

**SCIENCE HILL INDEPENDENT
SCHOOL DISTRICT**

AUDITED FINANCIAL STATEMENTS

for the year ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
Members of the Board of Education
Science Hill Independent Schools
Science Hill, Kentucky 42553

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in 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 - Electronic Submission. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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, I 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. I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position and,

financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages three and four and 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 28, 2013 on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Barry D. Daulton, CPA, PSC

Somerset, Kentucky

October 28, 2013

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
For the year ended June 30, 2013
(Unaudited)

Management of the Science Hill Independent School District (District) provides to readers and users of the accompanying financial statements an analysis and overview presentation of the Board's financial activities for the year ended June 30, 2013. Readers and users are encouraged to consider the information presented herein in conjunction with the audited financial statements and supplementary information contained within this report.

Financial Highlights

The beginning unreserved general fund balance for the District was \$ 561,444.

The District's outstanding debt is \$4,099,092 including both principal and interest at the end of fiscal year 2013.

The majority of district revenues were derived from state sources (76.3%). Regular instruction, student support services, instructional support services and school and district administration account for 76.1% of the District's expenditures. The District's remaining expenditures include pupil transportation (4%), maintenance and operations (7.3%) and debt service (7.6%).

The District's unrestricted operating fund (General Fund) had \$2,653,165 in revenues, excluding on-behalf payments from the Commonwealth. Those revenues consist mainly of ad valorem taxes, SEEK funding and utility tax receipts.

District-Wide Financial Statements

The accompanying district-wide financial statements are designed to provide readers and users with a generally broad descriptive overview of the Board's financial activities. The statements are similar in nature to private-sector (non-governmental) statements.

The Statement of Net Position contains information on all Board assets and liabilities. The difference between these two amounts is reported as net position. When considered historically, increases or decreases in net position may provide a general indication of overall improvement or deterioration of the District's financial condition. Net position reflects the District's investment in capital assets (land, buildings, improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to students and are not available for future spending. Because the capital assets themselves cannot be used to liquidate the related liabilities, the resources needed to repay the debt must be provided from other sources.

In the Statement of Activities, changes in net position for the most recent fiscal year are presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Outlined in these financial statements are functions of the Board which are supported by local taxation and governmental activities. Governmental activities include, but are not limited to, instruction, support services, plant operation and maintenance and student transportation. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

Fund Financial Statements

Fund financial statements present a related group of accounts which maintain resources for a specific activity or objective. The MUNIS system is a mandated uniform system and chart of accounts used by all Kentucky public school districts. Use of fund accounting ensures compliance with finance-related statutory requirements. Board funds are separated into three categories; governmental, proprietary and fiduciary. Fiduciary (or trust) funds, commonly known as activity funds, aid in student education and support. Fiduciary funds are support by outside activities such as fund-raising and ticket sales. The district has no proprietary funds other than food service operations. Governmental funds report all other Board activities.

Notes to Financial Statements

Additional information necessary to better understand the district-wide financial statements is presented in the notes to financial statements on pages 18 through 27.

	<u>Condensed Comparative Data</u>	
	<u>FY 2013</u>	<u>FY 2012</u>
General fund revenues	\$ 3,298,055	\$ 3,223,405
General fund expenses	3,301,814	3,195,766
Cash (district-wide)	634,347	584,054
Land, building and fixed assets, net	5,637,735	5,821,010
Bond obligations	4,099,092	4,393,251
Fund balance	653,886	561,444

Financial Management

Interested readers and users, taxpayers, citizens and creditors are encouraged to contact Board administration with questions regarding this report or requests for additional information. The comments should be directed to Rick E. Walker, Superintendent or Mary Lois Wesley, Director of Business Operations at (606) 423-3341. The District mailing address is 6007 North Highway 27, Science Hill, Kentucky 42553.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - DISTRICT WIDE
June 30, 2013

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Cash and cash equivalents	\$ 626,918	\$ 7,429	\$ 634,347
Accounts receivable	33,690	14,057	47,747
Inventories for consumption		11,434	11,434
Capital assets:			
Land	51,625	-	51,625
Land improvements	274,355	-	274,355
Other capital assets, net of depreciation	5,146,962	164,793	5,311,755
TOTAL ASSETS	\$ 6,133,550	\$ 197,713	\$ 6,331,263
LIABILITIES			
Short-term liabilities			
Accounts payable	\$ 6,725	\$ -	\$ 6,725
Long-term liabilities			
Due or payable within one year			
Bond obligations	184,281	-	184,281
Due or payable after one year			
Bond obligations	2,967,758	-	2,967,758
TOTAL LIABILITIES	3,158,764	-	3,158,764
NET POSITION			
Net investment in capital assets	2,320,903	164,793	2,485,696
Nonspendable			
Assigned for accrued sick leave	99,259	-	99,259
Spendable - unassigned	554,624		554,624
Unrestricted	-	32,920	32,920
TOTAL NET POSITION	\$ 2,974,786	\$ 197,713	\$ 3,172,499

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
for the year ended June 30, 2013

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
Governmental activities							
Instructional	\$ 2,297,561		\$ 270,377		\$ (2,027,184)		\$ (2,027,184)
Student support services	149,522		59,543		(89,979)		(89,979)
Staff support services	93,548		1,023		(92,525)		(92,525)
District administration	268,156				(268,156)		(268,156)
School administration	78,972				(78,972)		(78,972)
Business support services	70,393		11,938		(58,455)		(58,455)
Plant operation and maintenance	376,732				(376,732)		(376,732)
Student transportation	167,857				(167,857)		(167,857)
Community service			37,746		37,746		37,746
Debt service	7,484			826,835	819,351		819,351
Total governmental activities	3,510,225		380,627	826,835	(2,302,763)		(2,302,763)
Business-type activities							
Food service	336,055	110,553	216,615	-	-	(8,887)	(8,887)
Total business-type activities	336,055	110,553	216,615	-	-	(8,887)	(8,887)
Total school district	\$ 3,846,280	\$ 110,553	\$ 597,242	\$ 826,835	\$ (2,302,763)	(8,887)	(2,311,650)
General revenues:							
Taxes							
State aid - formula grants					553,969		553,969
Investment earnings					2,670,980		2,670,980
Miscellaneous					8,627		8,627
Total general and special revenues					227,311	(12,884)	214,427
Change in net assets					3,460,887	(12,884)	3,448,003
Net position - July 1, 2012					1,158,124	(21,771)	1,136,353
Net position - June 30, 2013					1,816,662	219,484	2,036,146
					\$ 2,974,786	\$ 197,713	\$ 3,172,499

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013**

	<u>GENERAL FUND</u>	<u>SPECIAL REVENUE</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and cash equivalents	\$ 626,918	\$ -	\$ -	\$ 626,918
Accounts receivable	33,690	-	-	33,690
TOTAL ASSETS	<u>\$ 660,608</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 660,608</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	6,725	-	-	6,725
TOTAL LIABILITIES	6,725	-	-	6,725
FUND BALANCE				
Restricted for:				
Accrued sick leave	99,259	-	-	99,259
Unassigned	554,624	-	-	554,624
TOTAL FUND BALANCES	<u>653,883</u>	<u>-</u>	<u>-</u>	<u>653,883</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 660,608</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 660,608</u>

The accompanying notes are an integral part of these statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE DISTRICT-WIDE STATEMENT OF NET POSITION
June 30, 2013**

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:

Total governmental fund balance		\$ 653,883
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets	8,037,578	
Accumulated depreciation	<u>(2,564,636)</u>	5,472,942
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long term liabilities at year end consist of:		
Bonds payable		<u>(3,152,039)</u>
Total net position - governmental		<u>\$ 2,974,786</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	GENERAL FUND	SPECIAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues				
Taxes	\$ 553,969	\$ -	\$ 101,330	\$ 655,299
Earnings on investments	8,627	-	-	8,627
State sources	2,706,754	145,222	284,741	3,136,717
Federal sources	9,182	235,405	-	244,587
Other sources	55,297	-	-	55,297
	<u>3,333,829</u>	<u>380,627</u>	<u>386,071</u>	<u>4,100,527</u>
Total revenues	3,333,829	380,627	386,071	4,100,527
Expenditures				
Instructional	2,204,363	277,759	-	2,482,122
Student support services	147,097	59,543	-	206,640
Staff support services	79,565	1,023	-	80,588
District administration	266,517	-	-	266,517
School administration	79,095	-	-	79,095
Business support services	101,503	11,938	-	113,441
Plant operation/maintenance	290,778	-	-	290,778
Student transportation	161,186	-	-	161,186
Community service	-	37,746	-	37,746
Debt service	7,484	-	295,373	302,857
	<u>3,337,588</u>	<u>388,009</u>	<u>295,373</u>	<u>4,020,970</u>
Total expenditures	3,337,588	388,009	295,373	4,020,970
Excess (deficit) of revenues over expenditures	(3,759)	(7,382)	90,698	79,557
Other financing sources (uses):				
Operating transfers in	170,214	7,382	289,960	467,556
Operating transfers out	(7,382)	-	(447,289)	(454,671)
	<u>162,832</u>	<u>7,382</u>	<u>(157,329)</u>	<u>12,885</u>
Total other financing sources (uses)	162,832	7,382	(157,329)	12,885
Net change in fund balances	159,073	-	(66,631)	92,442
Fund balances July 1, 2012	494,813	-	66,631	561,444
	<u>494,813</u>	<u>-</u>	<u>66,631</u>	<u>561,444</u>
Fund balances June 30, 2013	\$ 653,886	\$ -	\$ -	\$ 653,886

The accompanying notes are an integral part of these statements.

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

June 30, 2013

Amounts reported for governmental activities in the statement of net position are different because:

Net changes - governmental funds:	\$ 92,442
Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay for the year.	(175,527)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Reclassify interest expense from long-term debt	1,061,902
Principal paid	<u>179,307</u>
 Changes in net position - governmental funds	 <u>\$ 1,158,124</u>

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013**

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>CONSTRUCTION FUND</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
TOTAL ASSETS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
LIABILITIES				
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES				
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
for the year ended June 30, 2013

	<u>CAPITAL OUTLAY</u>	<u>BUILDING FUND</u>	<u>DEBT SERVICE</u>	<u>TOTAL NON-MAJOR GOV'T FUNDS</u>
REVENUES				
Taxes	\$ -	\$ 101,330	\$ -	\$ 101,330
Earnings on investments	-	-	-	-
State sources	46,140	233,188	5,413	284,741
Total revenues	46,140	334,518	5,413	386,071
EXPENDITURES				
Debt service	-	-	295,373	295,373
Total expenditures	-	-	295,373	295,373
Excess (deficit) of revenues over expenditures	46,140	334,518	(289,960)	90,698
Other financing sources (uses):				
Operating transfers out	(46,140)	(401,149)	-	(447,289)
Operating transfers in	-	-	289,960	289,960
Total other financing sources (uses)	(46,140)	(401,149)	289,960	(157,329)
Net change in fund balance	-	(66,631)	-	(66,631)
Fund balance July 1, 2012	-	66,631	-	66,631
Fund balance June 30, 2013	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2013

	ENTERPRISE FUNDS
	FOOD SERVICE
ASSETS	
Current assets	
Cash and cash equivalents	\$ 7,429
Accounts receivable	14,057
Inventories for consumption	11,434
Total current assets	32,920
Noncurrent assets	
Buildings and improvements	243,882
Furniture and equipment	98,599
Accumulated depreciation	(177,688)
Total noncurrent assets	164,793
TOTAL ASSETS	\$ 197,713
LIABILITIES	
Total current liabilities	\$ -
Total noncurrent liabilities	-
TOTAL LIABILITIES	-
NET POSITION	
Invested in assets, net of debt	164,793
Unrestricted	32,920
TOTAL NET POSITION	\$ 197,713

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
for the year ended June 30, 2013

	ENTERPRISE FUNDS
	FOOD SERVICE
OPERATING REVENUES	
Lunchroom sales	\$ 110,553
Total operating revenues	110,553
OPERATING EXPENSES	
Food service operations	336,269
Total operating expenses	336,269
Operating income (loss)	(225,716)
NONOPERATING REVENUES (EXPENSES)	
Federal grants	162,116
State grants	33,692
Donated commodities	21,021
Fund transfers	(12,884)
Total nonoperating revenues	203,945
Change in net position	(21,771)
Net position July 1, 2012	219,484
Net position June 30, 2013	\$ 197,713

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
for the year ended June 30, 2013

Cash flows from operating activities:	
Cash received from lunchroom sales	\$ 110,553
Cash received from federal and state reimbursements	181,537
Cash payments to employees for services	(159,431)
Cash payments to suppliers	(150,834)
Operating transfers	<u>(12,884)</u>
Net cash provided by operating activities	(31,059)
Net decrease in cash equivalents	(31,059)
Cash and cash equivalents July 1, 2012	<u>38,488</u>
Cash and cash equivalents June 30, 2013	<u><u>\$ 7,429</u></u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ (21,771)
Depreciation	7,748
Effect of Increases and Decreases in Current Assets and Liabilities:	
Accounts receivable	(14,057)
Inventory	<u>(2,979)</u>
Net cash used by operating activities	<u><u>\$ (31,059)</u></u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - FIDUCIARY FUNDS
June 30, 2013

	Private Purpose Trust Funds
ASSETS	
Cash and cash equivalents	<u>\$ 7,501</u>
TOTAL ASSETS	<u> 7,501</u>
LIABILITIES	<u> </u>
NET POSITION	<u>\$ 7,501</u>

The accompanying notes are an integral part of these statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FIDUCIARY FUNDS
for the year ended June 30, 2013

	ACTIVITY FUNDS
REVENUES	
Revenues from student activities	\$ 90,299
Total revenues	90,299
EXPENSES	
Student activities	88,300
Change in net position	1,999
Net position July 1, 2012	5,502
Net position June 30, 2013	\$ 7,501

The accompanying notes are an integral part of these statements.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

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

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Science Hill Independent School District. The financial statements presented herein do not include funds of groups and organizations which, although associated with the school system, have not originated within the Board itself such as booster organizations, Parent-Teacher Associations, etc.

The financial statements of the Board 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.

The accounting policies of the Science Hill Independent School District substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts and generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB).

District-Wide and Fund Financial Statements

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the District's nonfiduciary activities with interfund activities removed. Governmental activities include programs supported primarily by taxes, state funding and allocations and other intergovernmental revenues.

Fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and fiduciary. Because the resources in the fiduciary funds cannot be used for District operations, they are not included in the district-wide statements.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Accounting

The District maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description along with the restrictions associated with each class of funds are as follows:

I. Governmental Fund Types

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

- B. The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balance are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Federal Financial Assistance included in this report. Accounts receivable in the Special Revenue Fund represent amounts due to the District through various grant agreements. Conversely, deferred revenues represent funds received by the District not yet spent under grant agreements.

- C. Capital Projects 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 (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the district's facility plan.

 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the Kentucky School Facilities Construction Commission's funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.

 - 3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

II. Debt Service Fund

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

III. Proprietary Funds (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch and Breakfast Programs, which are conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts for in-kind contribution of commodities from the USDA are recorded only in the proprietary Statement of Revenues, Expenses, and Changes in Fund Balance.

IV. Fiduciary Fund Type

The Activity Fund consists of Agency funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

V. Property Taxes

The District's property taxes are levied each year on the assessed value listed as of the prior January 1 for all real and business tangible property located in the District. Tax rates assessed were 55.5 per one hundred dollars of assessed value for real estate and tangible personal property. Motor vehicle taxes are assessed at 53.2 cents per one hundred dollars of assessed value.

Property taxes collected are recorded as revenues in the fund for which they were levied.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than GAAP. During the budgetary process, revenues are projected in cash amounts to be received and expenditures are projected in cash amounts to be paid. Under GAAP, revenues and expenditures are recorded when susceptible to accrual.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary and fiduciary funds. Revenues are recorded when

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Cash and Cash Equivalents

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

Inventories

Supplies and materials are charged to expenditures when purchased, with the exception of the Proprietary Funds which record inventory using the accrual basis of accounting.

Encumbrances

Encumbrances are reported as a reservation of the fund balance. They are not reported as disbursements until paid.

Payroll

District employees are paid once monthly throughout the calendar year. Payroll checks for the summer months were processed prior to June 30, 2013. The cash balances on June 30, 2013 have been reduced by the outstanding payroll checks.

Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013**

Fund Balances

Restricted fund balances arise from external constraints (debt covenants, regulations, constitutional provisions, etc.) Committed fund balances are imposed by formal actions of the Board. Assigned fund balances are intended by the Board to be used for specific purposes, but are not formally restricted or committed. Unassigned fund balances are the residual amounts that are neither restricted, committed nor assigned for any specific purpose.

NOTE B - CASH AND CASH EQUIVALENTS

At year end, the carrying amount of the District's cash and cash equivalents was \$754,134. Carrying amounts do not reflect deposits in transit or outstanding checks. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral held by the pledging banks' trust departments in the District's name.

Cash and cash equivalents at June 30, 2013 exclusive of activity and debt service funds, consisted of the following:

Cumberland Security Bank	Operating Account	\$ 634,347
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NOTE C - BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Science Hill Independent School District and the Kentucky School Facilities Construction Commission.

The District, through the General Fund, including utility taxes and the SEEK Capital Outlay Fund, is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Science Hill Independent School District Finance Corporation and the Kentucky School Facilities Construction Commission to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

At July 1, 2012 total indebtedness, including both principal and interest, amounted to \$4,393,251. With no additions to long-term debt and timely principal and interest reductions, indebtedness at June 30, 2013 totaled \$ 4,099,092.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, continued
June 30, 2013

Year	2006R		2007		2011		Annual Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2014	10,000	22,515	74,281	83,751	100,000	4,595	295,142
2015	10,000	22,120	79,254	80,965	90,000	3,555	285,894
2016	10,000	21,725	79,226	77,993	100,000	2,315	291,259
2017	10,000	21,330	89,197	75,022	95,000	808	291,357
2018	50,000	20,145	149,167	71,677			290,989
2019	55,000	18,071	154,135	66,009			293,215
2020	55,000	15,899	164,102	60,152			295,153
2021	50,000	13,825	174,068	53,916			291,809
2022	55,000	11,751	179,033	47,301			293,085
2023	60,000	9,480	183,995	40,409			293,884
2024	65,000	7,011	188,957	33,325			294,293
2025	70,000	4,345	193,917	26,050			294,312
2026	75,000	1,481	198,875	18,584			293,940
2027			283,832	10,928			294,760
	<u>\$ 575,000</u>	<u>\$ 189,698</u>	<u>\$ 2,192,039</u>	<u>\$ 746,082</u>	<u>\$ 385,000</u>	<u>\$ 11,273</u>	<u>\$ 4,099,092</u>

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE D - RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by contacting Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort KY 40601.

Contribution rates are established by KRS. Members hired prior to July 1, 2009 are required to contribute 9.855% of their salaries to KTRS. Members hired after July 1, 2009 are required to contribute an additional 1% of their salary to the medical insurance fund. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members hired prior to July 1, 2009, and 14.105% for members hired after that date. The federal program for any salaries paid by that program pays the matching contributions.

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

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

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of members before July 1, 2008 is contributed. One-half of this amount is derived from member contributions and one-half from state appropriation. Members after July 1, 2008 contribute an additional 1% to the medical insurance fund. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE E - 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 on the grantors' review the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE F - INSURANCE AND RELATED ACTIVITIES

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

NOTE G - LUNCHROOM ACCOUNT/COMMODITIES

The Lunchroom Account keeps a current monthly inventory of the school in the Food Service Director's office at the Science Hill Independent Board of Education. The Food Service Director has filed timely all required reports and requests for reimbursement.

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. To obtain insurance for workers compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts 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 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, 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 member on a pro rata basis.

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS, continued
JUNE 30, 2013

NOTE H - RISK MANAGEMENT, continued

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss.

NOTE I - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 is detailed on the following page.

NOTE J - ON BEHALF PAYMENTS

The Commonwealth of Kentucky indirectly contributes funds of varying benefits to the District. These funds, known as "on-behalf payments" are represented as revenue from state sources in the appropriate financial statements. These funds, totaling \$ 716,885 for the year ended June 30, 2013, are not budgeted by the District. Corresponding amounts are entered to reflect the appropriate expense for the contributed funds, including but not limited to retirement, insurance and other benefits.

NOTE K - DEFICIT FUND BALANCES

The following funds ended the fiscal year with excess expenditures over revenues. The amounts were offset by transfers from other funds.

General fund	\$ (3,759)
Special revenue fund	\$ (7,382)

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2013

CAPITAL ASSET NOTE DISCLOSURE

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Land and improvements	306,045	19,935		325,980
Buildings and improvements	6,838,192	12,949		6,851,141
Technology equipment	295,185			295,185
Vehicles	370,838			370,838
General equipment	194,434			194,434
	<u>8,004,694</u>	<u>32,884</u>		<u>8,037,578</u>
Totals at historical cost				
Less accumulated depreciation for:				
Land and improvements	161,521	14,751		176,272
Buildings and improvements	1,538,028	139,622		1,677,650
Technology equipment	200,634	32,130		232,764
Vehicles	349,311	6,855		356,166
General equipment	106,731	15,053		121,784
	<u>2,356,225</u>	<u>208,411</u>		<u>2,564,636</u>
Total accumulated depreciation				
GOVERNMENTAL ACTIVITIES CAPITAL NET	<u>\$ 5,648,469</u>	<u>\$ (175,527)</u>		<u>\$ 5,472,942</u>
PROPRIETARY ACTIVITIES				
Buildings and improvements	243,882			243,882
Technology equipment	3,090			3,090
General equipment	95,509			95,509
	<u>342,481</u>			<u>342,481</u>
Totals at historical cost				
Less accumulated depreciation for:				
Buildings and improvements	95,113	4,878		99,991
Technology equipment	3,090			3,090
General equipment	71,737	2,870		74,607
	<u>169,940</u>	<u>7,748</u>		<u>177,688</u>
Total accumulated depreciation				
PROPRIETARY ACTIVITIES CAPITAL NET	<u>\$ 172,541</u>	<u>\$ (7,748)</u>		<u>164,793</u>
DEPRECIATION EXPENSE CHARGES TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional	\$ 96,497			
Student support services	2,739			
Staff support services	14,019			
District administration	1,902			
School administration	-			
Business support services	296			
Plant operation/ maintenance	86,103			
Student transportation	6,855			
	<u>208,411</u>			
Total	<u>\$ 208,411</u>			

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE FOR GENERAL FUND
for the year ended June 30, 2013**

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
Revenues			
Taxes	\$ 574,000	\$ 553,969	\$ (20,031)
Earnings on investment	15,000	8,627	(6,373)
State sources	2,022,620	2,670,980	648,360
Federal sources	10,000	9,182	(818)
Other sources	12,000	55,297	43,297
Total revenues	2,633,620	3,298,055	664,435
Expenditures			
Instructional	1,781,149	2,201,064	(419,915)
Student support services	104,263	146,783	(42,520)
Staff support services	84,215	79,529	4,686
District administration	243,707	266,254	(22,547)
School administration	62,455	78,972	(16,517)
Business support services	64,689	70,097	(5,408)
Plant operation/maintenance	283,792	290,629	(6,837)
Student transportation	141,068	161,002	(19,934)
Debt service	7,500	7,484	16
Contingency	301,475	-	301,475
Total expenditures	3,074,313	3,301,814	(227,501)
Excess of revenues over expenditures	(440,693)	(3,759)	436,934
Other financing sources (uses)			
Operating transfers in	55,140	170,214	115,074
Operating transfers out	(10,000)	(7,382)	2,618
Total other financing sources (uses)	45,140	162,832	117,692
Net increase (decrease) in fund balance	(395,553)	159,073	554,626
Fund balance July 1, 2012	395,553	494,813	99,260
Fund balance June 30, 2013	\$ -	\$ 653,886	\$ 653,886

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON - SPECIAL REVENUE
for the year ended June 30, 2013**

	FINAL BUDGET	ACTUAL	VARIANCE W/FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES			
State sources	\$ 147,744	\$ 145,222	\$ (2,522)
Federal sources	236,564	235,405	(1,159)
Total revenues	384,308	380,627	(3,681)
EXPENDITURES			
Instructional	287,096	277,759	9,337
Student support services	56,461	59,543	(3,082)
Staff support services	1,019	1,023	(4)
Business support services	11,986	11,938	48
Community services	37,746	37,746	-
Total expenditures	394,308	388,009	6,299
Excess (deficit) of revenues over expenditures	(10,000)	(7,382)	(2,618)
Other financing sources (uses):			
Operating transfers out	-	-	-
Operating transfers in	10,000	7,382	2,618
Total other financing sources (uses)	10,000	7,382	2,618
Net change in fund balance	-	-	-
Fund balance July 1, 2012	-	-	-
Fund balance June 30, 2013	\$ -	\$ -	\$ -

SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
Science Hill, Kentucky

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
June 30, 2013

	Beginning Cash July 1, 2012	Receipts	Disbursements	Ending Cash June 30, 2013
8th Grade	365	16,346	16,014	697
Archery	1,380	1,441	1,516	1,305
Baseball	-	3,291	3,291	-
Beta	-	814	427	387
Boys and girls basketball	1,225	20,826	20,676	1,375
Cheerleaders	-	7,948	6,908	1,040
Cookbooks	138	42	180	-
Dance	-	2,420	2,077	343
Drama and annuals	2,299	7,977	10,276	-
General fund	-	31,080	28,726	2,354
Music	-	2,876	2,876	-
Pepsi	-	1,488	1,488	-
Softball	95	2,755	2,850	-
Field trips	-	2,143	2,143	-
Soccer	-	950	950	-
	<u>5,502</u>	<u>102,397</u>	<u>100,398</u>	<u>7,501</u>
Inter-fund transfers	-	(12,098)	(12,098)	-
Totals	<u><u>\$ 5,502</u></u>	<u><u>\$ 90,299</u></u>	<u><u>\$ 88,300</u></u>	<u><u>\$ 7,501</u></u>

BARRY D. DAULTON, CPA, PSC
POST OFFICE BOX 1424
SOMERSET, KENTUCKY 42502
(606) 679-9344

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

Kentucky State Committee for School District Audits
Members of the Board of Education
Science Hill Independent Schools
Science Hill, Kentucky 42553

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirements, and Appendix III to the Independent Auditor's Contract - Electronic Submission*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Science Hill Independent Schools as of and for the year ended June 30, 2013, which collectively comprise the District's basic financial statements and have issued my report thereon dated October 28, 2013.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*. There were additional matters communicated to the auditee in the management letter.

Purpose of this Report

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

Barry D. Daulton, CPA, PSC

Somerset, Kentucky
October 28, 2013

**SCIENCE HILL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2013**

There are no prior audit findings.

Barry D. Daulton, CPA, PSC
423 East Mount Vernon Street
P.O. Box 1424
Somerset, Kentucky 42502
(606) 679-9344

MANAGEMENT LETTER

Superintendent and Members of the Board of Education
Science Hill Independent School District
Science Hill, Kentucky 42553

In planning and performing my audit of the financial statements of Science Hill Independent School District for the year ended June 30, 2013, I considered the District's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, during my audit, I became aware of some matters that are opportunities to strengthen internal controls and operate in a more efficient manner.

Current Year Conditions

Condition 1:

Statement of Condition: Vendor payments from the Activity Fund are not being approved by a responsible party.

Criteria for Condition: Activity fund expenses must be approved by either the principal or activity fund sponsor.

Effect of the Condition: Because approvals are not indicated on vendor invoices, it is difficult to determine if expenses are appropriate.

Recommendation: The principal or activity fund sponsor must indicate approval of all invoices.

Comment: Management will implement the recommendation.

Condition 2:

Statement of Condition: Activity fund revenues are not being receipted properly.

Criteria for Condition: All revenues should be receipted in an orderly fashion to ensure accountability of student funds.

Effect of the Condition: Because revenues are not properly receipted, student funds could be misplaced or misapplied.

Recommendation: All activity fund receipts should be receipted in an orderly fashion.

Comment: Management will implement the recommendation.

These recommendations were included in the June 30, 2012 report. This letter does not affect my report dated October 28, 2013 on the financial statements of Science Hill Independent School District. I wish to thank the personnel for their support and assistance during the audit.

This report is intended solely for the information and use of the Board and management of Science Hill Independent School District.

Sincerely,

Barry D. Daulton, CPA, PSC