

HANCOCK COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

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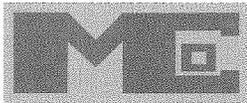
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Hancock County School District as of June 30, 2014, and the respective changes in 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 4 through 11, and 39 through 40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedules of receipts, disbursements, and due to student groups related to school activity funds are presented for purposes of additional analysis, and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky

November 10, 2014

HANCOCK COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (UNAUDITED)

Year ended June 30, 2014

As management of the Hancock County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The ending General Fund balance on June 30, 2014 was \$3,390,047. Of this amount, \$1,252,389 is the balance in the Commonwealth Settlement account leaving a true ending General Fund balance of \$2,137,658.
- Property tax rates were set by the Board at 57.8 cents and the motor vehicle tax rate was set at 40.0 cents for the 2013-14 school year.
- The General Fund had \$11.1 million in revenue excluding state on-behalf payments which primarily consists of SEEK (state funding), property, motor vehicle and utility taxes. Excluding interfund transfers and state on-behalf payments there were \$11.1 million in General Fund expenditures.
- District certified and classified staff salary scales remained the same as no increase was given other than step increases.
- A total of \$69,877 was paid in earned sick leave to those who retired during or at the end of the 2013-14 school year by the General Fund.
- The guaranteed SEEK base was decreased by \$5.00 per student over FY '13 which makes the per pupil funding \$3,827 per pupil. The assessment amount for our county increased by approximately \$26.5 million and our prior year end of year AADA increased by 9 students. The District observed little growth in our home and hospital count, exceptional child count, and transportation count. Overall the District had a decrease in SEEK revenue of \$73,869 during the FY '14 school year.
- Lewisport Shopping Center was purchased in 2011 and has served as our vocational center for Hancock County High School. We received revenue in the amount of \$61,272 in rental income from the shopping center tenants.

- The Board approved to supply all students at Hancock County High School with iPads beginning with the 2011-12 school year. The Board entered into a 3-year lease with Apple Computer at the yearly cost of \$90,471 with a final cost of \$1.00 per iPad to purchase them at the end of the lease. Five hundred student iPads were leased through this agreement. This initiative continues.
- The Board continued their participation in the Advanced Kentucky AP Program at Hancock County High School for the 2013-14 school year.
- The District continues to provide additional services to our students by securing grants each year. These grants provide additional funds for staffing and programs that would not be available to students if the District did not secure these available monies. The District strives to secure all resources that are available to provide resources to promote success in our students and to skill enhancements to our staff.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

The statement of net position presents information on all of the District's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The only proprietary funds are our community education, after school care and food service operations. All other activities of the District are included in the governmental funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$9.1 million as of June 30, 2014.

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

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

NET ASSETS FOR THE PERIOD ENDING JUNE 30, 2014

The assets, liabilities and net assets of the governmental activities of the District are as follows:

	Governmental		Business-Type		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current Assets	4,312,668	3,797,224	325,725	416,555	4,638,393	4,213,779
Noncurrent Assets	19,058,055	19,718,650	269,832	319,823	19,327,887	20,038,473
TOTAL ASSETS	23,370,723	23,515,874	595,557	736,378	23,966,280	24,252,252
DEFERRED OUTFLOWS OF RESOURCES	807,567	861,864	-	-	807,567	861,864
Current Liabilities	1,490,586	1,459,514	-	-	1,490,586	1,459,514
Noncurrent Liabilities	13,850,235	14,698,936	-	-	13,850,235	14,698,936
TOTAL LIABILITIES	15,340,821	16,158,450	-	-	15,340,821	16,158,450
Net Position:						
Investment in capital assets (net of debt)	4,552,613	4,643,766	269,832	319,823	4,822,445	4,963,589
Restricted for:						
Capital Projects	536,896	152,547	-	-	536,896	152,547
Other Purposes	-	-	-	-	-	-
Unrestricted	3,747,960	3,422,975	325,725	416,555	4,073,685	3,839,530
TOTAL NET POSITION	8,837,469	8,219,288	595,557	736,378	9,433,026	8,955,666

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Comments on Budget Comparisons

The difference between original and final budget figures occurred due to:

- Final staffing/salary adjustments were complete for the final budget phase.
- Assessment and ADA figures were finalized and adjustments made to SEEK and ad valorem taxes.
- Final grant awards were in place.
- All adjustments to employer benefits were finalized and reflected in budget.
- Additional maintenance needs.
- iPad lease payment.
- Shopping Center/Tech Center rental income projection.

- The fringe benefit rate that increased the most in 2013-14 was the amount the Board has to pay for KTRS. The rate change from 1.0% to 1.5% on non-federally funded employees and the rate changed from 14.105% to 14.605% for federally funded employees. These rate will continue to increase over the next three (2) years.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2014.

	Governmental		Business-Type		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:						
From general sources:						
Property Tax	2,994,385	3,144,087	-	-	2,994,385	3,144,087
Motor Vehicle Tax	223,975	212,068	-	-	223,975	212,068
Utility Tax	1,263,603	1,162,980	-	-	1,263,603	1,162,980
Other Tax	-	-	-	-	-	-
Transportation	-	-	-	-	-	-
Investments	42,257	24,870	1,885	2,130	44,142	27,000
Other Sources	231,999	297,409	-	375	231,999	297,784
Gain (Loss) Fixed Assets	-	-	-	-	-	-
State & Federal Grants	7,393,099	7,411,028	-	-	7,393,099	7,411,028
Program:						
Operating Grants	3,841,806	4,055,666	669,673	659,765	4,511,479	4,715,431
Capital Grants	484,888	493,876	-	-	484,888	493,876
Charges for Services	-	-	357,974	367,784	357,974	367,784
TOTAL REVENUES	16,476,012	16,801,984	1,029,532	1,030,054	17,505,544	17,832,038
Expenses:						
Instruction	8,514,543	9,664,870	-	-	8,514,543	9,664,870
Student Support	694,426	607,746	-	-	694,426	607,746
Instructional Support	975,491	899,896	-	-	975,491	899,896
District Administration	509,182	524,156	-	-	509,182	524,156
School Administration	1,144,832	1,096,113	-	-	1,144,832	1,096,113
Business Support	538,322	489,995	-	-	538,322	489,995
Plant Operations	1,406,971	1,301,441	-	-	1,406,971	1,301,441
Student Transportation	1,359,995	1,338,519	-	-	1,359,995	1,338,519
Facilities Acquisition	53,422	102,826	-	-	53,422	102,826
Other	175,759	175,106	-	-	175,759	175,106
Community Support	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Debt Interest and Amortization	484,888	493,876	-	-	484,888	493,876
Food Service	-	-	1,096,617	1,067,355	1,096,617	1,067,355
Community Education/Child Care	-	-	73,736	12,849	73,736	12,849
TOTAL EXPENDITURES	15,857,831	16,694,544	1,170,353	1,080,204	17,028,184	17,774,748
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-
Change In Net Position	618,181	107,440	(140,821)	(50,150)	477,360	57,290
Net Position Beginning	8,219,288	8,111,848	736,378	786,528	8,955,666	8,898,376
Net Position Ending	8,837,469	8,219,288	595,557	736,378	9,433,026	8,955,666

GENERAL FUND REVENUE

The majority of revenue was derived from state funding *67% with approximately **33% coming from local sources.

*State Revenue \$9,132,310 divided by Total Revenue \$13,619,763 is equal to 67%

**Total Local \$4,468,190 divided by Total Revenue \$13,619,763 is equal to 33%

BUDGET ALLOCATION

Approximately 74% or \$9,986,918 of the General Fund budget was expended for instruction/administration at the school level, some of which was directed by the Site-Based Decision Making Councils. Approximately 9% of the funds not directly under control of SBDM was spent servicing children with special needs. The amount of funds going to children with special needs is derived from the total budgeted for all special education expenditures including salaries.

SCHOOL ALLOCATION

Regular instruction accounts for 60% of the school level expenditures.

Total instruction includes regular instructional staff, instructional support staff such as support personnel and classroom assistants and other expenditures to support instruction. Total instruction expenditures are \$7,553,846 for regular instruction and \$660,656 instructional support staff or a total of \$8,214,502.

CENTRAL OFFICE ALLOCATION

Central support services expenditures were transportation \$1,210,079, maintenance & operations \$1,373,825, business support \$482,584 and district administration of \$486,374 for a total central office support expense of \$3,552,862 or 26.1%.

OTHER MAJOR FUNDS

Special Revenue Fund is categorized as a major fund. Revenues from state and federal grants decreased by \$191,412 from the previous fiscal year.

Food Service Fund is categorized as a major fund, and constitutes the majority of the decrease in revenue. Food service is a business-type activity. This program had revenues of \$972,673 for fiscal year 2014. The Board of Education continues to examine the food service operation in an effort to be self-operating without assistance from the General Fund. The business activity receives no support from tax revenues.

CURRENT ISSUES

Hancock County Schools continue to budget conservatively and adhere to the staffing policies that are currently in place. The FY14 showed a slight increase in EOY AADA of 9.0 students compared to the FY13 school year.

Property assessment for the 2013-14 fiscal year had an increase of \$26 million compared to FY13. The Board approved the compensating rate which left the tax rates at the same level as 13-14. The Board approved a motor vehicle tax rate of 40 cents per \$100 of assessed value upon all motor vehicles and watercraft. For fiscal year 2013-2014 there was a decrease in real property tax revenue of \$149,702 and an increase in motor vehicle tax revenue of \$11,907. The utility tax collections increased by \$100,623. Much of the increase in utility tax is attributed to a 20% rate increase by the local electric provider.

Hancock County Schools is ranked in the 96% percentile of school districts in the State of Kentucky in the state assessment criteria and the District is classified as Distinguished. Hancock County High School and Hancock County Middle School lead the District and are classified as distinguished schools. South Hancock Elementary School and North Hancock Elementary School are labeled as proficient schools. Hancock County High School is ranked in the top ten for College and Career Readiness in the State of Kentucky. We feel our scores are a tribute to our teachers, parents, and students. They are all striving to do well.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$2,205,674 in contingency. This contingency is due largely in part to the Commonwealth Aluminum settlement. As of July 1, 2014 the balance in this account was \$1,249,750, 9% of the General Fund budget. Significant action by the state that impacts the finances of the District was the reduction in Special Revenue grants whereby the District has to supplement these areas to continue needed services.

It is extremely important that the District continue to budget conservatively. The District receives approximately 51 percent of its General Fund revenue each year through the SEEK formula. The SEEK forecasts from the State should be considered only an estimate of state revenue. If the State's revenue falls below their own revenue projections, an adjustment will be made in the funding formula. The District should always be prepared for such reductions in funding.

Approximately 20 percent of the District's General Fund revenue each year is from local property taxes. The majority of this revenue does not come to the District until the fifth month of the fiscal year. The General Fund's beginning balance must be used to absorb much of the first four months expenditures. Provisions must always be made to have a significant beginning balance to start the year.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the monies it receives. Questions about this report or additional financial information needs should be directed to the Superintendent or to Nick Boling, Treasurer, (270) 927-6914, or by mail at 83 State Route 3543, Hawesville, Kentucky 42348.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 4,006,384	\$ 282,762	\$ 4,289,146
Receivables:			
Taxes	118,177	-	118,177
Intergovernmental – State	6,816	-	6,816
Intergovernmental – Federal	181,291	-	181,291
Inventory	-	42,963	42,963
Net capital assets	<u>19,058,055</u>	<u>269,832</u>	<u>19,327,887</u>
Total assets	23,370,723	595,557	23,966,280
DEFERRED OUTFLOWS OF RESOURCES			
Deferred loss on bond refundings	807,567	-	807,567
LIABILITIES			
Accrued liabilities	231,218	-	231,218
Unearned revenue	76,261	-	76,261
Current maturities of bond obligations	1,024,460	-	1,024,460
Current portion of accumulated sick leave	78,246	-	78,246
Interest payable	80,401	-	80,401
Noncurrent maturities of bond obligations	13,400,581	-	13,400,581
Noncurrent portion of accumulated sick leave	291,994	-	291,994
Noncurrent portion of accrued insurance claims liability	<u>157,660</u>	<u>-</u>	<u>157,660</u>
Total liabilities	<u>15,340,821</u>	<u>-</u>	<u>15,340,821</u>
NET POSITION			
Invested in capital assets, net of related debt	4,552,613	269,832	4,822,445
Restricted for:			
Capital expenditures/debt service	536,896	-	536,896
Unrestricted	<u>3,747,960</u>	<u>325,725</u>	<u>4,073,685</u>
Total net position	<u>\$ 8,837,469</u>	<u>\$ 595,557</u>	<u>\$ 9,433,026</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year ended June 30, 2014

FUNCTION/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	
Governmental activities							
Instruction	\$ 8,514,543	\$ -	\$ 2,410,178	\$ -	\$ (6,104,365)	\$ -	\$ (6,104,365)
Student support services	694,426	-	186,940	-	(507,486)	-	(507,486)
Instructional staff support services	975,491	-	420,460	-	(555,031)	-	(555,031)
District administration	509,182	-	42,237	-	(466,945)	-	(466,945)
School administration	1,144,832	-	222,217	-	(922,615)	-	(922,615)
Business support services	538,322	-	116,397	-	(421,925)	-	(421,925)
Plant operations and maintenance	1,406,971	-	125,298	-	(1,281,673)	-	(1,281,673)
Student transportation	1,359,995	-	171,741	-	(1,188,254)	-	(1,188,254)
Food service operation	12,167	-	1,640	-	(10,527)	-	(10,527)
Community services	163,592	-	-	-	(163,592)	-	(163,592)
Facilities acquisition and construction	53,422	-	144,698	-	91,276	-	91,276
Interest	484,888	-	-	484,888	-	-	-
Total governmental activities	15,857,831	-	3,841,806	484,888	(11,531,137)	-	(11,531,137)
Business-type activities							
Food service	1,096,617	302,128	669,673	-	-	(124,816)	(124,816)
Other business-type activities	73,736	55,846	-	-	-	(17,890)	(17,890)
Total business-type activities	1,170,353	357,974	669,673	-	-	(142,706)	(142,706)
Total primary government	<u>\$ 17,028,184</u>	<u>\$ 357,974</u>	<u>\$ 4,511,479</u>	<u>\$ 484,888</u>	(11,531,137)	(142,706)	(11,673,843)
General revenues							
Taxes:							
					2,994,385	-	2,994,385
					223,975	-	223,975
					1,263,603	-	1,263,603
					42,257	1,885	44,142
					7,373,836	-	7,373,836
					19,263	-	19,263
					231,999	-	231,999
					12,149,318	1,885	12,151,203
					618,181	(140,821)	477,360
					8,219,288	736,378	8,955,666
					<u>\$ 8,837,469</u>	<u>\$ 595,557</u>	<u>\$ 9,433,026</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 3,469,488	\$ -	\$ 44,758	\$ -	\$ 492,138	\$ -	\$ 4,006,384
Receivables:							
Taxes	118,177	-	-	-	-	-	118,177
Intergovernmental – State	-	6,816	-	-	-	-	6,816
Intergovernmental – Federal	-	181,291	-	-	-	-	181,291
Due from Special Revenue Funds	<u>111,846</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,846</u>
Total assets	<u>\$ 3,699,511</u>	<u>\$ 188,107</u>	<u>\$ 44,758</u>	<u>\$ -</u>	<u>\$ 492,138</u>	<u>\$ -</u>	<u>\$ 4,424,514</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accrued liabilities	\$ 231,218	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 231,218
Due to General Fund	-	111,846	-	-	-	-	111,846
Unearned revenue	-	76,261	-	-	-	-	76,261
Current portion of accumulated sick leave	<u>78,246</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,246</u>
Total liabilities	309,464	188,107	-	-	-	-	497,571
Fund balances							
Restricted for:							
Capital expenditures/ debt service	-	-	44,758	-	-	-	44,758
Capital expenditures	-	-	-	-	492,138	-	492,138
Committed to future sick leave	532,336	-	-	-	-	-	532,336
Assigned to purchase obligations	15,570	-	-	-	-	-	15,570
Unassigned	<u>2,842,141</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,842,141</u>
Total fund balances	<u>3,390,047</u>	<u>-</u>	<u>44,758</u>	<u>-</u>	<u>492,138</u>	<u>-</u>	<u>3,926,943</u>
Total liabilities and fund balances	<u>\$ 3,699,511</u>	<u>\$ 188,107</u>	<u>\$ 44,758</u>	<u>\$ -</u>	<u>\$ 492,138</u>	<u>\$ -</u>	<u>\$ 4,424,514</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2014

Total fund balances – governmental funds	\$ 3,926,943
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$31,083,571, and the accumulated depreciation is \$12,025,516.	19,058,055
Deferred loss on bond refundings are not current financial resources and therefore are reported as outflows of resources in governmental funds.	807,567
Bonds payable are not reported in the governmental fund balance sheet because they are not due and payable in the current period, but they are presented in the statement of net position.	(14,425,041)
Noncurrent portion of accumulated sick leave is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(291,994)
Interest payable is not reported in the governmental fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	(80,401)
Noncurrent portion of accrued insurance claims liability is not reported in the government fund balance sheet because it is not due and payable in the current period, but it is presented in the statement of net position.	<u>(157,660)</u>
Total net position – governmental activities	<u>\$ 8,837,469</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended June 30, 2014**

	General Fund	Special Revenue Funds	SEEK Capital Outlay Fund	Facility Support Program (FSPK) Fund	School Construction Fund	Debt Service Fund	Total Governmental Funds
Revenues							
From local sources:							
Taxes:							
Property	\$ 2,706,356	\$ -	\$ -	\$ 288,029	\$ -	\$ -	\$ 2,994,385
Motor vehicle	223,975	-	-	-	-	-	223,975
Utilities	1,263,603	-	-	-	-	-	1,263,603
Earnings on investments	29,502	12,755	-	-	-	-	42,257
Other local	244,754	-	-	-	-	-	244,754
Intergovernmental – State	9,132,310	645,530	152,292	264,028	-	697,297	10,891,457
Intergovernmental – Federal	19,263	796,318	-	-	-	-	815,581
	<u>13,619,763</u>	<u>1,454,603</u>	<u>152,292</u>	<u>552,057</u>	<u>-</u>	<u>697,297</u>	<u>16,476,012</u>
Total revenues							
Expenditures							
Current:							
Instruction	7,553,846	916,028	-	-	-	-	8,469,874
Student support services	633,379	61,047	-	-	-	-	694,426
Instructional staff support services	660,656	291,714	-	-	-	-	952,370
District administration	486,374	-	-	-	-	-	486,374
School administration	1,139,037	-	-	-	-	-	1,139,037
Business support services	482,584	50,887	-	-	-	-	533,471
Plant operations and maintenance	1,373,825	-	-	-	-	-	1,373,825
Student transportation	1,210,079	18,357	-	-	-	-	1,228,436
Non-instructional	12,167	-	-	-	-	-	12,167
Community services	22,499	140,352	-	-	-	-	162,851
Facilities acquisition and construction	13,000	-	-	-	40,422	-	53,422
Debt service and miscellaneous	-	-	-	-	12,003	1,378,366	1,390,369
	<u>13,587,446</u>	<u>1,478,385</u>	<u>-</u>	<u>-</u>	<u>52,425</u>	<u>1,378,366</u>	<u>16,496,622</u>
Total expenditures							
Excess (deficit) of revenues over (under) expenditures	32,317	(23,782)	152,292	552,057	(52,425)	(681,069)	(20,610)
Other financing sources (uses)							
Proceeds from bond issuances	-	-	-	-	480,000	-	480,000
Operating transfers in	167,531	23,782	-	-	-	681,069	872,382
Operating transfers out	(124,807)	-	(195,518)	(552,057)	-	-	(872,382)
	<u>42,724</u>	<u>23,782</u>	<u>(195,518)</u>	<u>(552,057)</u>	<u>480,000</u>	<u>681,069</u>	<u>480,000</u>
Total other financing sources (uses)							
Net change in fund balance	75,041	-	(43,226)	-	427,575	-	459,390
Fund balance as of July 1, 2013	3,315,006	-	87,984	-	64,563	-	3,467,553
Fund balance as of June 30, 2014	<u>\$ 3,390,047</u>	<u>\$ -</u>	<u>\$ 44,758</u>	<u>\$ -</u>	<u>\$ 492,138</u>	<u>\$ -</u>	<u>\$ 3,926,943</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year ended June 30, 2014

Net change in total fund balances – governmental funds \$ 459,390

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

Capital outlays are reported as expenditures in the governmental fund financial statements because they use current financial resources, but are presented as assets in the statement of net position and depreciated over their estimated useful lives. Related depreciation expense is reported in the statement of activities. The difference is the amount by which depreciation expense (\$1,004,764) exceeds capital outlays (\$344,168) for the year. (660,596)

Deferred loss on bond refundings are not reported as expenditures in the governmental fund financial statements, but are capitalized and amortized over the life of the related bonds on the statement of activities. (54,297)

Bond proceeds are other financing sources in the governmental fund financial statements, but are not included in the statement of activities. (480,000)

Bond payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively. 959,778

Capital lease payments are recognized as expenditures of current financial resources in the governmental fund financial statements, but are reductions of liabilities and interest expense in the statement of net position and statement of activities, respectively 89,664

Insurance claims expense related to noncurrent portion of accrued insurance claim liability is recognized in the statement of activities but not in the governmental fund financial statement because it will not be paid with existing financial resources. 78,503

Accumulated sick leave is recognized by the amount earned in the statement of activities, but the governmental fund financial statements only recognize the obligations anticipated to be retired from existing financial resources. 225,739

Change in net position – governmental activities \$ 618,181

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – PROPRIETARY FUNDS

June 30, 2014

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
ASSETS				
Current assets				
Cash	\$ 92,830	\$ 189,351	\$ 581	\$ 282,762
Inventory	<u>42,963</u>	<u>-</u>	<u>-</u>	<u>42,963</u>
Total current assets	135,793	189,351	581	325,725
Noncurrent assets				
Capital assets	657,980	-	-	657,980
Less accumulated depreciation	<u>388,148</u>	<u>-</u>	<u>-</u>	<u>388,148</u>
Total noncurrent assets	<u>269,832</u>	<u>-</u>	<u>-</u>	<u>269,832</u>
Total assets	405,625	189,351	581	595,557
NET POSITION				
Invested in capital assets	269,832	-	-	269,832
Unrestricted	<u>135,793</u>	<u>189,351</u>	<u>581</u>	<u>325,725</u>
Total net position	<u>\$ 405,625</u>	<u>\$ 189,351</u>	<u>\$ 581</u>	<u>\$ 595,557</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUNDS**

Year ended June 30, 2014

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Operating revenues				
Lunchroom sales	\$ 302,128	\$ -	\$ -	\$ 302,128
Tuition and fees	<u>-</u>	<u>55,125</u>	<u>721</u>	<u>55,846</u>
Total operating revenues	302,128	55,125	721	357,974
Operating expenses				
Salaries, wages, and benefits	604,889	51,832	8	656,729
Contract services	22,649	790	895	24,334
Materials and supplies	408,851	4,318	-	413,169
Depreciation	49,991	-	-	49,991
Other	<u>10,237</u>	<u>15,733</u>	<u>160</u>	<u>26,130</u>
Total operating expenses	<u>1,096,617</u>	<u>72,673</u>	<u>1,063</u>	<u>1,170,353</u>
Operating loss	(794,489)	(17,548)	(342)	(812,379)
Nonoperating revenues				
Federal grants	564,547	-	-	564,547
State grants	105,126	-	-	105,126
Interest income	<u>872</u>	<u>1,013</u>	<u>-</u>	<u>1,885</u>
Total nonoperating revenues	670,545	1,013	-	671,558
Change in net position	(123,944)	(16,535)	(342)	(140,821)
Net position as of July 1, 2013	<u>529,569</u>	<u>205,886</u>	<u>923</u>	<u>736,378</u>
Net position as of June 30, 2014	<u>\$ 405,625</u>	<u>\$ 189,351</u>	<u>\$ 581</u>	<u>\$ 595,557</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS Year ended June 30, 2014

	School Food Service Fund	Day Care Fund	Community Education Fund	Total Proprietary Funds
Cash flows from operating activities				
Cash received from:				
Lunchroom sales	\$ 302,128	\$ -	\$ -	\$ 302,128
Tuition and fees	-	55,125	721	55,846
Cash paid to/for:				
Employees	(508,241)	(51,832)	(8)	(560,081)
Contract services	(22,649)	(790)	(895)	(24,334)
Materials and supplies	(329,970)	(4,318)	-	(334,288)
Other	(10,237)	(15,733)	(160)	(26,130)
Net cash used in operating activities	(568,969)	(17,548)	(342)	(586,859)
Cash flows from noncapital financing activities				
Government grants	545,692	-	-	545,692
Net cash provided by noncapital financing activities	545,692	-	-	545,692
Cash flows from investing activities				
Receipt of interest income	872	1,013	-	1,885
Net cash provided by investing activities	872	1,013	-	1,885
Net decrease in cash	(22,405)	(16,535)	(342)	(39,282)
Cash as of July 1, 2013	115,235	205,886	923	322,044
Cash as of June 30, 2014	<u>\$ 92,830</u>	<u>\$ 189,351</u>	<u>\$ 581</u>	<u>\$ 282,762</u>
Reconciliation of operating loss to net cash used in operating activities				
Operating loss	\$ (794,489)	\$ (17,548)	\$ (342)	\$ (812,379)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	49,991	-	-	49,991
Donated commodities	70,810	-	-	70,810
State on-behalf payments	96,648	-	-	96,648
Decrease in inventory	8,071	-	-	8,071
Net cash used in operating activities	<u>\$ (568,969)</u>	<u>\$ (17,548)</u>	<u>\$ (342)</u>	<u>\$ (586,859)</u>
Schedule of noncash transactions				
Donated commodities received from:				
Federal government	\$ 70,810	\$ -	\$ -	\$ 70,810
State on-behalf payments	96,648	-	-	96,648

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION – FIDUCIARY FUNDS

June 30, 2014

	<u>Student Activity Funds</u>
ASSETS	
Cash	\$ 267,179
Accounts receivable	<u>1,652</u>
Total assets	268,831
LIABILITIES	
Accounts payable	1,067
Due to student groups/employees	<u>267,764</u>
Total liabilities	<u>268,831</u>
NET POSITION	<u><u>\$ -</u></u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2014

1. Basis of presentation and summary of significant accounting policies

Reporting entity – The Hancock County Board Of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Hancock County School District (District). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of those funding source entities. However, the District is not included in any other governmental reporting entity, and its Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds relevant to the District's operation. The basic 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 Band Boosters, Parent-Teacher Associations, etc.

The District's basic financial statements 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 basic financial statements of the following organization are included in the accompanying basic financial statements:

Hancock County School District Finance Corporation – The Hancock County, Kentucky, Board of Education established the Hancock County School District Finance Corporation (Corporation) (a nonprofit, nonstock, public, and charitable corporation organized under the School Bond Act, KRS 273, and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Hancock County Board of Education also comprise the Corporation's Board of Directors.

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 District's financial activities, except for fiduciary funds. The statements distinguish between those District activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The District activities are generally financed through state funding, property and utility taxes, and federal, state, and local grants. Revenues are recorded when earned and expenses are recorded at the time the liability is incurred, regardless of when the related cash flows take place. Revenues from grants are recognized in the fiscal year in which eligibility requirements are met.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities, and each segment of the District's business-type activities. Direct expenses are those that are specifically associated with a service, program, or function. The District does not charge indirect expenses to programs or functions. 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 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 District's general revenues.

Fund financial statements – Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each fund is presented in a separate column. Fiduciary funds are reported by fund type.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. State and other governmental revenues applicable to the current fiscal year and collected within 60 days of year end are recognized as revenue.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when they come due for payment. General capital asset acquisitions are reported as expenditures in governmental funds, and proceeds of general long-term debt are reported as other financing sources.

Under the terms of the District's grant agreements, certain programs are funded by specific cost-reimbursement grants and general revenues. Generally, the District applies cost-reimbursement funds first to finance such programs with remaining costs paid for with general revenues.

Proprietary funds utilize the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues generally result from providing services in connection with the fund's principal operations. The funds' principal operating revenues are food service charges and tuition and fees. Operating expenses include salaries and benefits, materials and supplies, administrative costs, and depreciation on capital assets.

Fiduciary funds utilize the economic resources measurement focus and the accrual basis of accounting.

Accounting principles generally accepted in the United States of America require the General Fund be reported as a major fund. All other governmental and proprietary funds whose assets, liabilities, revenues, or expenditures comprise at least 10% of the total for the relevant fund category and at least 5% of the corresponding total for all governmental and proprietary funds combined must also be reported as major funds. Additionally, the District has determined certain other funds should be reported as major funds.

The District has the following funds:

a. Governmental fund types

The General Fund is the District's general operating fund and accounts for and reports all District revenues and expenditures not accounted for or reported in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources restricted to expenditures for specified purposes other than debt or capital projects. This is a major fund of the District.

Capital Project Funds are used to account for and report financial resources restricted for capital outlays, including the acquisition or construction of capital facilities or other capital assets, and to provide financial resources for debt service requirements. Capital Projects Funds exclude those types of capital-related outflows financed by proprietary funds or for assets that are held in trust.

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the State as capital outlay funds and is generally restricted for use in financing projects identified in the District's facility plan (including payment of bonded lease obligations). This is a major fund of the District.
2. The Facility Support Program (FSPK) Fund accounts for and reports 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. This is a major fund of the District.
3. The School Construction Fund accounts for and reports proceeds from sales of bonds and other revenue to be used for authorized construction. This is a major fund of the District.

The Debt Service Fund accounts for and reports expenditures for debt service. This is a major fund of the District.

b. Proprietary fund types

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

The Day Care Fund and the Community Education Fund are used to account for and report after-school child care and community education revenues and programs where a fee is charged for participating. These are major funds of the District.

c. Fiduciary fund type

Student Activity Funds account for and report activities of student groups and other types of activities requiring clearing accounts. These funds comply with *Accounting Procedures for Kentucky School Activity Funds*.

Budgetary process – The District’s budgetary process accounts for transactions on the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America.

In accordance with state law, the District prepares a general school budget based upon the amount of revenue to be raised by local taxation, including the rate of levy, and from estimates of other local, state, and federal revenues. The budget contains estimated expenditures for current expenses, debt service, capital outlay, and other necessary expenses. The budget must be approved by the Board.

The District does not budget for on-behalf payments, which are reported with the General Fund and the School Food Service Fund in the fund financial statements and the budgetary comparison supplementary information.

The District must formally and publicly examine estimated revenues and expenses for the subsequent fiscal year by January 31 of each year.

Additionally, the District must prepare an annual allocation to schools by March 1 of each year for the following fiscal year. This allocation must include the amount for certified and classified staff based on the District's staffing policy and the amount for the instructional supplies, materials, travel, and equipment.

Additionally, the District must adopt a tentative working budget for the subsequent fiscal year by May 30 of each year. This budget must contain a 2% reserve.

Finally, the District must adopt a final working budget and submit it to the Kentucky Department of Education by September 30 of the current fiscal year.

The Board has the ability to amend the working budget. The working budget was amended during the year.

Cash and cash equivalents – The District considers certificates of deposit and money market accounts with maturities of three months or less to be cash and cash equivalents.

Inventory – Inventory which consists of food and supplies is recorded at the lower of cost, determined by the first-in first-out (FIFO) method or, market.

Prepaid expenses – Payments made that will benefit periods beyond the end of the fiscal year are recorded as prepaid items on the accompanying statement of net position 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 services are consumed. No prepaid expenses were recorded as of June 30, 2014.

Bond issue costs – Bond issue costs are expenses as incurred.

Deferred loss on bond refundings – Deferred loss on bond refundings represents losses equal to the principal amount borrowed to refund the principal amount outstanding on previous bond issues. These amounts are recognized as deferred outflows of resources on the accompanying statement of net position. The amounts are amortized over the life of the new bond or the life of the refunded bond (whichever is shorter), and included in interest expense on the accompanying statement of activities.

Interfund balances – On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as due from or to other funds. 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 interfund balances.

Capital assets – General capital assets are those assets not specifically related to activities reported in the proprietary funds. Those assets generally result from expenditures in the governmental funds and 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 fund.

All capital assets are capitalized at cost (or estimated historical cost based on independent appraisals) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains capitalization thresholds of \$1,000, with the exception of computers and related

equipment 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 asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

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

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 in 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 if they will be liquidated with current resources. In general, payments made within 60 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.

Unearned revenue – Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

Accumulated sick leave – Sick leave benefits are calculated using the vesting method, and accrued based on the District's estimates using historical trend information. The current portion of the liability is estimated based on anticipated payouts in the succeeding fiscal year.

Fund balances – The District classifies its governmental fund balances as follows:

Nonspendable – This category includes funds that are not available to be spent because they are not in spendable format, or because they are legally required to remain intact. The District does not have any nonspendable funds as of June 30, 2014.

Restricted – This category includes resources that are restricted by state law to be used for certain purposes. The SEEK Capital Outlay Fund and the FSPK Fund are restricted to be used for future debt service or future construction projects. The School Construction Fund is restricted for future construction projects. The Debt Service Fund is restricted for debt service.

Committed – This category includes funds that have been designated for future use by the Board. Only the Board may commit funds and modify or rescind the commitment.

Assigned – This category represents funds that have been designated for future sick leave obligations. Assignments can be made by authorized members of management.

Unassigned – This category represents the remainder of the governmental fund balances that do not belong in any other fund balance classifications.

When the District incurs an expenditure for which committed, assigned, or unassigned funds are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

When the District incurs an expenditure for which both restricted and unrestricted (assigned and unassigned, respectively) funds are available within a given fund, the District generally spends restricted funds first and unrestricted funds last.

Net position – Net position represents the difference between assets, deferred outflows of resources, and liabilities. Amounts 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 the asset's 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. When the District incurs an expenditure for which both restricted and unrestricted funds are available, the District considers restricted funds to have been spent first.

Interfund activity – Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds, and after nonoperating revenues/expenses in proprietary funds. These transactions are eliminated in the governmental and business-type activities columns of the statement of activities.

Encumbrance accounting – Encumbrances are not liabilities, and therefore are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are reappropriated in the next fiscal year.

Estimates – The preparation of basic financial statements 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 basic financial statements, and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Subsequent events – The District's management has evaluated subsequent events through November 10, 2014, the date which the financial statements were available for issue. No subsequent events were of such a nature as to require disclosure.

New accounting pronouncements – In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and in November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 replace previous requirements related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of GASB Statements No. 68 and No. 71 are to improve accounting and financial reporting for pensions provided to the employees of state and local governments, and information about financial support for pensions that is provided by other entities. These statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. GASB Statements No. 68 and No. 71 also provide related note disclosure and supplementary information requirements. GASB Statements No. 68 and No. 71 are effective for years beginning after June 15, 2014. The District has not determined the potential impact these pronouncements will have on its future financial statements.

2. Deposits with financial institutions

As of June 30, 2014, the carrying amount of the District's deposits with financial institutions was \$4,556,325, and its bank balance totaled \$6,450,770. Of the total bank balances, \$250,000 was covered by federal depository insurance, with the remainder covered by a collateral agreement with securities.

Cash and cash equivalents are commingled in various bank accounts. Due to the nature of the accounts and limitations imposed by bond issue requirements, construction projects, and financial assistance programs, each cash and cash equivalent amount within the following funds is considered to be restricted:

SEEK Capital Outlay Fund
School Construction Fund
Student Activity Funds

District funds are considered to be public funds and therefore their investment is limited by statute to certain obligations of the United States or similar government agencies, cash instruments, and certain pooled investment funds.

3. Taxes

The District's ad valorem property tax is levied each September 30 on the assessed value listed as of the prior January 1 for all real and personal property located in the District. Taxes are due on January 2 and become delinquent after January 31 following the September 30 levy date.

The property tax rates assessed for the year ended June 30, 2014 were \$.578 per \$100 valuation for real property, \$.578 per \$100 valuation for business personal property, and \$.40 per \$100 valuation for motor vehicles.

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

4. Capital assets

Capital asset activity for the fiscal year ended June 30, 2014 is as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2014</u>
Land	\$ 285,807	\$ -	\$ -	\$ 285,807
Land improvements	1,027,170	13,000	-	1,040,170
Buildings and improvements	24,297,106	37,532	-	24,334,638
Technology equipment	2,184,566	201,239	-	2,385,805
Vehicles	2,065,990	88,007	-	2,153,997
General equipment	877,560	4,390	-	881,950
Other	<u>1,204</u>	<u>-</u>	<u>-</u>	<u>1,204</u>
Total cost	30,739,403	344,168	-	31,083,571

<u>Governmental Activities</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2014</u>
Less accumulated depreciation:				
Land improvements	\$ 626,167	\$ 33,999	\$ -	\$ 660,166
Buildings and improvements	6,510,353	553,963	-	7,064,316
Technology equipment	1,606,008	233,329	-	1,839,337
Vehicles	1,577,382	128,746	-	1,706,128
General equipment	700,372	54,666	-	755,038
Other	<u>471</u>	<u>60</u>	<u>-</u>	<u>531</u>
 Total accumulated depreciation	 <u>11,020,753</u>	 <u>1,004,763</u>	 <u>-</u>	 <u>12,025,516</u>
 Governmental activities net capital assets	 <u>\$ 19,718,650</u>	 <u>\$ (660,595)</u>	 <u>\$ -</u>	 <u>\$ 19,058,055</u>
 <u>Business-Type Activities</u>				
 Food service equipment	 \$ 657,980	 \$ -	 \$ -	 \$ 657,980
Less accumulated depreciation:				
Food service equipment	<u>338,157</u>	<u>49,991</u>	<u>-</u>	<u>388,148</u>
 Business-type activities net capital assets	 <u>\$ 319,823</u>	 <u>\$ (49,991)</u>	 <u>\$ -</u>	 <u>\$ 269,832</u>

Governmental activities depreciation expense is allocated to specific functions or programs on the statement of activities as follows:

Instruction	\$ 782,742
Instructional staff support services	23,122
District administration	22,808
School administration	5,795
Business support services	4,851
Plant operations and maintenance	33,146
Student transportation	131,559
Community services	<u>740</u>
 Total depreciation expense	 <u>\$ 1,004,763</u>

5. Bonded debt and lease obligations

The amounts shown in the accompanying basic financial statements as bond obligations represent the District's future obligations to make lease payments relating to the bonds issued by the Hancock County School District Finance Corporation.

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

<u>Issue</u>	<u>Proceeds</u>	<u>Interest Rates</u>
2004 Energy	\$ 2,310,000	3.00 – 4.38%
2007	3,585,000	3.45 – 4.18%
2009	653,459	1.00 – 3.25%
2010	1,850,000	1.50 – 4.50%
2012	675,000	3.75%
2012	8,010,000	2.00 – 2.375%
2013	975,000	0.70 – 1.100%
2014	480,000	3.00 – 4.00%

The District, through the General Fund, the Facility Support Program (FSPK) Fund, and the SEEK Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Hancock County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 2007, 2010, 2012, and 2014, the District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The participation agreements generally provide for the Commission to assist the District in meeting bond obligations and are renewable, at the Commission's option, bi-annually. Should the Kentucky General Assembly choose to not fund the Commission in the future, the District would be responsible for meeting the full requirements of the bond issues. The District has also entered into an agreement with the Federal government. This agreement grants, under the Build American Bonds stimulus program, rebates up to approximately 35% of future debt service interest (approximately \$319,344 through 2030) scheduled for the 2011 issue. The table below sets forth the District's responsibility to make future debt service payments absent of those rebates, and the amount to be paid by the Commission, for each year until maturity of all bond issues.

The bonds may be called prior to maturity with redemption premiums specified in each issue. Assuming no bonds are called prior to scheduled maturity, the District's minimum obligations, including amounts to be paid by the Commission, as of June 30, 2014 for debt service (principal and interest) are as follows:

Fiscal Year Ending	Hancock County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2015	\$ 480,677	\$ 237,958	\$ 543,783	\$ 174,353	\$ 1,436,771
2016	495,209	228,909	560,155	161,955	1,446,228
2017	507,938	219,262	571,950	149,006	1,448,156
2018	508,008	208,934	570,805	135,853	1,423,600
2019	518,314	198,780	583,202	122,568	1,422,864
2020	429,809	188,020	580,191	109,224	1,307,244
2021	437,325	177,343	592,675	95,757	1,303,100
2022	444,403	166,326	610,597	81,929	1,303,255
2023	460,564	154,502	624,436	67,035	1,306,537
2024	470,701	141,598	639,299	51,116	1,302,714
2025	548,809	119,376	171,191	34,224	873,600
2026	574,076	95,050	180,924	28,358	878,408
2027	594,097	69,043	185,903	22,155	871,198
2028	615,752	42,105	169,248	16,322	843,427
2029	189,173	24,200	95,827	12,263	321,463
2030	197,751	12,376	102,249	9,575	321,951
2031	-	-	75,000	6,687	81,687
2032	-	-	30,000	3,800	33,800
2033	-	-	30,000	2,600	32,600
2034	-	-	35,000	1,400	36,400
	<u>\$ 7,472,606</u>	<u>\$ 2,283,782</u>	<u>\$ 6,952,435</u>	<u>\$ 1,286,180</u>	<u>\$ 17,995,003</u>

A summary of the changes in the outstanding bonds during the fiscal year ended June 30, 2014 is as follows:

Issue	Balance July 1, 2013	Additions	Payments	Balance June 30, 2014
2004 Energy	\$ 160,000	\$ -	\$ 160,000	\$ -
2007	3,225,000	-	80,000	3,145,000
2009	442,115	-	72,074	370,041
2010	1,680,000	-	55,000	1,625,000
2012	625,000	-	25,000	600,000
2012	7,825,000	-	570,000	7,255,000
2013	975,000	-	25,000	950,000
2014	-	480,000	-	480,000
Totals	<u>\$ 14,932,115</u>	<u>\$ 480,000</u>	<u>\$ 987,074</u>	<u>\$ 14,425,041</u>

6. Accumulated unpaid sick leave benefits

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

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accumulated sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the accumulated sick leave payable account in the General Fund. The noncurrent portion of the liability is not reported.

A summary of the changes in the accumulated unpaid sick leave benefits during the fiscal year ended June 30, 2014 is as follows:

Balance as of July 1, 2013	\$ 629,794
Additions	62,000
Less payments/forfeitures	<u>321,554</u>
Balance as of June 30, 2014	370,240
Less current portion	<u>78,246</u>
Noncurrent portion	<u><u>\$ 291,994</u></u>

7. Accrued insurance claims liability

The District has previously purchased workers compensation insurance through the Kentucky School Boards Insurance Trust (KSBIT). KSBIT filed for bankruptcy. Accordingly, the participant districts are subject to KSBIT's unpaid outstanding claims. In 2013, the KSBIT Board provided the District with an estimate of the District's potential share of the loss (approximately \$268,000 highest estimate), and an estimate of the District's most likely loss (\$236,163). The District accrued \$236,163 as of June 30, 2013. During 2014 the KSBIT invoiced the District for its share of the outstanding claim. The District has included \$52,553 accrued liabilities and the remaining liability of \$157,660 is included as a noncurrent liability on the accompanying statement of net position as it will be paid in future years. There is potential additional liability pertaining to this matter. The potential additional liability, if any, is not determinable at this time.

8. Commitments and contingencies

The District receives funding from federal and state government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review the funds are considered not to have been used for the intended purpose, the grantor may request a refund of funds advanced, or refuse to reimburse the District for its disbursements. The collectability of any related receivables as of June 30, 2014 may be impaired. 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.

9. 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 require that members of KTRS occupy a position requiring either a four year college degree or certification by the Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601, or from the KTRS website at <http://www.ktrs.ky.gov/>.

Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members who participated in a state retirement system before July 1, 2008, and 14.105% of salaries for members who started their account after July 1, 2008. 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 access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing, multiple-employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance, and the General Assembly.

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

In order to fund the post-employment healthcare benefit, active member contributions are matched by the State at 0.75% of members' gross salaries. Member contributions are 2.25% of salary. Also, the premiums collected from retirees, as described in the plan description, and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the District pays 1.5% of members' salaries for the 2013-2014 fiscal year.

The District's total payroll was \$9,949,026, \$9,969,567, and \$10,184,256 for the years ended June 30, 2014, 2013, and 2012, respectively. The payroll for employees covered under KTRS was \$7,171,054, \$7,258,358, and \$7,377,576 for the years ended June 30, 2014, 2013, and 2012, respectively. The Commonwealth contributed \$985,640, \$983,734, and \$926,760 to KTRS for the years ended June 30, 2014, 2013, and 2012, respectively, for the benefit of the participating employees. The District's contributions to KTRS were \$36,443, \$40,058, and \$44,264 for the years ended June 30, 2014, 2013, and 2012, respectively, which represents those employees covered by federal programs.

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 administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. CERS provides retirement, death, disability, and health benefits to members and their beneficiaries. Under KRS provisions, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report can be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan members are required to contribute 5% of their annual covered compensation if hired before September 1, 2008, or 6% of their annual covered compensation if hired after September 1, 2008, and the District is required to contribute at an actuarially determined rate. The current rate is 18.89% of the employee's total covered compensation. The contribution requirements of plan members and the District are established and may be amended by the Kentucky Retirement System's Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013, and 2012 were \$450,289, \$478,759, and \$489,540, respectively, and are equal to the required contribution for the related year.

The District also offers employees three options to participate in a 403(b) Plan under Section 403(b), 401(k), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate in the American Fidelity, Lincoln, or 403B ASP plans, and may contribute up to the maximum amount allowable by law. Members contributed approximately \$166,910 during the year ended June 30, 2014. The District does not contribute to these plans.

10. On-behalf payments for fringe benefits

The District receives on-behalf payments for fringe benefits from the Commonwealth of Kentucky. The following amounts are included as revenues and expenses/expenditures on the statement of activities, and the statement of revenues, expenditures, and changes in fund balances/net position:

Retirement contributions to KTRS	\$ 985,640
Health and life insurance	<u>1,498,209</u>
Total	<u>\$ 2,483,849</u>

11. Insurance, risk management, and related activities

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc.; and risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, natural disasters, workers compensation, unemployment, 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. Premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

Settled claims resulting from these risks have exceeded commercial insurance coverage in any of the past three fiscal years as explained in Note 7.

12. Deficit operating/fund balances

There are no District funds that currently have a deficit fund balance. However, the SEEK Capital Outlay Fund, School Food Service Fund, Day Care Fund, and Community Education Fund had operations that resulted in a current year operating loss resulting in a corresponding reduction of fund balance.

13. 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.

14. Transfer of funds

The following transfers were made during the year ended June 30, 2014:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Matching Funds	\$ 23,782
Debt Service	General	Debt Service Fund	Debt Payments	101,025
Debt Service	FSPK	Debt Service Fund	Debt Payments	552,057
Debt Service	SEEK Capital Outlay	Debt Service Fund	Debt Payments	27,987
Operating	SEEK Capital Outlay	General	Administrative	167,531

15. Interfund receivables and payables

Interfund balances as of June 30, 2014 consist of the following:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Special Revenue	Cash Flow	\$ 111,846

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND Year ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
From local sources:				
Taxes:				
Property	\$ 2,498,000	\$ 2,560,000	\$ 2,706,356	\$ 146,356
Motor vehicle	202,000	210,000	223,975	13,975
Utilities	1,100,000	1,100,000	1,263,603	163,603
Earnings on investments	23,000	23,000	29,502	6,502
Other local	255,154	256,139	244,754	(11,385)
Intergovernmental – State	6,766,174	6,678,483	9,132,310	2,453,827
Intergovernmental – Federal	<u>20,000</u>	<u>20,000</u>	<u>19,263</u>	<u>(737)</u>
Total revenues	10,864,328	10,847,622	13,619,763	2,772,141
Expenditures				
Current:				
Instruction	6,102,173	6,304,775	7,553,846	(1,249,071)
Student support services	541,230	527,600	633,379	(105,779)
Instructional staff support services	490,304	545,936	660,656	(114,720)
District administration	494,044	518,410	486,374	32,036
School administration	938,759	903,046	1,139,037	(235,991)
Business support services	375,626	517,006	482,584	34,422
Plant operations and maintenance	1,287,822	1,255,268	1,373,825	(118,557)
Student transportation	1,087,021	1,106,866	1,210,079	(103,213)
Non-instructional	-	-	12,167	(12,167)
Community services	20,996	20,541	22,499	(1,958)
Facilities acquisition and construction	-	-	13,000	(13,000)
Contingency	2,464,729	2,205,674	-	2,205,674
Debt service	<u>109,389</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>13,912,093</u>	<u>13,905,122</u>	<u>13,587,446</u>	<u>317,676</u>
(Deficit) excess of revenues (under) over expenditures	(3,047,765)	(3,057,500)	32,317	3,089,817
Other financing sources (uses)				
Operating transfers in	71,759	79,525	167,531	88,006
Operating transfers out	<u>(23,994)</u>	<u>(122,025)</u>	<u>(124,807)</u>	<u>(2,782)</u>
Total other financing sources (uses)	<u>47,765</u>	<u>(42,500)</u>	<u>42,724</u>	<u>85,224</u>
Net change in fund balance	(3,000,000)	(3,100,000)	75,041	3,175,041
Fund balance as of July 1, 2013	<u>3,315,006</u>	<u>3,315,006</u>	<u>3,315,006</u>	<u>-</u>
Fund balance as of June 30, 2014	<u>\$ 315,006</u>	<u>\$ 215,006</u>	<u>\$ 3,390,047</u>	<u>\$ 3,175,041</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS**

Year ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
From local sources:				
Earnings on investments	\$ -	\$ -	\$ 12,755	\$ 12,755
Intergovernmental – State	494,423	641,353	645,530	4,177
Intergovernmental – Federal	<u>715,624</u>	<u>834,998</u>	<u>796,318</u>	<u>(38,680)</u>
Total revenues	1,210,047	1,476,351	1,454,603	(21,748)
Expenditures				
Current:				
Instruction	647,707	950,057	916,028	34,029
Student support services	50,705	54,397	61,047	(6,650)
Instructional staff support services	279,365	296,132	291,714	4,418
Business support services	10,000	10,000	50,887	(40,887)
Student transportation	72,650	46,413	18,357	28,056
Community services	<u>141,626</u>	<u>140,352</u>	<u>140,352</u>	<u>-</u>
Total expenditures	<u>1,202,053</u>	<u>1,497,351</u>	<u>1,478,385</u>	<u>18,966</u>
Excess (deficit) of revenues over (under) expenditures	7,994	(21,000)	(23,782)	(2,782)
Other financing sources				
Operating transfers in	<u>23,994</u>	<u>21,000</u>	<u>23,782</u>	<u>2,782</u>
Net change in fund balance	31,988	-	-	-
Fund balance as of July 1, 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as of June 30, 2014	<u>\$ 31,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
MIDDLE AND ELEMENTARY SCHOOLS ACTIVITY FUNDS
Year ended June 30, 2014**

<u>School</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
North Hancock Elementary School	\$ 33,572	\$ 93,115	\$ 93,082	\$ 33,605	\$ -	\$ 268	\$ 33,337
South Hancock Elementary School	38,815	33,387	29,879	42,323	-	-	42,323
Hancock County Middle School	<u>48,830</u>	<u>121,895</u>	<u>100,308</u>	<u>70,417</u>	<u>-</u>	<u>-</u>	<u>70,417</u>
Totals	<u>\$ 121,217</u>	<u>\$ 248,397</u>	<u>\$ 223,269</u>	<u>\$ 146,345</u>	<u>\$ -</u>	<u>\$ 268</u>	<u>\$ 146,077</u>

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS
Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
General	\$ 1,972	\$ 17,842	\$ 18,320	\$ 499	\$ 1,993	\$ -	\$ 256	\$ 1,737
Teachers lounge	-	885	1,721	1,280	444	-	33	411
Vending	162	4,156	3,183	156	1,291	-	-	1,291
Gumball	2	-	-	(2)	-	-	-	-
Flower and gift fund	77	440	240	-	277	-	-	277
Gate receipts	-	61,351	4,494	(20,091)	36,766	1,050	-	37,816
Athletic Department	41,550	6,587	13,628	(34,509)	-	-	-	-
Athletic Director	-	240	4,642	4,402	-	-	-	-
Archery	-	-	760	760	-	-	-	-
Archery boosters	-	6,298	2,405	-	3,893	-	-	3,893
Baseball	-	1,070	6,982	5,912	-	602	-	602
Boys basketball	-	-	5,120	5,120	-	-	-	-
Boys basketball boosters	-	24,552	23,134	3,740	5,158	-	-	5,158
Cross country	-	1,150	3,683	2,533	-	-	-	-
Football	-	7,490	20,660	13,170	-	-	-	-
Football boosters	-	34,122	28,704	(1,050)	4,368	-	-	4,368
Girls basketball	-	-	3,995	3,995	-	-	-	-
Girls basketball boosters	-	15,538	9,023	940	7,455	-	-	7,455
Golf	-	-	1,870	1,870	-	-	-	-

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
Softball	\$ -	\$ 750	\$ 4,647	\$ 3,897	\$ -	\$ -	\$ -	\$ -
Tennis	-	1,501	2,140	639	-	-	-	-
Track	-	-	2,313	2,313	-	-	-	-
Track and XC boosters	-	19,518	19,389	1,150	1,279	-	-	1,279
Volleyball	-	-	4,095	4,095	-	-	-	-
Volleyball boosters	-	13,621	11,639	2,240	4,222	-	-	4,222
PTO fundraiser	4,148	12,717	14,192	(1,280)	1,393	-	-	1,393
Golf tournament	1,515	3,548	4,813	-	250	-	-	250
Tri-Concessions	-	17,287	9,025	(6,720)	1,542	-	-	1,542
Athletic long term	-	-	2,071	2,071	-	-	-	-
State tournament	-	2,903	4,657	1,754	-	-	-	-
Academic team	312	1,258	906	-	664	-	-	664
Arts and Humanities	362	130	474	-	18	-	-	18
Beta Club	997	1,818	1,783	-	1,032	-	-	1,032
Cheerleaders	2,244	45,670	48,563	1,700	1,051	-	-	1,051
Dedicated Teens	19	-	-	(19)	-	-	-	-
FBLA	419	-	80	(10)	329	-	-	329
FCA	352	-	-	-	352	-	-	352
FEA	536	-	-	-	536	-	-	536

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash</u> <u>July 1,</u> <u>2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund</u> <u>Transfers</u>	<u>Cash</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Receivable</u> <u>June 30,</u> <u>2014</u>	<u>Accounts</u> <u>Payable</u> <u>June 30,</u> <u>2014</u>	<u>Due to</u> <u>Student</u> <u>Groups</u> <u>June 30,</u> <u>2014</u>
FFA	\$ 1,434	\$ 15,442	\$ 13,445	\$ (20)	\$ 3,411	\$ -	\$ -	\$ 3,411
FHA	1,856	7,022	5,992	(544)	2,342	-	-	2,342
FCCLA Regional	-	530	180	-	350	-	-	350
Art Club	5	190	190	-	5	-	-	5
Pep Club	129	1,041	906	-	264	-	-	264
Reading Club	1,632	15	776	-	871	-	-	871
Spanish Club	-	318	955	637	-	-	-	-
Sp Educ.Learn Ctr	934	58	396	-	596	-	-	596
Social Studies Club	350	135	60	-	425	-	-	425
Student Council	38	120	120	-	38	-	-	38
TSA	1,530	2,009	1,979	55	1,615	-	482	1,133
Skills USA	730	10	72	-	668	-	-	668
HOSA	172	2,780	2,182	265	1,035	-	-	1,035
STLP	-	3,046	1,851	(250)	945	-	28	917
Business	205	-	-	-	205	-	-	205
Chorus	5,940	8,373	10,945	-	3,368	-	-	3,368
Community Based								
Education	534	1,664	1,688	(90)	420	-	-	420
Health and PE	97	-	-	-	97	-	-	97

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
Family Consumer	\$ 288	\$ 742	\$ 910	\$ 200	\$ 320	\$ -	\$ -	\$ 320
Theatre	5,597	3,937	5,419	-	4,115	-	-	4,115
Yearbook	1,918	7,225	1,670	-	7,473	-	-	7,473
C D Mayfield Scholar	354	-	-	-	354	-	-	354
Scholarship	1,294	4,100	4,050	-	1,344	-	-	1,344
General equipment	3	-	-	(3)	-	-	-	-
In lieu of textbooks	211	78	-	-	289	-	-	289
Memorial Garden	126	-	-	-	126	-	-	126
Textbook rental	7,039	28,695	33,400	-	2,334	-	-	2,334
Field trips	48	2,622	1,985	(637)	48	-	-	48
Technology	1,200	1,269	2,271	-	198	-	-	198
Student/staff need	26	-	-	-	26	-	-	26
Prom account	3,063	3,430	3,286	1,250	4,457	-	-	4,457
Relay for Life	-	1,285	978	-	307	-	-	307
HCBank	-	1,060	-	-	1,060	-	-	1,060
100 Club	27	-	-	(27)	-	-	-	-
Summer school	1,450	430	757	-	1,123	-	-	1,123
KOSSA	15	-	195	192	12	-	-	12
After prom	423	1,410	1,766	300	367	-	-	367

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND DUE TO STUDENT GROUPS –
HANCOCK COUNTY HIGH SCHOOL ACTIVITY FUNDS – CONTINUED
Year ended June 30, 2014**

<u>Activity Fund</u>	<u>Cash July 1, 2013</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Interfund Transfers</u>	<u>Cash June 30, 2014</u>	<u>Accounts Receivable June 30, 2014</u>	<u>Accounts Payable June 30, 2014</u>	<u>Due to Student Groups June 30, 2014</u>
Math department	\$ 9	\$ 2,500	\$ 2,509	\$ -	\$ -	\$ -	\$ -	\$ -
Fletcher Thrasher S	250	10,860	10,628	(20)	462	-	-	462
IT scholarship	780	30	172	-	638	-	-	638
Youth Service Center	2,785	2,228	3,533	(30)	1,450	-	-	1,450
IPad repairs	-	304	-	-	304	-	-	304
Class of 2013	805	45	309	(541)	-	-	-	-
Class of 2014	2,317	1,749	2,774	(1,292)	-	-	-	-
Class of 2015	612	1,697	689	-	1,620	-	-	1,620
Class of 2016	407	681	273	-	815	-	-	815
Class of 2017	-	1,365	741	-	624	-	-	624
Totals	\$ 101,300	\$ 422,937	\$ 403,403	\$ -	\$ 120,834	\$ 1,652	\$ 799	\$ 121,687

HANCOCK COUNTY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
Cash expenditures			
<u>U.S. Department of Education</u>			
Kentucky Department of Education:			
Title I	84.010	3100002-13	\$ 195,552
		3100002-12	<u>45,092</u>
Subtotal			240,644
Special Education	84.027	3810002-13	270,263
		3810002-12	9,253
		3810002-11	<u>3,568</u>
Subtotal			283,084
Special Education Preschool	84.173	3800002-12	15,641
		3800002-11	<u>7,736</u>
Subtotal			23,377
Vocational Education Basic	84.048	4621332-13	534
		3710002-13	<u>10,223</u>
Subtotal			10,757
Improving Teacher Quality	84.367	3230002-13	60,944
		3230002-12	<u>17,116</u>
Subtotal			78,060
Adult Education	84.002	3654	2,429
		3734	21,000
		3734S	<u>752</u>
Subtotal			24,181
21 st Century Community Learning Centers	84.287	3400002-12	97,732
		3400002-11	<u>33,066</u>
Subtotal			130,798
Race to the Top	84.413	3960002-11	<u>5,417</u>
Total U.S. Department of Education			796,318

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED
Year ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Education:			
National School Lunch Program	10.555	7750002-14 7750002-13	\$ 274,307 <u>81,994</u>
Subtotal			<u>356,301</u>
National School Breakfast Program	10.553	7760005-14 7760005-13	106,141 <u>31,295</u>
Subtotal			<u>137,436</u>
Total U.S. Department of Agriculture			<u>493,737</u>
Total cash expenditures			1,290,055
Non-cash expenditures			
<u>U.S. Department of Agriculture</u>			
Kentucky Department of Agriculture:			
Food Donation	10.555	Not Provided	<u>70,810</u>
Total federal expenditures			<u>\$ 1,360,865</u>

See accompanying notes.

HANCOCK COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year ended June 30, 2014

1. Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hancock 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, Local Governments, and Non-Profit Organizations*.

2. Food donation

Nonmonetary assistance for food donation is reported in the schedule at the fair value of the commodities disbursed. These donations are received from the U.S. Department of Agriculture via the Kentucky Department of Agriculture (KDA). The KDA has not provided a pass-through grant number.

3. Program clusters

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

<u>Cluster Name</u>	<u>CFDA</u>	<u>Total Grant</u>
Child Nutrition	10.555/10.553	\$ 564,547
Special Education	84.027/84.173	306,461

**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
Hancock County School District
Hawesville, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, and each major fund of the Hancock County School District (District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings questioned costs to be a material weakness. See 2014-1.

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. We did not identify any deficiencies (other than 2014-1) that we consider to be significant deficiencies. However, significant deficiencies 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, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the *Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements*.

Response to Findings

We noted certain other matters that we reported to the District's management in a separate letter dated November 10, 2014.

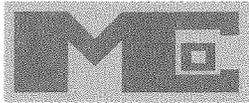
The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 10, 2014



**M A T H E R
& C O M P A N Y**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

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

Kentucky State Committee for
School District Audits
Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Hancock County School District's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities, and State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request, and Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to

obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 10, 2014

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued	Unmodified			
Internal control over financial reporting:				
Material weakness identified	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	None reported
Noncompliance material to financial statement notes	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

Federal Awards

Internal control over major programs:				
Material weaknesses identified	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
Significant deficiencies identified that are not considered to be material weaknesses	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	None reported
Type of auditor’s report issued on compliance for major programs	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.555/10.553	Child Nutrition
84.027/84.173	Special Education

Dollar threshold used to distinguish between Type A and Type B program	\$	300,000		
Auditee qualified as low risk	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No

(continued)

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED Year ended June 30, 2014

Section II – Financial Statement Findings

Current Year Finding

Statement of deficiency: Timely bank reconciliations were not performed on the school food service account throughout the year.

Criteria for deficiency: The School Food Service Department did not reconcile cash to the bank statement during the year end close.

Cause of the deficiency: The School Food Service Department was not in compliance with District and Kentucky Department of Education policy.

Effect of the deficiency: The District made a \$6,450 adjustment to correct the June 30, 2014 cash balance.

Recommendation for correction: We recommend the District perform bank reconciliations as part of the monthly closing procedures on School Food Service. We additionally recommend an individual with the District is appointed to review the bank reconciliation on a monthly basis to ensure it is performed.

Board response: The Superintendent and Accounting Manager met with the Food Service Coordinator and discussed the importance of timely monthly bank reconciliations and how to balance to the monthly Balance Sheet. The Food Service Coordinator will continue to do the monthly bank reconciliations and will turn them in to the Accounting Manager by the 15th of each month. The Accounting Manager will receive the monthly bank reconciliations, a copy of the bank statement, and the reconciliation of the deposits for the month to ensure and verify that the reconciliation is correct each month.

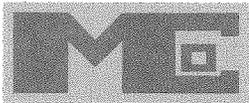
Section III – Federal Award Findings

No matters to report.

HANCOCK COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2014

There were no prior year audit findings.



**M A T H E R
& C O M P A N Y**

SOLUTION-DRIVEN CPAs and Business Advisors

Mather & Co. CPAs, LLC
Suite 200
9100 Shelbyville Rd
Louisville, KY 40222

Members of the Board of Education
Hancock County School District
Hawesville, Kentucky

In planning and performing our audit of the basic financial statements of the Hancock County School District (District) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Kentucky Public School Districts' Audit Contract and Requirements – Auditor Responsibilities*, and *State Compliance Requirements, Appendix I to Kentucky Public School Districts' Audit Contract and Requirements – Audit Extension Request*, and *Appendix II to Kentucky Public School Districts' Audit Contract and Requirements – Instructions for Submission of the Audit Report*, we considered the District's internal control over financial reporting and compliance to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting. In addition, providing an opinion on compliance was not an objective of our audit, and accordingly, we do not express such an opinion.

However, during our audit we became aware of instances of noncompliance that we do not consider to be material weaknesses or a significant deficiencies, but are opportunities for strengthening internal control. In addition, we followed up on matters we noted in our previous audit. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 10, 2014 on the financial statements.

Respectfully,

Mather & Co. CPAs, LLC

Mather & Co. CPAs, LLC
Louisville, Kentucky
November 10, 2014

HANCOCK COUNTY SCHOOL DISTRICT

**MANAGEMENT LETTER COMMENTS
JUNE 30, 2014**

ELEMENTARY, MIDDLE, AND HIGH SCHOOL ACTIVITY FUNDS

South Hancock Elementary School

Follow-up on Prior Year Findings

Prior year comment: The School did not follow Accounting Procedures for Kentucky School Activity Funds (Redbook) with regard to one purchase order.

Current year follow-up: No similar instances were noted in the current year.

Current Year Finding

Statement of deficiency: The School did not follow Redbook guidelines with regard to depositing receipts in a timely manner.

Criteria for deficiency: The School did not promptly deposit funds after collecting the funds from students.

Cause of the deficiency: Funds collected were not receipted and deposited within a day of the funds being collected from the students.

Effect of the deficiency: Redbook receipt guidelines for receipts were not followed.

Recommendation for correction: All funds collected from students should be deposited in accordance with Redbook procedures.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at South Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.

North Hancock Elementary School

Current Year Findings

Statement of deficiency: The School did not follow Redbook guidelines with regard to one purchase order.

Criteria for deficiency: The approved purchase order was dated after the invoice date.

Cause of the deficiency: The Principal did not approve the purchase order before item was ordered.

Effect of the deficiency: Redbook purchase guidelines were not followed.

Recommendation for correction: We recommend the District follow applicable Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at North Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed. The Superintendent and Accounting Manager will discuss the importance of following proper procedures for obtaining purchase orders before ordering supplies/materials and not after invoices are received for such items. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.

Statement of deficiency: The School did not follow Redbook guidelines with regard to depositing receipts in a timely manner.

Criteria for deficiency: The school did not promptly deposit funds after collecting the funds from the students.

Cause of the deficiency: Funds collected were not deposited within a day of the funds being collected from the students.

Effect of the deficiency: Redbook receipt guidelines were not followed.

Recommendation for correction: We recommend depositing all funds collected from students in accordance with Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at North Hancock Elementary School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed for depositing funds collected from students. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.

Hancock County Middle School

Follow-up on Prior Year Findings

Prior year comment: The School did not follow Redbook guidelines with regard to one purchase order.

Current year follow-up: No similar instance was noted in the current year.

Current Year Findings

Statement of deficiency: The school did not follow Redbook guidelines with regard to performing timely bank statement reconciliations during certain months of the school year.

Criteria for deficiency: This is a violation of Redbook guidelines.

Cause of the deficiency: The school had a change in personnel during the school year.

Effect of the deficiency: Accurate financial information was not available in a timely manner.

Recommendation for correction: We recommend reconciling all bank accounts on a timely basis each month

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County Middle School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed with timely bank statement reconciliations. The new bookkeeper has had proper training in this area and has a better understanding of the Redbook guidelines. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming year to try to prevent this issue from recurring in the future.

Statement of deficiency: The school did not follow Redbook guidelines with regard to issuing checks with only one signature.

Criteria for deficiency: The school did not have dual signatures on certain checks issued for payment.

Cause of the deficiency: The school had a change in personnel during the school year.

Effect of the deficiency: Redbook disbursement guidelines were not followed.

Recommendation for correction: We recommend the District follow applicable Redbook disbursement guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County Middle School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed with dual signatures on all checks written at the school level. The new bookkeeper has had proper training in this area and has a better understanding of the Redbook guidelines. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.

Statement of deficiency: The school did not follow Redbook guidelines with regard to depositing a receipt in a timely manner.

Criteria for deficiency: The school did not promptly deposit funds after collection.

Cause of the deficiency: The school sponsor dated the multiple receipt form in December and the funds were deposited in February.

Effect of the deficiency: Redbook receipt guidelines were not followed.

Recommendation for correction: We recommend all funds collected should be deposited in accordance with Redbook receipt guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County High School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed with depositing receipts from a fundraiser in a timely manner. The new bookkeeper has had proper training in this area and has a better understanding of the Redbook guidelines. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.

Hancock County High School

Current Year Finding

Statement of deficiency: The School did not follow Redbook guidelines with regard to depositing receipts intact.

Criteria for deficiency: The school did not deposit the entire amount of funds collected.

Cause of the deficiency: The school sponsor used cash to pay club registration fee and purchase lunch for the students.

Effect of the deficiency: Redbook guidelines were not followed.

Recommendation for correction: We recommend all funds collected from students should be deposited intact in accordance with Redbook guidelines.

Board response: The Superintendent and Accounting Manager will meet with the principal and bookkeeper at Hancock County High School to review the Kentucky School Activity Funds (Redbook) Accounting Procedures that should be followed with depositing receipts received from students and not using the cash receipts for other expenses. We will make sure that all teachers have proper training in this area and have a better understanding of the Redbook guidelines. The Superintendent and Accounting Manager will conduct and review an internal audit during the upcoming school year to try to prevent this issue from recurring in the future.