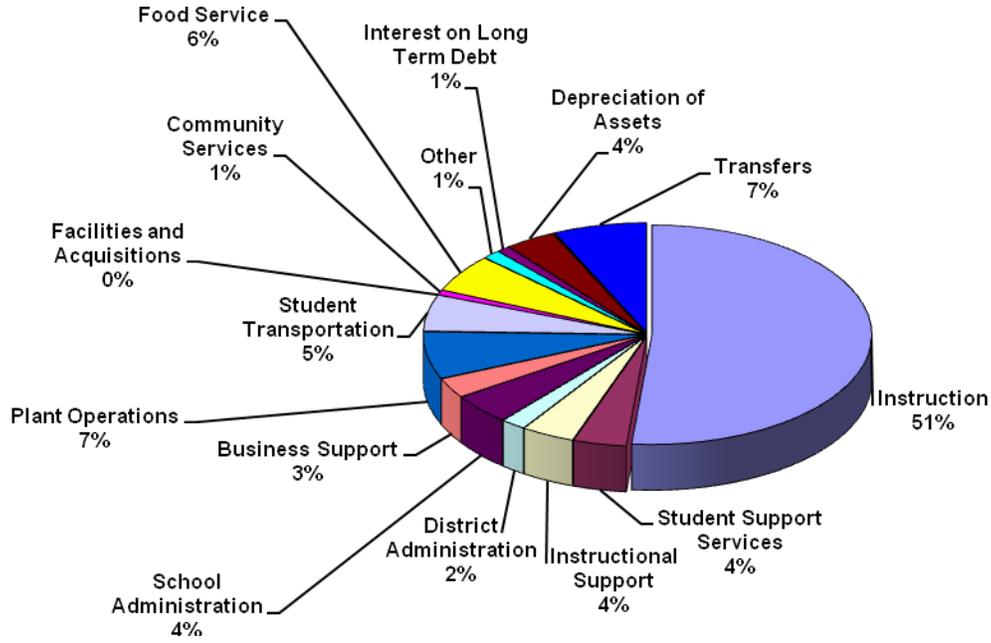
The current assets decreased by \$4.6 million during the fiscal year while the capital assets decreased by \$1.5 million. Total acquisitions of capital assets during the year were approximately \$1.6 million, while depreciation of assets totaled \$3.1 million. This resulted in a net decrease in capital assets of \$1.4 million. The scheduled debt retirement payments resulted in a net decrease in long-term liabilities of \$1.9 million. All of these factors resulted in a decrease in net position of \$3.8 million for the year ended June 30, 2013.

The District's total revenues were \$79,492,868 and the total expenditures were \$83,428,629 which resulted in a decrease in net position of \$3.9 million.

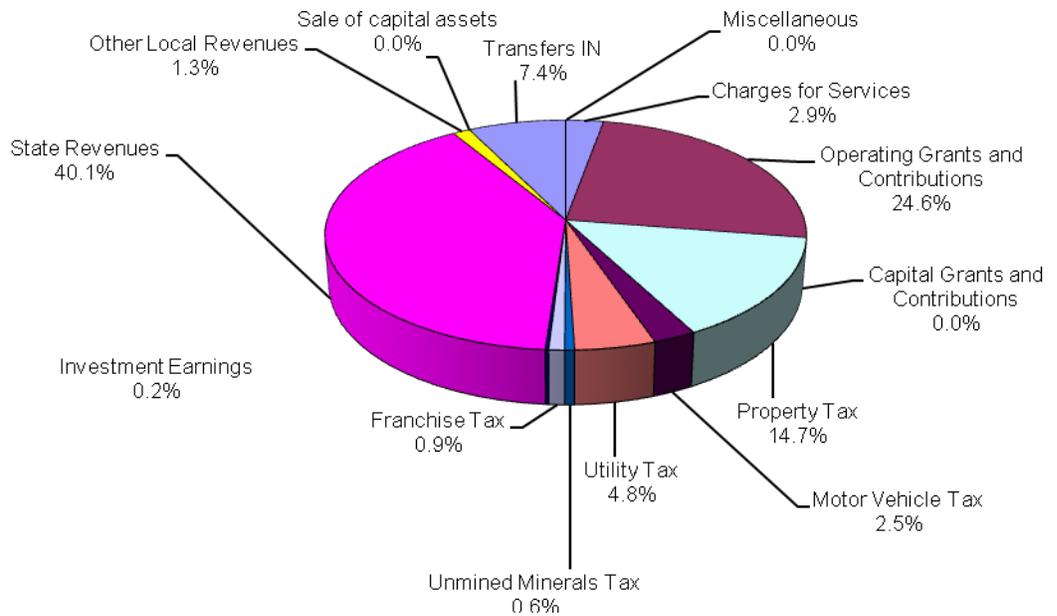
- State revenues accounted for 40.1% of the total revenues while local taxes accounted for 23%.
- Expenditures totaled \$83,428,629, with \$42,941,833 or 51% of total being expended towards student instruction.

**HENDERSON COUNTY BOARD OF EDUCATION
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FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Expenditures:



Revenues:



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FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Governmental Fund Highlights

- The General Fund revenues for the year were \$56.5 million, with \$37.5 million coming from state revenues and the remaining \$18.9 million from local sources.
- Total General Fund Expenditures were \$60.4 million, with instruction costs being the largest area at \$37.0 million.
- The net deficit of revenues over expenditures was \$3.8 million resulting in a decrease in the fund balance of a like amount for the 2013 fiscal year.

The Special Revenue fund expenditures for the year were \$8.6 million. Two major sources of revenues for this fund were State Grants totaling \$3.2 million and Federal Grants totaling \$4.4 million.

The Other Governmental Funds also included debt services payments of \$4.8 million.

Total ending fund balances as for June 30, 2013 were \$21.2 million in the General Fund and \$(580,173) in the other governmental funds for a total of \$20.7 million.

Commentary on General Fund Budgetary Comparisons

- The actual revenues and expenditures both include \$11.2 million of on behalf payments that are not included in the original or final budgets. These represent payments for employee benefits paid at the state level on behalf of the Henderson County School District. The following comments below are net of these on-behalf payments.
- Total revenues in relation to budgeted amounts were \$ 13.2 million favorable. The major revenue line items exceeding amounts budgeted were property taxes from all sources by \$1.2 million.
- Total expenditures were \$60.4 million, with expenditures in relation to budgeted amounts being \$973,712 unfavorable. The budget included a contingency of \$12 million with no expenditures and the actual included \$11.2 million of on behalf payments with no corresponding budget.

Future Budgetary Considerations

In Kentucky, the public schools operate on a July 1, to June 30th fiscal year, other programs such as some federal programs, operate on a different fiscal calendar, but are reflected in the District's overall budget. By law, the budget must have at least a 2% contingency. The district adopted a budget for fiscal year 2014, with a 9.94% contingency. However, current economic conditions are of concern. The local budget contingency includes reserved funds for state economic shortfalls which will be used, if necessary, to protect the current level of direct classroom instruction. The District intends to take a conservative approach to expenditures as it has in the previous years.

District Challenges for the Future

As with the current year, transportation costs for students is a significant financial concern now and in the future. State provided funds are being reduced while most components are increasing. The cost of diesel fuel has varied widely over the past four years and continues to be of concern in the future. The costs of bus purchases will continue to increase due to changes in EPA requirements and the need to continue to replace an aging fleet. The District has made significant changes in bus routes to minimize annual transportation expenses.

**HENDERSON COUNTY BOARD OF EDUCATION
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FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

The State of Kentucky's financial concerns due to a stagnant economy will have a significant impact on the availability of funds allocated to public education. The school districts have already experienced reductions in funding and allocation of some expenses that were traditionally paid by the state. Since a large percentage of the District's funding is provided by the State sources, the financial outlook for public schools is dependent upon the State's financial condition and budgetary funds. The outlook for the next few years is a major concern for the Board and management.

The District's tests scores as with the previous year are on the rise. Several new programs have been initiated in the past few years that will continue to impact test scores in a positive manner in the future. However, many of the programs, such as full day kindergarten, expanded pre-school programs, curriculum specialists, and enrichment teams are not funded by the State budget. The District will again be challenged to continue to find the resources to fund these important educational programs.

Technology has been and will continue to be a major focus as we continue towards a wireless infrastructure and the need to keep pace with an ever changing technological society.

Report Purpose and Contact Information

This financial report is designed to provide our citizens, taxpayers, and investors and creditors, with a general overview of the Henderson County School District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, these inquiries should be directed to:

Walt Spencer, Assistant Superintendent of Finance
Henderson County Schools
1805 Second Street
Henderson, Kentucky 42420
Telephone: 270.831.5000 or Electronic Mail: Walt.Spencer@henderson.kyschools.us

Henderson County School District
Government Wide Financial Statements - Statement of Net Position
June 30, 2013

	Governmental Activities	Business Type Activities	Total
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 22,070,747	\$ 1,454,004	\$ 23,524,751
Inventory	-	112,300	112,300
Accounts receivable:			
Taxes - current	133,552	-	133,552
Accounts receivable	35,119	235,511	270,630
Intergovernmental - Indirect	2,544,738	-	2,544,738
Prepaid expenses	121,936	-	121,936
Total Current Assets	24,906,092	1,801,815	26,707,907
Noncurrent Assets:			
Capital assets, net	37,125,898	234,625	37,360,523
Bond issue cost, net	480,384	-	480,384
Total Noncurrent Assets	37,606,282	234,625	37,840,907
Total Assets	\$ 62,512,374	\$ 2,036,440	\$ 64,548,814
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts payable	\$ 1,298,585	\$ 29,872	\$ 1,328,457
Accrued payroll and related expenses	1,113,203	106,165	1,219,368
Deferred revenue	1,646,437	-	1,646,437
Current portion of bond obligations	1,894,973	-	1,894,973
Current portion of accrued sick leave	138,927	-	138,927
Interest payable	297,183	-	297,183
Total Current Liabilities	6,389,308	136,037	6,525,345
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	19,595,027	-	19,595,027
Noncurrent portion of accrued sick leave	968,434	-	968,434
Total Noncurrent Liabilities	20,563,461	-	20,563,461
Total Liabilities	\$ 26,952,769	\$ 136,037	\$ 27,088,806
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	\$ 15,635,898	\$ 234,625	\$ 15,870,523
Restricted	6,092,765	-	6,092,765
Unrestricted	13,830,942	1,665,778	15,496,720
Total Net Position	\$ 35,559,605	\$ 1,900,403	\$ 37,460,008

The accompanying notes are an integral part of these financial statements

Henderson County School District
Government Wide Financial Statements - Statement of Activities
For the fiscal year ended June 30, 2013

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Instruction	\$ 42,921,092	\$ 84,181	\$ 16,407,906	\$ -	\$ (26,429,005)	\$ -	\$ (26,429,005)
Support services:							
Student	3,266,400	-	-	-	(3,266,400)	-	(3,266,400)
Instruction staff	3,261,115	-	-	-	(3,261,115)	-	(3,261,115)
District administrative	1,532,930	-	-	-	(1,532,930)	-	(1,532,930)
School administrative	3,730,124	-	-	-	(3,730,124)	-	(3,730,124)
Business	2,436,694	-	-	-	(2,436,694)	-	(2,436,694)
Plant operation and maintenance	5,779,329	-	-	-	(5,779,329)	-	(5,779,329)
Student transportation	4,460,041	-	-	-	(4,460,041)	-	(4,460,041)
Community service activities	582,739	-	-	-	(582,739)	-	(582,739)
Interest on long-term debt	818,771	-	-	-	(818,771)	-	(818,771)
Depreciation	3,114,270	-	-	-	(3,114,270)	-	(3,114,270)
Amortization loan cost	56,836	-	-	-	(56,836)	-	(56,836)
Transfers	5,717,996	-	-	-	(5,717,996)	-	(5,717,996)
Total Governmental Services	77,678,337	84,181	16,407,906	-	(61,186,250)	-	(61,186,250)
Business Type Activities:							
Food service	4,450,941	1,323,429	2,987,262	-	-	(140,250)	(140,250)
Other	1,087,560	960,666	133,723	-	-	6,829	6,829
Transfers	191,050	-	-	-	-	(191,050)	(191,050)
Total Business Activities	5,729,551	2,284,095	3,120,985	-	-	(324,471)	(324,471)
Total Primary Government	\$ 83,407,888	\$ 2,368,276	\$ 19,528,891	\$ -			\$ (61,510,721)
General Revenues:							
Taxes:							
					\$ 11,677,226	-	\$ 11,677,226
					2,023,260	-	2,023,260
					3,820,412	-	3,820,412
					456,581	-	456,581
					744,467	-	744,467
					148,793	7,706	156,499
					31,840,704	-	31,840,704
					1,053,123	-	1,053,123
					5,909,044	-	5,909,044
					(3,512,640)	(316,765)	(3,829,405)
					39,072,245	2,217,168	41,289,413
					\$ 35,559,605	\$ 1,900,403	\$ 37,460,008

The accompanying notes are an integral part of these financial statements

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

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS AND RESOURCES:</u>				
Cash and cash equivalents	\$ 23,262,916	\$ (1,522,510)	\$ 330,341	\$ 22,070,747
Accounts receivable:	.			
Taxes - current	133,552	-	-	133,552
Accounts receivable	35,119	-	-	35,119
Intergovernmental - State	-	2,544,738	-	2,544,738
Prepaid expenses	121,936	-	-	121,936
Total Assets and Resources	\$ 23,553,523	\$ 1,022,228	\$ 330,341	\$ 24,906,092
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Accounts payable	\$ 1,137,105	\$ 150,275	\$ 11,205	\$ 1,298,585
Accrued payroll and related expenses	988,379	124,825	-	1,113,204
Employee withholding taxes	-	-	-	-
Current portion of accumulated sick leave	138,927	-	-	138,927
Deferred revenue	-	1,646,437	-	1,646,437
Total Liabilities	2,264,411	1,921,537	11,205	4,197,153
<u>FUND BALANCES:</u>				
Nonspendable	121,936	-	-	121,936
Committed	641,795	-	-	641,795
Restricted	-	(899,309)	319,136	(580,173)
Assigned	5,909,207	-	-	5,909,207
Unassigned	14,616,174	-	-	14,616,174
Total Fund Balances	21,289,112	(899,309)	319,136	20,708,939
Total Liabilities and Fund Balances	\$ 23,553,523	\$ 1,022,228	\$ 330,341	\$ 24,906,092

The accompanying notes are an integral part of these financial statements

Henderson 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	\$ 20,708,939
Amounts reported for governmental activities in the statement of net position 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.	37,125,898
Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position, as follows:	
Long-term debt	(21,490,000)
Bond issue costs, net of accumulated amortization	480,384
Long-term portion sick leave accrual	(968,434)
Accrued interest payable on long-term debt	<u>(297,182)</u>
Net position for governmental activities	<u><u>\$ 35,559,605</u></u>

The accompanying notes are an integral part of these financial statements

Henderson County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the fiscal year ended June 30, 2013

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
REVENUES:				
From local sources				
Taxes				
Property	\$ 10,255,183	\$ -	\$ 1,422,043	\$ 11,677,226
Motor vehicle and watercraft	2,023,260	-	-	2,023,260
Utilities	3,820,412	-	-	3,820,412
Unmined minerals	456,581	-	-	456,581
Franchise	744,467	-	-	744,467
Tuition and fees	84,181	-	-	84,181
Earnings on investments	140,779	-	8,014	148,793
Other local revenues	985,428	67,695	-	1,053,123
Intergovernmental - intermediate	101,812	-	-	101,812
Intergovernmental - state	37,591,247	3,293,717	2,162,730	43,047,694
Intergovernmental - indirect federal	-	4,258,046	323,537	4,581,583
Intergovernmental - direct federal	352,487	165,034	-	517,521
	Total Revenues	7,784,492	3,916,324	68,256,653
EXPENDITURES:				
Instruction	37,006,784	6,588,545	-	43,595,329
Support services:				
Student	2,868,169	398,231	-	3,266,400
Instruction staff	2,408,566	852,549	-	3,261,115
District Administrative	1,340,746	192,184	-	1,532,930
School administrative	3,730,124	-	-	3,730,124
Business	2,436,694	-	-	2,436,694
Plant operation and maintenance	6,175,381	46,557	-	6,221,938
Student transportation	4,460,041	-	-	4,460,041
Facilities acquisition and construction	-	-	495,943	495,943
Community service activities	5,685	577,054	-	582,739
Debt service	-	-	4,840,428	4,840,428
	Total Expenditures	8,655,120	5,336,371	74,423,681
Excess (Deficit) of Revenues Over Expenditures	(3,876,353)	(870,628)	(1,420,047)	(6,167,028)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	2,720,263	102,010	3,086,771	5,909,044
Operating transfers out	(318,090)	(1,687)	(5,398,219)	(5,717,996)
Proceeds from refunding of bonds	-	-	2,260,000	2,260,000
	Total Other Financing Sources	100,323	(51,448)	2,451,048
Deficit of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses	(1,474,180)	(770,305)	(1,471,495)	(3,715,980)
Fund Balance, June 30, 2012	22,763,292	(129,004)	1,790,631	24,424,919
Fund Balance, June 30, 2013	\$ 21,289,112	\$ (899,309)	\$ 319,136	\$ 20,708,939

The accompanying notes are an integral part of these financial statements

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

Net change in total fund balances per fund financial statements	\$ (3,715,980)
Amounts reported for governmental activities in the statement of changes in net position 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 changes in net position and depreciated over their estimated economic lives. The difference is the amount by which depreciation plus loss on disposal of fixed assets expense exceeds capital outlays for the year.	(1,485,993)
Bond issue costs are reported as expenditures in the fund financial statement but are presented as assets in the statement of net position and amortized over the life of the bond issue.	38,355
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 financial position.	3,970,000
Bond issue proceeds, net of costs which are reported as other sources of funds in the fund financial statements, but is reflected as a liability in the statement of net position.	(2,260,000)
Generally, expenditures recognized in this fund statement are limited to only those that use current resources, but expenses are recognized in the statement of changes in net position when incurred.	<u>(59,022)</u>
Change in net position of governmental activities	<u><u>\$ (3,512,640)</u></u>

The accompanying notes are an integral part of these financial statements

Henderson County School District
Statement of Net Position - Proprietary Funds
June 30, 2013

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>ASSETS</u>				
Current Assets:				
Cash and cash equivalents	\$ 1,077,992	\$ 375,692	\$ 320	\$ 1,454,004
Inventory	112,300	-	-	112,300
Accounts receivable	235,508	3	-	235,511
Total Current Assets	1,425,800	375,695	320	1,801,815
Noncurrent Assets:				
Capital assets	1,424,317	47,516	-	1,471,833
Less: accumulated depreciation	(1,220,102)	(17,106)	-	(1,237,208)
Total Noncurrent Assets	204,215	30,410	-	234,625
Total Assets	\$ 1,630,015	\$ 406,105	\$ 320	\$ 2,036,440
<u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable	\$ 24,848	\$ 5,024	\$ -	\$ 29,872
Accrued payroll and related expenses	32,038	74,127	-	106,165
Total Current Liabilities	56,886	79,151	-	136,037
Net Position:				
Invested in capital assets	204,215	30,410	-	234,625
Unrestricted	1,368,914	296,544	320	1,665,458
Total Net Position	1,573,129	326,954	320	1,900,083
Total Liabilities and Net Position	\$ 1,630,015	\$ 406,105	\$ 320	\$ 2,036,120

The accompanying notes are an integral part of these financial statements

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

	Food Service Fund	Child Care Fund	Adult Education Fund	Total
<u>OPERATING REVENUES:</u>				
Lunchroom sales	\$ 1,312,406	\$ -	\$ -	\$ 1,312,406
Other operating revenues	11,023	960,666	-	971,689
Total Operating Revenues	1,323,429	960,666	-	2,284,095
<u>OPERATING EXPENSES:</u>				
Salaries and wages	1,294,418	717,322	-	2,011,740
Materials and supplies	2,293,701	34,041	-	2,327,742
Depreciation	58,066	1,901	-	59,967
Other operating expenses	804,756	334,296	-	1,139,052
Total Operating Expenses	4,450,941	1,087,560	-	5,538,501
Operating Loss	(3,127,512)	(126,894)	-	(3,254,406)
<u>NON-OPERATING REVENUES (EXPENSES):</u>				
Federal grants	2,484,139	-	-	2,484,139
Donated commodities	207,123	-	-	207,123
State grants	-	-	-	-
Other state	296,000	133,723	-	429,723
Interest income	7,706	-	-	7,706
Total Non-Operating Revenues	2,994,968	133,723	-	3,128,691
Net Position Before Other Financing Sources	(132,544)	6,829	-	(125,715)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in	-	-	-	-
Operating transfers out	(191,050)	-	-	(191,050)
Total Other Financing Sources	(191,050)	-	-	(191,050)
Change in net position	(323,594)	6,829	-	(316,765)
Net position , June 30, 2012	1,896,723	320,125	320	2,217,168
Net position , June 30, 2013	\$ 1,573,129	\$ 326,954	\$ 320	\$ 1,900,403

The accompanying notes are an integral part of these financial statements

Henderson County School District
Statement of Cash Flows - Proprietary Funds
For the fiscal year ended June 30, 2013

	<u>Food Service Fund</u>	<u>Child Care Fund</u>	<u>Adult Education Fund</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Cash receipts from :				
Lunchroom sales	\$ 1,126,046	\$ -	\$ -	\$ 1,126,046
Other activities	11,023	960,666	-	971,689
Cash payments for:				
Employees	(1,294,418)	(715,718)	-	(2,010,136)
Supplies	(2,314,423)	(34,041)	-	(2,348,464)
Other operating expenses	(605,194)	(337,952)	-	(943,146)
Net Cash Provided By Operating Activities	<u>(3,076,966)</u>	<u>(127,045)</u>	<u>-</u>	<u>\$ (3,204,011)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Purchases of capital assets	(26,731)	-	-	(26,731)
Net Cash Used By Capital And Related Financing Activities	<u>(26,731)</u>	<u>-</u>	<u>-</u>	<u>(26,731)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</u>				
Operating transfers out	(191,050)	-	-	(191,050)
Cash received for operating grants	2,780,139	133,723	-	2,913,862
Net Cash Provided By Non-Capital Financing Activities	<u>2,589,089</u>	<u>133,723</u>	<u>-</u>	<u>2,722,812</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Receipt of interest income	7,706	-	-	7,706
Net Cash Provided By Investing Activities	<u>7,706</u>	<u>-</u>	<u>-</u>	<u>7,706</u>
Net Increase (Decrease) In Cash And Cash Equivalents	(506,902)	6,678	-	(500,224)
Cash and Cash Equivalents, June 30, 2012	<u>1,584,894</u>	<u>369,014</u>	<u>320</u>	<u>1,954,228</u>
Cash and Cash Equivalents, June 30, 2013	<u>\$ 1,077,992</u>	<u>\$ 375,692</u>	<u>\$ 320</u>	<u>\$ 1,454,004</u>

The accompanying notes are an integral part of these financial statements

Henderson County School District
Statement of Cash Flows - Proprietary Funds, Continued
For the fiscal year ended June 30, 2013

	<u>Food Service Fund</u>	<u>Child Care Fund</u>	<u>Adult Education Fund</u>	<u>Total</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH USED</u>				
<u>IN OPERATING ACTIVITIES:</u>				
Operating income (loss)	\$ (3,127,512)	(126,894)	\$ -	\$ (3,254,406)
<u>ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH</u>				
<u>USED IN OPERATING ACTIVITIES:</u>				
Depreciation	58,066	1,901	-	59,967
Donated commodities	207,123	-	-	207,123
Changes in operating assets and liabilities				
Inventory	(10,028)	-	-	(10,028)
Accounts receivable	(186,360)	3	-	(186,357)
Accounts payable	(16,194)	(1,600)	-	(17,794)
Accrued expenses	(2,061)	(455)	-	(2,516)
Net Cash Provided (Used) In Operating Activities	<u>\$ (3,076,966)</u>	<u>\$ (127,045)</u>	<u>\$ -</u>	<u>\$ (3,204,011)</u>
<u>SCHEDULE OF NON-CASH FINANCING ACTIVITIES:</u>				
Donated commodities received from federal government	<u>\$ 207,123</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 207,123</u>

The accompanying notes are an integral part of these financial statements

Henderson County School District
Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2013

	Agency Fund
<u>ASSETS</u>	
Cash and cash equivalents	\$ 574,936
Accounts receivable	16,681
Total Assets	\$ 591,617
 <u>LIABILITIES</u>	
Accounts payable	\$ 24,618
Due to student groups	566,999
Net Liabilities	591,617
 Net Position	 \$ -

The accompanying notes are an integral part of these financial statements

Henderson County School District
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
June 30, 2013

	Agency Fund
Additions:	
Revenues from student activities	\$ 1,925,273
Deductions:	
Expenses for student activities	1,925,273
Changes in Net Position	-
Net Position, Beginning of Year	
Increase in Amount Due Student Groups	-
Net Position, End of Year	\$ -

The accompanying notes are an integral part of these financial statements

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Henderson 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 Henderson County Board of Education (“District”). The District receives funding from Local, State, and Federal Government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal members.

The District, for financial purposes, includes all the funds and account groups relevant to the operation of the Henderson County Board of Education. The financial statements presented herein do not include funds of groups or organizations, which although associated with the school system, have not originated with the Board itself such as band boosters, parent-teacher associations, etc.

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

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

Henderson County Board of Education Finance Corporation – In March, 1989, the Board of Education resolved to authorize the establishment of the Henderson 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) 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.

BASIS OF PRESENTATION

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

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of business-type activities of the District and for each function or program of the District’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. 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.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The District has the following funds:

I) Government Fund Types

- A) The General Fund is the main operating fund of the Board. 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.
- B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust 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 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 the report on page 41. 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 (KSPK) 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.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- D) Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, the payment of, general long-term debt principal and interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

- II) Proprietary Fund Types (Enterprise Fund)
 - A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program which is conducted in cooperation with the U. S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contributions of commodities from the USDA.
 - B) The Day Care Center Fund is used to account for all day care centers.
 - C) The Community Education Fund is used for adult education.
 - D) The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

- III) Fiduciary Fund Type (Agency and Private Purpose Trust Funds)
 - 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.

BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transaction, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

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

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

PROPERTY TAXES

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.517 per \$100 valuation for real property, \$.517 per \$100 valuation for business personal property and \$.548 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 furnishing, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural artificial and mixed gas.

CAPITAL ASSETS

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

INTER-FUND BALANCES

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

ACCUMULATED UNPAID SICK LEAVE BENEFITS

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

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

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid assured sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund.

BUDGETARY PROCESS

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Account 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).

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

CASH AND CASH EQUIVALENTS

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

INVENTORIES

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

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

The Food Service Fund uses the specific identification method.

PREPAID ASSETS

Payments made that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which the services are consumed.

ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

FUND BALANCES

In accordance with Governmental Accounting Standards No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions", the District classifies fund balances as follows:

Non-spendable- Includes fund balance amounts which are not in spendable form or because of legal or contractual requirements.

Restricted-Includes fund balance amounts that are constrained for a specific purpose which are externally imposed by providers, such as creditors, or due to constitutional provisions or enabling legislation.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Committed- Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority.

Assigned- Includes fund balance amounts that are to be used for a specific purpose that are neither considered to be restricted or committed, but rather assigned by the Deputy Superintendent of Finance or the Superintendent.

Unassigned- Includes positive fund balances within the General Fund which has not been classified in any of the above mentioned categories and negative fund balances in other governmental funds.

STATEMENT OF NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

OPERATING REVENUES AND EXPENSES

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

INTER-FUND ACTIVITIES

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

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American 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 general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

At year-end, the carrying amount of the District’s cash and cash equivalents was \$24,099,687. Of the total cash balance, \$250,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Investments held by the District at June 30, 2013, consisted of certificates of deposit with a maturity of more than 90 days.

Cash and cash equivalents consisted of the following as of June 30, 2013:

<u>Financial Institution:</u>	
Independence Bank	\$ 23,524,751
Independence Bank-Activity Funds	<u>574,936</u>
Totals	<u><u>\$ 24,099,687</u></u>
<u>Allocation per Financial Statements:</u>	
Governmental Funds	\$ 22,070,747
Business Type Funds	1,454,004
Agency Funds	<u>574,936</u>
Totals	<u><u>\$ 24,099,687</u></u>

Under Kentucky Revised Statutes Section 66.480, the District is authorized to invest in obligations of the United States and its agencies and instrumentalities, obligations and contracts backed by the full faith and credit of the United States or of its agencies, obligations or any corporation of the United States government, certificates of deposit, commercial paper rated in one of the three highest categories of nationally recognized rating agencies and shares in mutual funds.

Interest rate risk: The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk: State law limits the types of investments in which the District may invest its funds. The District believes it is in compliance with the law in this matter and has no investment policy that would further limit its investment choices.

Concentration of credit risk: The District places no limit on the amount it may invest in any one investment.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 3 – CAPITAL ASSETS

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

<u>GOVERNMENTAL ACTIVITIES:</u>	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Land	\$ 989,487	\$ -	\$ -	\$ 989,487
Land improvements	3,409,668	-	-	3,409,668
Building and improvements	69,326,295	-	-	69,326,295
Technology	5,011,544	757,335	(171,944)	5,596,935
Machinery and equipment	8,913,411	842,362	-	9,755,773
General equipment	1,872,204	30,099	-	1,902,303
Construction in progress	-	-	-	-
Totals at historical costs	89,522,609	1,629,796	(171,944)	90,980,461
Land improvements	(2,363,759)	(98,581)	-	(2,462,340)
Building and improvements	(36,432,838)	(2,004,594)	-	(38,437,432)
Technology	(3,695,704)	(544,569)	170,423	(4,069,850)
Machinery and equipment	(6,894,087)	(400,077)	-	(7,294,164)
General equipment	(1,522,807)	(67,970)	-	(1,590,777)
Less: accumulated depreciation	(50,909,195)	(3,115,791)	170,423	(53,854,563)
Governmental activities, net	\$ 38,613,414	\$ (1,485,995)	\$ (1,521)	\$ 37,125,898
<u>BUSINESS TYPE ACTIVITIES:</u>				
Buildings and improvements	\$ 47,516	\$ -	\$ -	\$ 47,516
Food service equipment	1,264,166	26,730	-	1,290,896
Technology equipment	137,773	-	(4,352)	133,421
Totals at historical costs	1,449,455	26,730	(4,352)	1,471,833
Buildings and improvements	(15,205)	(1,901)	-	(17,106)
Food service equipment	(1,056,107)	(44,814)	4,352	(1,096,569)
Technology equipment	(105,929)	(17,604)	-	(123,533)
Less: accumulated depreciation	(1,177,241)	(64,319)	4,352	(1,237,208)
Business type activities, net	\$ 272,214	\$ (37,589)	\$ -	\$ 234,625

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

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 4 – BONDED DEBT AND LEASE OBLIGATIONS

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

<u>Issue Date</u>	<u>Issue Name</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2003	1993 Bend Gate Refinancing	\$2,225,000	1.80 -3.35%	2013
2005	1995 Refinancing East Heights	1,830,000	2.45 -3.73%	2015
1999B	Henderson County High - Phase I	4,335,000	5.00 -5.40%	2019
2007	1999 Refinancing	4,095,000	3.50 -3.75%	2019
2011	2011 School Bld. Refunding Bonds	3,609,600	1.00-3.00%	2021
2011	School Building Revenue Bonds, Series of 2011	1,810,000	1.00-5.00%	2021
2004	South Middle School	1,095,000	3.25 -5.00%	2024
2004	Henderson County High School, Tennis Courts School Building Refund Revenue Bonds Series	1,790,000	1.50 -4.40%	2024
2009	2009-North Middle School and South Middle School	4,505,000	2.00- 3.60%	2024
2011	School Building Refund Revenue Bonds BAB Series 2010	8,380,000	1.00-6.00%	2030
2012	2004 Refinancing	2,260,000	.70%-2.0%	2024

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 Henderson County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds the District entered into “participation agreements” with the School Facility 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 statement.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming they 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:

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 5 – LONG-TERM LIABILITIES

Maturities of Long-Term Debt are as follows for the year ended June 30, 2013:

Fiscal Year	Henderson County School District		Kentucky School Facility Construction Commission		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012-13	\$ 1,452,250	\$ 706,943	\$ 442,723	\$ 180,258	\$ 1,894,973	\$ 887,202
2013-14	1,357,369	665,170	407,631	170,074	1,765,000	835,244
2014-15	1,261,271	620,656	398,729	158,917	1,660,000	779,573
2015-16	1,272,757	579,344	407,243	147,256	1,680,000	726,601
2016-17	1,498,129	535,347	421,871	134,507	1,920,000	669,854
2017-18	1,581,161	483,948	358,839	119,686	1,940,000	603,634
2018-19	1,335,317	426,865	369,683	105,508	1,705,000	532,373
2019-20	878,973	382,343	381,054	90,075	1,260,027	472,418
2020-21	659,306	344,329	205,694	73,800	865,000	418,129
2021-22	682,331	312,146	212,669	62,328	895,000	374,474
2022-23	691,150	277,703	218,850	50,223	910,000	327,926
2023-24	616,004	242,338	98,996	38,807	715,000	281,145
2024-25	644,608	211,621	100,392	33,737	745,000	245,358
2025-26	662,244	179,246	107,756	28,315	770,000	207,561
2026-27	689,463	144,636	110,537	22,458	800,000	167,094
2027-28	710,539	107,874	119,461	16,180	830,000	124,054
2028-29	737,732	86,720	97,268	12,346	835,000	99,066
2029-30	145,000	9,669	-	-	145,000	9,669
2030-31	155,000	3,294	-	-	155,000	3,294
Totals	\$ 17,030,604	\$ 6,320,189	\$ 4,459,396	\$ 1,444,476	\$ 21,490,000	\$ 7,764,665

A summary of changes in long-term debt is as follows:

	Balance June 30, 2012	Additions	Deductions	Balance June 30, 2013	Due Within One Year
<u>Governmental Activities:</u>					
Long-term debt- School Building Revenue Bonds	\$ 23,399,546	2,260,000	(4,169,546)	\$ 21,490,000	\$ 1,894,973
<u>Compensated Absence:</u>					
Accrued Sick Leave	1,077,499	29,862	-	1,107,361	138,927
Total Long-Term Liabilities	\$ 24,477,045	\$ 2,289,862	\$ (4,169,546)	\$ 22,597,361	\$ 2,033,900

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 6 – ACCRUED SICK LEAVE

In accordance with generally accepted governmental accounting principles, the District has recorded accrued sick leave as a liability in the District-wide statement of net position since the majority of these liabilities are not expected to be liquidated with expendable available financial resources. Accrued sick leave, which has no maximum accumulation, is payable upon retirement at 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

Compensated absences are generally liquidated by the General Fund.

NOTE 7-FUND BALANCES

The following is a summary of fund balances for the fiscal year ended June 30, 2013:

	General Fund	Special Revenue	Construction Fund	FSPK Fund	SBEK Capital Outlay Fund	Debt Service	Totals
<u>NON-SPENDABLE:</u>							
Prepaid expenses	\$ 121,936	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,936
<u>COMMITTED:</u>							
Sick leave	641,795	-	-	-	-	-	641,795
<u>ASSIGNED:</u>							
State Revenue Shortfall	1,607,000	-	-	-	-	-	1,607,000
Future technology	429,000	-	-	-	-	-	429,000
Future bus purchases	643,000	-	-	-	-	-	643,000
Future HVAC repairs	643,000	-	-	-	-	-	643,000
Roof repairs	536,000	-	-	-	-	-	536,000
Preschool start up costs	1,072,000	-	-	-	-	-	1,072,000
Purchase obligations	979,207	-	-	-	-	-	979,207
Total Assigned	5,909,207	-	-	-	-	-	5,909,207
<u>RESTRICTED:</u>							
Special Programs	-	(899,309)	-	-	-	-	(899,309)
Debt Service	-	-	-	-	-	(11,205)	(11,205)
Construction	-	-	97,960	175,459	56,922	-	330,341
Total Restricted	-	(899,309)	97,960	175,459	56,922	(11,205)	(580,173)
Unassigned	14,616,174	-	-	-	-	-	14,616,174
Total Fund Balances	\$ 21,289,112	\$ (899,309)	\$ 97,960	\$ 175,459	\$ 56,922	\$ -	\$ 20,708,939

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 8 – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (“KTRS”). Funding for the Plan is provided through payroll withholding of 10.855% for employees hired after July 2008, and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program. The board is required to match all non-federally funded employees at 1.00%.

Substantially all other employees (classified personnel) are covered under the County Employee’s Retirement System (“CERS”), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholding of 6% for employees hired after September 2008, and a Board contribution of 19.55% of the employee’s total compensation subject to contribution.

The Board’s total payroll for the year was \$43,756,190. The payroll for employees covered under KTRS was \$32,909,985 and for CERS was \$ 9,706,306.

The contribution requirement for CERS for the year ended June 30, 2013, was \$2,399,332 which consisted of \$1,893,530 from the Board and \$505,802 from the employees. Contributions for the years ended June 30, 2012, and June 30, 2011, were \$1,907,384 and \$2,075,364 respectively.

The contribution requirement for KTRS for the year ended June 30, 2013, was \$4,275,060 which consisted of \$703,422 from the Board and \$3,571,638 from the employees. Contributions for the years ended June 30, 2012 and June 30, 2011, were \$3,749,728 and \$3,647,139 respectively.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers.

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(b), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amounts allowable by law. The District does not contribute to these plans.

Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013

NOTE 9 – 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 refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and reimbursed disbursement, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

In addition, the District operates in a heavily regulated environment. The operations of the District are subject to the administrative directives, rules and regulations of federal and state regulatory agencies, including, but not limited to, the U. S. Department of Education and the Kentucky Department of Education. Such administrative directives, rules and regulations are subject to change by an act of Congress or the Kentucky Legislature or an administrative change mandated by the Kentucky Department of Education. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

NOTE 10– INSURANCE AND RELATED ACTIVITIES

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

NOTE 11– RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro-rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Funds; 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.

**Henderson County School District
Notes to the Basic Financial Statements
June 30, 2013**

NOTE 12 – COBRA

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

NOTE 13 – TRANSFER OF FUNDS

The following transfers were made during the year:

<u>From:</u>	<u>To:</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue Fund	KETS matching payment	\$ 102,010
General Fund	Construction Fund	Operating Transfer	216,080
Special Revenue Fund	General Fund	Indirect Costs	1,687
SEEK	Construction Fund	Operating Transfer	227,196
SEEK	General Fund	Operating Transfer	2,021,000
FSPK	Debt Service	Debt Service	2,132,248
FSPK	General Fund	Operating Transfer	500,000
Construction Fund	General Fund	Operating Transfer	6,527
Construction Fund	SEEK	Operating Transfer	187,710
Debt Service Fund	FSPK	Operating Transfer	323,536
Child Nutrition	General Fund	Indirect Costs	191,050
		Totals	<u><u>\$ 5,909,044</u></u>

NOTE 14 – ON-BEHALF PAYMENTS

For the year ended June 30, 2013, total payments of \$11,198,580 were made for life insurance, health insurance, Kentucky Teachers Retirement System (“KTRS”) matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities and on the statement of revenues, expenditures and changes in fund balances. These revenues and expenditures are not budgeted by the District.

NOTE 15 – SUBSEQUENT EVENTS

In accordance with ASC 855, subsequent events were evaluated through September 10, 2013, the date these financial statements were issued. There were no subsequent events that required recognition or additional disclosure in these financial statements.

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

	<u>BUDGETED AMOUNTS</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES:</u>				
From local sources				
Taxes				
Property	\$ 10,248,937	\$ 10,248,937	\$ 10,255,183	\$ 6,246
Motor vehicle and watercraft	1,712,000	1,712,000	2,023,260	311,260
Utilities	3,400,000	3,400,000	3,820,412	420,412
Unmined minerals	240,000	240,000	456,581	216,581
Franchise	510,000	510,000	744,467	234,467
Tuition and fees	85,000	85,000	84,181	(819)
Earnings on investments	100,000	100,000	140,779	40,779
Other local revenues	189,000	189,000	985,428	796,428
Intergovernmental - intermediate	73,700	73,700	101,812	28,112
Intergovernmental - state	26,672,286	26,672,286	37,591,247	10,918,961
Intergovernmental - direct federal	-	-	-	-
Intergovernmental - indirect federal	90,000	90,000	352,487	262,487
Total Revenues	43,320,923	43,320,923	56,555,837	13,234,914
<u>EXPENDITURES:</u>				
Instruction	28,098,648	28,098,648	37,006,784	(8,908,136)
Support services:				
Student	2,255,786	2,255,786	2,868,169	(612,383)
Instruction staff	1,999,180	1,999,180	2,408,566	(409,386)
District administrative	999,841	999,841	1,340,746	(340,905)
School administrative	3,056,234	3,056,234	3,730,124	(673,890)
Business	1,437,588	1,437,588	2,436,694	(999,106)
Plant operation & maintenance	5,638,558	5,638,558	6,175,381	(536,823)
Student transportation	3,785,493	3,785,493	4,460,041	(674,548)
Facilities acquisition and construction	135,000	135,000	-	135,000
Contingency	12,052,150	12,052,150	5,685	12,046,465
Total Expenditures	59,458,478	59,458,478	60,432,190	(973,712)
Deficit of Revenues Over Expenditures	(16,137,555)	(16,137,555)	(3,876,353)	12,261,202
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in	2,714,583	169,337	2,720,263	2,550,926
Operating transfers out	(152,000)	(152,000)	(318,090)	(166,090)
Total Other Financing Sources	2,562,583	17,337	2,402,173	2,384,836
Deficit of Revenues And Other Financing Sources Over Expenditures And Other Financing Uses	(13,574,972)	(16,120,218)	(1,474,180)	14,646,038
Fund balance, June 30, 2012	17,369,461	17,369,461	22,763,292	5,393,831
Fund balance, June 30, 2013	\$ 3,794,489	\$ 1,249,243	\$ 21,289,112	\$ 20,039,869

Henderson County School District
Combining Balance Sheet - Non-major Governmental Funds
As of June 30, 2013

	<u>Construction Fund</u>	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS AND RESOURCES:</u>					
Cash and cash equivalents	\$ 97,960	\$ 175,459	\$ 56,922	\$ -	\$ 330,341
Accounts receivable					-
Taxes - current	-	-	-	-	-
Taxes - delinquent	-	-	-	-	-
Total Assets and Resources	\$ 97,960	\$ 175,459	\$ 56,922	\$ -	\$ 330,341
<u>LIABILITIES:</u>					
Accounts payable	\$ -	\$ -	\$ -	\$ 11,205	\$ 11,205
Accrued payroll and related expenses	-	-	-	-	-
Current portion of accumulated sick leave	-	-	-	-	-
Deferred income	-	-	-	-	-
Total Liabilities	\$ -	\$ -	\$ -	\$ 11,205	\$ 11,205
<u>FUND BALANCES:</u>					
Nonspendable	-	-	-	-	-
Committed	-	-	-	-	-
Restricted	97,960	175,459	56,922	(11,205)	319,136
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total Fund Balances	97,960	175,459	56,922	(11,205)	319,136
Total Liabilities and Fund Balances	\$ 97,960	\$ 175,459	\$ 56,922	\$ -	\$ 330,341

Henderson County School District
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-major Governmental Funds
For the fiscal year ended June 30, 2013

	<u>Construction Fund</u>	<u>FSPK Fund</u>	<u>SEEK Capital Outlay Fund</u>	<u>Debt Service Fund</u>	<u>Total Non-major Governmental Funds</u>
REVENUES:					
From local sources:					
Taxes:					
Property	\$ -	\$ 1,422,043	\$ -	\$ -	\$ 1,422,043
Earnings on investments	-	827	7,187	-	8,014
Intergovernmental - State	-	928,319	648,376	586,035	2,162,730
Intergovernmental - Federal	-	-	-	323,537	323,537
Total Revenues	<u>\$ -</u>	<u>\$ 2,351,189</u>	<u>\$ 655,563</u>	<u>\$ 909,572</u>	<u>\$ 3,916,324</u>
EXPENDITURES:					
Facilities and construction	346,883	-	-	149,060	495,943
Debt service	-	-	-	4,840,428	4,840,428
Total Expenditures	<u>346,883</u>	<u>-</u>	<u>-</u>	<u>4,989,488</u>	<u>5,336,371</u>
Excess (Deficit) of Revenues Over Expenditures	<u>(346,883)</u>	<u>2,351,189</u>	<u>655,563</u>	<u>(4,079,916)</u>	<u>(1,420,047)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	443,276	323,537	187,710	2,132,248	3,086,771
Operating transfers out	(194,238)	(2,632,248)	(2,248,196)	(323,537)	(5,398,219)
Bond proceeds-refunding	-	-	-	2,260,000	2,260,000
Total Other Financing Sources (Uses)	<u>249,038</u>	<u>(2,308,711)</u>	<u>(2,060,486)</u>	<u>4,068,711</u>	<u>(51,448)</u>
Excess (Deficit) of Revenues And Other Financing Sources Over Expenditures And Other Financing Sources (Uses)	<u>(97,845)</u>	<u>42,478</u>	<u>(1,404,923)</u>	<u>(11,205)</u>	<u>(1,471,495)</u>
Fund balance, June 30, 2012	<u>195,805</u>	<u>132,981</u>	<u>1,461,845</u>	<u>-</u>	<u>1,790,631</u>
Fund balance, June 30, 2013	<u>\$ 97,960</u>	<u>\$ 175,459</u>	<u>\$ 56,922</u>	<u>\$ (11,205)</u>	<u>\$ 319,136</u>

Henderson County School District
Statement of Receipts, Disbursements and Fund Balance – Elementary and Middle Schools - Activity Funds
For the fiscal year ended June 30, 2013

	<u>Cash Balance</u> <u>July 1, 2012</u>	<u>Receipts</u> <u>For Year</u>	<u>Disbursements</u> <u>For Year</u>	<u>Cash Balance</u> <u>June 30, 2013</u>	<u>Accounts</u> <u>Receivable</u>	<u>Accounts</u> <u>Payable</u>	<u>Fund Balance</u> <u>June 30, 2013</u>
<u>SCHOOL ACTIVITY FUNDS:</u>							
Bend Gate Elementary	\$ 19,042	\$ 28,995	\$ 34,411	\$ 13,626	-	-	\$ 13,626
Cairo Elementary	14,188	15,162	19,778	9,572	-	-	9,572
Central Learning Center	4,477	13,292	17,234	535	-	-	535
Chandler Elementary	12,165	44,318	41,504	14,979	-	-	14,979
East Heights Elementary	12,267	63,540	61,625	14,182	-	-	14,182
Jefferson Elementary	17,672	17,723	18,334	17,061	-	-	17,061
Niagara Elementary	12,311	27,771	25,295	14,787	-	-	14,787
South Heights Elementary	7,082	49,027	44,370	11,739	-	-	11,739
Spottsville Elementary	6,375	31,933	29,105	9,203	-	-	9,203
North Middle School	50,904	185,247	188,566	47,585	-	-	47,585
South Middle School	13,337	287,779	259,580	41,536	1,623	6,954	36,205
Totals	\$ 169,820	\$ 764,787	\$ 739,802	\$ 194,805	\$ 1,623	\$ 6,954	\$ 189,474

Henderson County School District
Statement of Receipts, Disbursements and Fund Balance – Henderson County High School - Activity Funds
For the fiscal year ended June 30, 2013

	Balance July 1, 2012	Receipts For Year	Disbursements For Year	Cash Balance June 30, 2013	Accounts Receivable	Accounts Payable	Fund Balance June 30, 2013
ACCOUNTS:							
Henderson County High School:							
Art	\$ 121	\$ 9	\$ -	\$ 130	\$ -	\$ -	\$ 130
Athletic	5,204	165,885	170,327	762	-	15,116	(14,354)
Athletic Booster Club	-	-	-	-	-	-	-
Archery Building Fund	13,180	12,250	25,430	-	-	-	-
Band	1,283	2,007	2,983	307	-	-	307
Bookstore	5,678	12,422	11,177	6,923	2,806	-	9,729
Clubs	202,466	721,549	706,576	217,439	-	2,548	214,891
General Fund	12,692	72,036	74,264	10,464	11,016	-	21,480
Industrial Technology	4,964	4,874	4,644	5,194	-	-	5,194
Media	62,627	28,396	23,211	67,812	-	-	67,812
Memorial Funds	4,349	2,250	2,250	4,349	-	-	4,349
Lunchroom Charges	-	10	10	-	-	-	-
School Concessions	8,580	35,015	34,460	9,135	-	-	9,135
Supplies	9,043	62,493	54,413	17,123	-	-	17,123
Speech and Drama	3,446	5,379	3,228	5,597	-	-	5,597
Student Council	373	700	791	282	-	-	282
Textbooks	11,986	18,530	6,785	23,731	1,236	-	24,967
Teachers Dual Credit Fund	331	-	-	331	-	-	331
Certificate of Deposit	11,302	-	750	10,552	-	-	10,552
Totals	\$ 357,625	\$ 1,143,805	\$ 1,121,299	\$ 380,131	\$ 15,058	\$ 17,664	\$ 377,525



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

Members of the Board of Education of the
Henderson County School District
Henderson, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Henderson County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of the Henderson County School District's major federal programs for the year ended June 30, 2013. The Henderson County School District's major federal programs are identified in the Summary of the Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility:

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Henderson 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 statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of ; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits. These 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 the Henderson County School District's compliance with these requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Internal Control Over Compliance

The management of the Henderson County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit, we considered the Henderson County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Henderson 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 control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be considered to be deficiencies, significant deficiencies, or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

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

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the remaining aggregate fund information of the Henderson County School District for the year ended June 30, 2013, and the related notes to the financial statements. We issued our report dated September 10, 2013, which contained unqualified opinions on these financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by *OMB Circular A-133* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Purpose:

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

A handwritten signature in cursive script that reads "Myriad CPA Group, LLC".

Myriad CPA Group, LLC
September 10, 2013



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

Members of the Board of Education
Henderson County School District
Henderson, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the *Kentucky Public School Districts' Audit Contract and Requirements* prescribed by the Kentucky State Committee for School District Audits, the financial statements of the governmental activities and the business type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the Henderson County School District as of and for the year ended June 30, 2013, and have issued our report thereon dated September 10, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 and significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be a significant deficiency [Item 2013-1].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henderson 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 *Appendix II to the Independent Auditors' Contract-State Audit Requirements*.

We also noted certain other matters that we reported to management of the Board in a separate letter dated September 10, 2013.

Response to Findings:

The Board's response to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Board's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Myriad Co Group, LLC

Henderson, Kentucky
September 10, 2013

**Henderson County School District
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2013**

Federal Grant/Pass Through Grantor/ Program Number Passed Through the Commonwealth of Kentucky Department of Education:	Federal CFDA No.	Pass Through Identifying Number	Federal Expenditures
United States Department of Agriculture:			
Summer Food Service Program for Children	10.559	7740023	\$ 62,901
Summer Food Service Program for Children	10.559	7690024	6,497
Subtotal- Summer Food Service Program for Children			69,398
Child and Adult Care Food Program	10.558	7790021	42,730
Child and Adult Care Food Program	10.558	7800016	2,132
Subtotal-Child and Adult Care Food Program			44,862
National School Lunch Program	10.555	7750002	1,790,156
School Breakfast Program	10.553	7760005	614,633
Fresh Fruit and Vegetable Program	10.582	7720012	15,812
Commodities Supplemental Food Program	10.565	N/A	207,123
Total United States Department of Agriculture			2,741,984
United States Department of Defense	12.000		98,648
United States Department of Education:			
Title 1	84.010	3100002-11	603,791
Title 1	84.010	3100002-12	1,142,568
Title 1	84.010	3100202-10	1,813
Title 1	84.010	3100202-11	53,678
Title 1	84.010	3100202-12	111,280
Subtotal Title 1			1,913,130
Migrant Education	84.011	3110002-11	13,708
Migrant Education	84.011	3110002-12	50,368
Subtotal Migrant Education			64,076
Special Education Grants to States (IDEA)	84.027	3810002-11	1,009,026
Career and Technical Education	84.048	4621132-10	3,911
Career and Technical Education	84.048	4621232-11	24,102
Career and Technical Education	84.048	4621332-12	16,543
Career and Technical Education	84.048	4621310-13	7,180
Career and Technical Education	84.048	4621232-11	3,119
Career and Technical Education	84.048	4621332-13	92,840
Subtotal Career and Technical Education			147,695

<u>Federal Grant/Pass Through Grantor/ Program Number</u>	<u>Federal CFDA No.</u>	<u>Pass Through Identifying Number</u>	<u>Federal Expenditures</u>
Education for Homeless Children and Youth	84.196	3990002-11	6,405
Education for Homeless Children and Youth	84.196	3990002-12	47,210
Subtotal- Education for Homeless Children and Youth			53,615
Idea Part B- Preschool	84.173	3800002-11	10,843
Idea Part B- Preschool	84.173	3800002-12	57,732
Subtotal Idea Part B- Preschool			68,575
Title II-Part B- Education Technology	84.318	3210002-12	1,601
21st Century Community Learning Centers	84.287	3400002-10	220,788
21st Century Community Learning Centers	84.287	3400002-11	377,540
Subtotal 21st Century Community Learning Centers			598,328
Title III-LEP	84.365	3300002-10	387
Title III-LEP	84.365	3300002-11	17,312
Title III-LEP	84.365	3300002-12	10,851
Subtotal- Title III-LEP			28,550
School Improvement Grants (ARRA)	84.388	4100302-09	60,747
Title II- Improving Teacher Quality	84.367	3230002-11	127,706
Title II- Improving Teacher Quality	84.367	3230002-12	242,602
Subtotal-Title II- Improving Teacher Quality			370,308
Education Jobs Fund	84.410	EJOB	10,646
Race to the Top	84.413	3960002-11	30,101
Total Department of Education			4,356,398
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	2000001-12	150
Total Federal Awards Expended			\$ 7,197,180

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

Note 1 Basis of Presentation:

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

Note 2 Commodities Donation:

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

Note 3 Program Clusters:

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

<u>Federal Grant/Pass Through Grantor/ Program Number</u>	<u>Federal CFDA No.</u>	<u>Pass Through Identifying Number</u>	<u>Federal Expenditures</u>
Passed Through the Commonwealth of Kentucky Department of Education:			
United States Department of Agriculture:			
Summer Food Service Program for Children	10.559	7740023	\$ 62,901
Summer Food Service Program for Children	10.559	7690024	6,497
Subtotal- Summer Food Service Program for Children			<u>69,398</u>
Child and Adult Care Food Program	10.558	7790021	42,730
Child and Adult Care Food Program	10.558	7800016	2,132
Subtotal-Child and Adult Care Food Program			<u>44,862</u>
National School Lunch Program	10.555	7750002	1,790,156
School Breakfast Program	10.553	7760005	614,633
Fresh Fruit and Vegetable Program	10.582	7720012	15,812
Commodities Supplemental Food Program	10.565	N/A	207,123
Total United States Department of Agriculture			<u>2,741,984</u>

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

I. Summary of Audit Results:

		<u>Results</u>
a.	Type of report issued on financial statements.	Unmodified
b.	Internal control over financial reporting:	
	* Material weakness identified?	None Reported
	* Significant deficiencies identified that are not considered to be material weaknesses?	Yes
c.	Non-compliance material to financial statements noted?	None Reported
d.	Internal control over major programs:	
	* Material weakness identified?	None Reported
	* Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
e.	Type of auditors report issued on compliance for major programs?	Unmodified
f.	Any audit findings that are required to be reported in accordance with 510 (a) of Circular A-133?	None Reported
g.	Identification of major programs:	
	United States Department of Agriculture Cluster(10.553,10.555,10.558,10.559,10.582, and 10.565)	\$ 2,741,984
	21st Century Community Learning Centers 84.287	\$ 598,328
	Title II- Improving Teacher Quality 84.367	\$ 370,308
h.	Dollar threshold used to distinguish between Type A and Type B Programs.	\$ 300,000
i.	Does the Henderson County School District qualify as a low risk auditee?	Yes

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

2013-01 Enhancement of Monitoring and Related Controls Over Vending Machines:

Condition:

A review of the controls and related processes for monitoring and reporting vending machine activity was noted that a machine at one location did not have the appropriate controls in place to adequately ensure all cash generated by the machine was properly accounted for, nor was access limited to the machine as several individuals had access to the key to access it.

Criteria:

The risk related to this condition is that funds generated from the vending machines could possibly be removed and diverted to other uses and the diversion of funds would not be detected.

Cause:

Employees at this location did not follow recommended procedures for accounting for funds generated from the vending machine .

Effect:

Risk is present that funds could be misappropriated and not detected within a timely period.

Recommendation:

Management should consider development of a basic report that reports sales, purchases, and inventory levels on a monthly basis for all vending machines. Such a report could easily be prepared using Excel. This report should be reviewed by a member of the finance office each month. Ideally, consideration should be given to going to a commission based system where the vendor assumes all responsibility for the machine and remits a commission on sales to the District on a monthly basis.

Management Response:

Management concurs with this recommendation and will be implementing procedures at the location in question to strengthen accountability over vending receipts. Consideration will also be given to going to a commission based system.

Questioned costs:

No question costs were noted as a result of this condition.

Corrective Action:

Management will immediately implement corrective measures via improved monitoring and reiterate to each school/location that prescribed policies and controls will be adhered to by staff.

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

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

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

2012-01 Performance of Annual Fixed Asset Inventory:

Condition:

It was noted from inquiry of the finance director that an annual fixed asset inventory had not been performed for several years.

Criteria:

The risk related to this condition is that assets could possibly be removed and diverted to other uses and would not be detected.

Cause:

Management had no standard policy or procedure in place to require that an annual fixed asset inventory be performed.

Effect:

Risk is present that assets could be misappropriated and not detected within a timely period.

Recommendation:

Management should consider conducting a fixed asset inventory on a regular annual basis as a method of monitoring fixed assets and equipment.

Management Response:

Management concurs with this recommendation and will be scheduling a fixed asset inventory in the near future.

Questioned costs:

No question costs were noted as a result of this condition.

Corrective Action:

Management performed a fixed asset inventory for the year ended June 30, 2013, over significant items.