

Revised report

Received: 1/30/2015

**HART COUNTY SCHOOL DISTRICT**

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

Year Ended June 30, 2014

HART COUNTY SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

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

### ***Report on the Financial Statements***

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

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

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in Note 1 to the financial statements, the District adopted GASB Statement 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62* during the fiscal year.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 39 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2014, on our consideration of Hart County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hart County School District's internal control over financial reporting and compliance.



Certified Public Accountants  
Elizabethtown, Kentucky  
September 22, 2014

**REQUIRED SUPPLEMENTARY INFORMATION**

**HART COUNTY SCHOOL DISTRICT – MUNFORDVILLE, KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2014**

The discussion and analysis of Hart County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to review the School District’s financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District’s financial performance.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$647 thousand. Ending cash was \$922 thousand.
- Following the completion of the District long-range plan for facilities, there is a focus on investing in plant management with the age and size of our facilities reflective of this need.
- The District’s governmental fund balances declined. Fund balances decreased by \$120 thousand.
- The General Fund had \$18.6 million in revenue, which primarily consisted of the state program (SEEK), state on-behalf payments for retirement and health insurance and property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there were \$18.7 million in General Fund expenditures.
- Bonds are issued as the District builds and renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District’s total debt remained stable during the fiscal year..

**USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 38 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$10.9 million as of June 30, 2014.

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

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

**Net Position for the periods ending June 30, 2014 and 2013  
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Current and Other Assets	\$ 1,634,262	\$ 1,301,532	\$ 192,155	\$ 219,615	\$ 1,826,417	\$ 1,521,147
Capital Assets	<u>28,570,042</u>	<u>29,761,795</u>	<u>708,174</u>	<u>756,924</u>	<u>29,278,216</u>	<u>30,518,719</u>
Total Assets	<u>30,204,304</u>	<u>31,063,327</u>	<u>900,329</u>	<u>976,539</u>	<u>31,104,633</u>	<u>32,039,866</u>
Deferred Outflows	<u>922,873</u>				<u>922,873</u>	-
Long-term Debt	17,582,202	17,899,327			17,582,202	17,899,327
Other Liabilities	<u>2,677,965</u>	<u>1,947,580</u>	<u>8,403</u>	<u>3,593</u>	<u>2,686,368</u>	<u>1,951,173</u>
Total Liabilities	<u>20,260,167</u>	<u>19,846,907</u>	<u>8,403</u>	<u>3,593</u>	<u>20,268,570</u>	<u>19,850,500</u>
<b>Net Position</b>						
Net investment in capital assets	10,777,624	11,764,305	708,174	756,924	11,485,798	12,521,229
Restricted	92,398	95,308			92,398	95,308
Unrestricted	<u>(3,012)</u>	<u>(643,193)</u>	<u>183,752</u>	<u>216,022</u>	<u>180,740</u>	<u>(427,171)</u>
<b>Total Net Position</b>	<u>\$ 10,867,010</u>	<u>\$ 11,216,420</u>	<u>\$ 891,926</u>	<u>\$ 972,946</u>	<u>\$ 11,758,936</u>	<u>\$ 12,189,366</u>

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

The District put in service \$33 thousand in capital assets.

**Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2014, net of Interfund transfers, were \$25.8 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$100 thousand less than budget.
- The total cost of all programs and services including debt service was \$27.8 million.
- General fund budget expenditures to actual varied significantly in Other Expenses. This resulted from the District not having to spend budgeted contingency funds.

The following Table 2 presents a summary of changes in net position for the fiscal years ended June 30, 2014 and 2013.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
<b>REVENUES:</b>						
<b>Program revenues:</b>						
Charges for services	\$ -	\$ 202	\$ 340,829	\$ 377,761	\$ 340,829	\$ 377,963
Operating grants and contributions	7,805,466	7,679,023	1,185,794	1,197,128	8,991,260	8,876,151
Capital grants	1,448,720	1,462,441	-	-	1,448,720	1,462,441
<b>General revenues:</b>						
Property taxes	2,892,971	2,609,011	-	-	2,892,971	2,609,011
Motor vehicle taxes	410,373	390,559	-	-	410,373	390,559
Utility taxes	1,193,649	1,129,089	-	-	1,193,649	1,129,089
Revenue in lieu of taxes	103,866	114,529	-	-	103,866	114,529
Other taxes	12,796	10,918	-	-	12,796	10,918
Gain on disposal of capital assets	19,757	9,911	-	-	19,757	9,911
Investment earnings	10,410	10,198	449	406	10,859	10,604
State and formula grants	10,301,524	10,363,119	-	-	10,301,524	10,363,119
Miscellaneous	86,011	27,641	-	-	86,011	27,641
<b>Total revenues</b>	<b>24,285,543</b>	<b>23,806,641</b>	<b>1,527,072</b>	<b>1,575,295</b>	<b>25,812,615</b>	<b>25,381,936</b>
<b>EXPENSES</b>						
<b>Program Activities</b>						
Instruction	13,956,489	13,246,887	-	-	13,956,489	13,246,887
Student support	1,267,631	1,271,541	-	-	1,267,631	1,271,541
Instructional staff support	1,144,100	975,786	-	-	1,144,100	975,786
District administrative support	1,109,395	830,987	-	-	1,109,395	830,987
School administrative support	1,420,364	1,330,383	-	-	1,420,364	1,330,383
Business support	690,860	609,189	-	-	690,860	609,189
Plant operation and maintenance	2,043,932	1,869,335	-	-	2,043,932	1,869,335
Student transportation	1,926,870	1,883,078	-	-	1,926,870	1,883,078
Community service activities	267,779	255,890	-	-	267,779	255,890
Other	155,679	205,808	-	-	155,679	205,808
Interest costs	657,240	914,226	-	-	657,240	914,226
<b>Business-type Activities:</b>						
Food service	-	-	1,608,092	1,588,733	1,608,092	1,588,733
<b>Total expenses</b>	<b>24,640,339</b>	<b>23,393,110</b>	<b>1,608,092</b>	<b>1,588,733</b>	<b>26,248,431</b>	<b>24,981,843</b>
<b>Change in net position before extraordinary item</b>	<b>(354,796)</b>	<b>413,531</b>	<b>(81,020)</b>	<b>(13,438)</b>	<b>(435,816)</b>	<b>400,093</b>
<b>Extraordinary item</b>	<b>130,332</b>	<b>(490,976)</b>	<b>-</b>	<b>-</b>	<b>130,332</b>	<b>(490,976)</b>
<b>Change in net position</b>	<b>\$ (224,464)</b>	<b>\$ (77,445)</b>	<b>\$ (81,020)</b>	<b>\$ (13,438)</b>	<b>\$ (305,484)</b>	<b>\$ (90,883)</b>

### Governmental Activities

Instruction comprises 57% of governmental program expenses. Support services expenses make up 39% of government expenses. The remaining expense for community services, interest and other expense accounts for the remaining 4% of total government expense.

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

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

	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instruction	\$ 13,956,489	\$ 13,246,887	\$ 8,062,419	\$ 7,655,489
Support Services	9,603,152	8,770,299	8,107,963	7,372,726
Community services	267,779	255,890	3,466	4,102
Facilities acquisition	-	-	(651,631)	(662,031)
Other	155,679	205,808	3,785	(5,026)
Interest costs	657,240	914,226	(139,849)	(113,816)
<b>Total Expenses</b>	<u><u>\$ 24,640,339</u></u>	<u><u>\$ 23,393,110</u></u>	<u><u>\$ 15,386,153</u></u>	<u><u>\$ 14,251,444</u></u>

**Business-Type Activities**

The business-type activities include the food service operation. This program had total revenues of \$1,527,072 and expenses of \$1,608,092 for fiscal year 2014. Of the revenues, \$340,829 was charges for services, \$1,185,794 was from State and Federal grants and \$449 was from investment earnings. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. If it becomes necessary, the School District will increase the charges for this activity.

**The School District's Funds**

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$25.2 million and expenditures and other financing uses of \$25.4 million.

**General Fund-Budget Highlights**

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

For the General Fund, revenues were budgeted at \$18.6 million with actual amounts of \$18.6 million. Budgeted expenditures of \$19.4 million compare with actual expenditures of \$18.7 million.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal year 2014 the School District had \$29.2 million invested in land, buildings, vehicles and equipment and \$28.6 million in governmental activities. Table 4 shows fiscal year 2014 and 2013 balances.

**(Table 4)**  
**Capital Assets at June 30, 2014 and 2013**  
**(Net of Depreciation)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 948,795	\$ 948,795	\$ -	\$ -	\$ 948,795	\$ 948,795
Construction in progress	-	-	-	-	-	-
Buildings and improvements	26,448,351	27,191,091	567,392	587,518	27,015,743	27,778,609
Technology	333,502	579,082	4,960	6,799	338,462	585,881
Vehicles	760,472	959,694	-	-	760,472	959,694
General equipment	78,922	83,133	135,822	162,607	214,744	245,740
<b>Total</b>	<b><u>\$28,570,042</u></b>	<b><u>\$29,761,795</u></b>	<b><u>\$708,174</u></b>	<b><u>\$756,924</u></b>	<b><u>\$29,278,216</u></b>	<b><u>\$30,518,719</u></b>

Table 5 shows changes in capital assets for the years ended June 30, 2014 and 2013.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Beginning balance	\$29,761,795	\$30,794,624	\$756,924	\$798,916	\$30,518,719	\$31,593,540
Additions	32,637	228,284	-	7,159	32,637	235,443
Retirements	11,551	-	-	-	11,551	-
Depreciation	(1,235,941)	(1,261,113)	(48,750)	(49,151)	(1,284,691)	(1,310,264)
<b>Ending balance</b>	<b><u>\$28,570,042</u></b>	<b><u>\$29,761,795</u></b>	<b><u>\$708,174</u></b>	<b><u>\$756,924</u></b>	<b><u>\$29,278,216</u></b>	<b><u>\$30,518,719</u></b>

### Debt

At June 30, 2014, the School District had \$17.7 million in bonds outstanding, of this amount \$7.5 million is to be paid from KSFCC funding provided by the State of Kentucky. A total of \$1.2 million is due within one year.

### District Challenges for the Future

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

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

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

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

Also, the District is facing a liability from the Kentucky School Boards' Insurance Trust of \$361 thousand which will be bonded in August 2014.

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

### **Future Budgetary Implications**

In Kentucky, the public schools fiscal year is July 1 - June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2014 - 2015 with a 5% contingency. Significant Board action that impacts the finances includes pay increases for all employees, additional spending for facility repairs outside of bonded building and renovation projects, and continued funding of Board initiatives.

### **Contacting the School District's Financial Management**

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

## **BASIC FINANCIAL STATEMENTS**

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2014

<b>Assets</b>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b><u>Current Assets</u></b>			
Cash and cash equivalents	\$ 776,502	\$ 145,653	\$ 922,155
Prepays	62,854		62,854
Inventory		46,502	46,502
Receivables:			
Taxes-current	157,656		157,656
Taxes-delinquent	8,052		8,052
Other receivables	87,644		87,644
Intergovernmental-State	65,278		65,278
Intergovernmental-Indirect Federal	476,276		476,276
<b>Total Current Assets</b>	<u>1,634,262</u>	<u>192,155</u>	<u>1,826,417</u>
<b><u>Noncurrent Assets</u></b>			
Non-depreciable capital assets	948,795		948,795
Depreciable capital assets, net of accumulated depreciation	<u>27,621,247</u>	<u>708,174</u>	<u>28,329,421</u>
<b>Total Noncurrent Assets</b>	<u>28,570,042</u>	<u>708,174</u>	<u>29,278,216</u>
<b>Total Assets</b>	<u>30,204,304</u>	<u>900,329</u>	<u>31,104,633</u>
<b>Deferred Outflows of Resources</b>			
Deferred amount on debt refundings	<u>922,873</u>		<u>922,873</u>
<b>Total Deferred Outflows of Resources</b>	<u>922,873</u>	<u>-</u>	<u>922,873</u>
<b>Liabilities</b>			
<b><u>Current Liabilities</u></b>			
Accounts payable	263,641	2,377	266,018
Accrued payroll and related expenses	440,996		440,996
Unearned revenue	146,426	6,026	152,452
Bond obligations	1,205,000		1,205,000
Capital lease obligations	21,440		21,440
Compensated absences	117,524		117,524
KSBIT	360,644		360,644
Interest payable	122,294		122,294
<b>Total Current Liabilities</b>	<u>2,677,965</u>	<u>8,403</u>	<u>2,686,368</u>
<b><u>Noncurrent Liabilities</u></b>			
Bond obligations	16,416,036		16,416,036
Capital lease obligations	149,942		149,942
Compensated absences	<u>1,016,224</u>		<u>1,016,224</u>
<b>Total Noncurrent Liabilities</b>	<u>17,582,202</u>	<u>-</u>	<u>17,582,202</u>
<b>Total Liabilities</b>	<u>20,260,167</u>	<u>8,403</u>	<u>20,268,570</u>
<b><u>Net Position</u></b>			
Net investment in capital assets	10,777,624	708,174	11,485,798
Restricted	92,398		92,398
Unrestricted	<u>(3,012)</u>	<u>183,752</u>	<u>180,740</u>
<b>Total Net Position</b>	<u>\$ 10,867,010</u>	<u>\$ 891,926</u>	<u>\$ 11,758,936</u>

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

HART COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges For Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Instruction	\$ 13,956,489	\$ -	\$ 5,894,070	\$ -	\$ (8,062,419)	\$ -	\$ (8,062,419)
Support services:							
Student	1,267,631		145,045		(1,122,586)		(1,122,586)
Instruction staff	1,144,100		415,532		(728,568)		(728,568)
District administrative	1,109,395		65,531		(1,043,864)		(1,043,864)
School administrative	1,420,364		320,050		(1,100,314)		(1,100,314)
Business	690,860		79,694		(611,166)		(611,166)
Plant operation and maintenance	2,043,932		184,530		(1,859,402)		(1,859,402)
Student transportation	1,926,870		284,807		(1,642,063)		(1,642,063)
Community service activities	267,779		264,313		(3,466)		(3,466)
Facilities acquisition and construction				651,631	651,631		651,631
Other	155,679		151,894		(3,785)		(3,785)
Interest on long-term debt	657,240			797,089	139,849		139,849
<b>Total Governmental Activities</b>	<b>24,640,339</b>	<b>-</b>	<b>7,805,466</b>	<b>1,448,720</b>	<b>(15,386,153)</b>	<b>-</b>	<b>(15,386,153)</b>
<b>Business-Type Activities:</b>							
Food service	1,608,092	340,829	1,185,794	-	-	(81,469)	(81,469)
<b>Total Business-Type Activities</b>	<b>1,608,092</b>	<b>340,829</b>	<b>1,185,794</b>	<b>-</b>	<b>-</b>	<b>(81,469)</b>	<b>(81,469)</b>
<b>Total Primary Government</b>	<b>\$ 26,248,431</b>	<b>\$ 340,829</b>	<b>\$ 8,991,260</b>	<b>\$ 1,448,720</b>	<b>(15,386,153)</b>	<b>(81,469)</b>	<b>(15,467,622)</b>
<b>General Revenues:</b>							
Taxes:							
					2,892,971		2,892,971
					410,373		410,373
					1,193,649		1,193,649
					103,866		103,866
					12,796		12,796
					19,757		19,757
					10,410	449	10,859
					10,301,524		10,301,524
					86,011		86,011
					130,332		130,332
					<u>15,161,689</u>	<u>449</u>	<u>15,162,138</u>
					(224,464)	(81,020)	(305,484)
					<u>11,216,420</u>	<u>972,946</u>	<u>12,189,366</u>
					(124,946)		(124,946)
					<u>11,091,474</u>	<u>972,946</u>	<u>12,064,420</u>
					<u>\$ 10,867,010</u>	<u>\$ 891,926</u>	<u>\$ 11,758,936</u>

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

**FUND FINANCIAL STATEMENTS**

HART COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$ 933,054	\$ -	\$ 81,845	\$ 1,014,899
Prepays	62,854			
Receivables:				
Taxes - current	157,656			157,656
Taxes - delinquent	8,052			8,052
Other receivables	76,064	11,580		87,644
Intergovernmental - State		65,278		65,278
Intergovernmental - Indirect Federal		476,276		476,276
<b>Total Assets</b>	<u>\$ 1,237,680</u>	<u>\$ 553,134</u>	<u>\$ 81,845</u>	<u>\$ 1,809,805</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities</b>				
Accounts payable	\$ 165,654	\$ 97,987	\$ -	\$ 263,641
Cash overdraft		238,397		238,397
Accrued payroll and related expenses	440,996			440,996
Unearned revenue		146,426		146,426
<b>Total Liabilities</b>	606,650	482,810	-	1,089,460
<b>Fund Balances</b>				
Nonspendable	62,854			62,854
Restricted		10,553	81,845	92,398
Committed	304,587			304,587
Assigned	18,865	59,771		78,636
Unassigned	244,724			244,724
<b>Total Fund Balances</b>	<u>631,030</u>	<u>70,324</u>	<u>81,845</u>	<u>783,199</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,237,680</u>	<u>\$ 553,134</u>	<u>\$ 81,845</u>	<u>\$ 1,872,659</u>

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

**HART COUNTY SCHOOL DISTRICT**

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

June 30, 2014

Total fund balance per fund financial statements	\$ 783,199
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position.	
	28,570,042
Governmental funds record debt refundings as other financing uses when the issues are refunded. Unamortized losses on refundings are reported on the statement of net position as deferred outflows of resources.	
	922,873
Certain liabilities are not reported in this fund financial statement because because they are not due and payable, but they are presented in the statement of net position:	
Bonds payable (net of discounts/premiums)	(17,621,036)
Capital lease obligations	(171,382)
Interest payable	(122,294)
Compensated absences	(1,133,748)
KSBIT	<u>(360,644)</u>
Net position for governmental activities	<u>\$ 10,867,010</u>

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	General Fund	Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
From local sources:				
Taxes:				
Property	\$ 2,567,350	\$ -	\$ 325,621	\$ 2,892,971
Motor vehicle	410,373			410,373
Utilities	1,193,649			1,193,649
Revenue in lieu of taxes	103,866			103,866
Other taxes	12,796			12,796
Earnings on investments	10,410			10,410
Other local revenues	86,011	61,814		147,825
Intergovernmental - State	14,067,788	1,467,149	1,448,720	16,983,657
Intergovernmental - Indirect Federal	108,889	2,401,350		2,510,239
<b>Total Revenues</b>	<b>18,561,132</b>	<b>3,930,313</b>	<b>1,774,341</b>	<b>24,265,786</b>
<b>Expenditures:</b>				
Instruction	9,863,944	3,193,169		13,057,113
Support services:				
Student	1,243,855	12,495		1,256,350
Instruction staff	859,159	252,085		1,111,244
District administrative	815,708	1,161		816,869
School administrative	1,411,779			1,411,779
Business	846,355			846,355
Plant operation and maintenance	1,988,214	48,066		2,036,280
Student transportation	1,655,068	69,296		1,724,364
Community service activities	105	264,313		264,418
Other non-instruction	24,883	151,894		176,777
Debt service:				
Principal			1,200,000	1,200,000
Interest			492,689	492,689
<b>Total Expenditures</b>	<b>18,709,070</b>	<b>3,992,479</b>	<b>1,692,689</b>	<b>24,394,238</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(147,938)</b>	<b>(62,166)</b>	<b>81,652</b>	<b>(128,452)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets	8,205			8,205
Transfers in		33,877	895,408	929,285
Transfers out	(33,877)		(895,408)	(929,285)
<b>Total Other Financing Sources (Uses)</b>	<b>(25,672)</b>	<b>33,877</b>	<b>-</b>	<b>8,205</b>
<b>Excess (Deficit) of Revenue and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>(173,610)</b>	<b>(28,289)</b>	<b>81,652</b>	<b>(120,247)</b>
<b>Fund Balance, July 1, 2013</b>	<b>804,640</b>	<b>98,613</b>	<b>193</b>	<b>903,446</b>
<b>Fund Balance, June 30, 2014</b>	<b>\$ 631,030</b>	<b>\$ 70,324</b>	<b>\$ 81,845</b>	<b>\$ 783,199</b>

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

**HART COUNTY SCHOOL DISTRICT**

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

Year Ended June 30, 2014

Net change in total fund balances per fund financial statements	\$ (120,247)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(1,203,304)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net position.	1,407,525
Estimated claims that are not mature are not reported in this fund financial statement, but those that are probable and reasonably estimable This item is recorded as extraordinary item in the statement of activities as it is unusual in nature and infrequent in occurrence.	130,332
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(438,770)</u>
Change in net position of governmental activities	<u>\$ (224,464)</u>

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

HART COUNTY SCHOOL DISTRICT

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2014

	<u>Food Service Fund</u>
<b>Assets</b>	
<b><u>Current Assets</u></b>	
Cash and cash equivalents	\$ 145,653
Inventory	<u>46,502</u>
<b>Total Current Assets</b>	192,155
<b><u>Noncurrent Assets</u></b>	
Depreciable capital assets, net of accumulated depreciation	<u>708,174</u>
<b>Total Noncurrent Assets</b>	<u>708,174</u>
<b>Total Assets</b>	<u>900,329</u>
<b>Liabilities</b>	
<b><u>Current Liabilities</u></b>	
Accounts payable	2,377
Unearned revenue	<u>6,026</u>
<b>Total Current Liabilities</b>	<u>8,403</u>
<b><u>Net Position</u></b>	
Net investment in capital assets	708,172
Unrestricted	<u>183,754</u>
<b>Total Net Position</b>	<u>\$ 891,926</u>

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

Year Ended June 30, 2014

	<u>Food Service Fund</u>
<b>Operating Revenues:</b>	
Lunchroom sales	\$ 297,395
Other operating revenues	<u>43,434</u>
<b>Total Operating Revenues</b>	340,829
<b>Operating Expenses:</b>	
Salaries and wages	894,267
Materials and supplies	598,084
Depreciation	48,750
Other operating expenses	<u>66,991</u>
<b>Total Operating Expenses</b>	<u>1,608,092</u>
Operating loss	(1,267,263)
<b>Non-Operating Revenues (Expenses):</b>	
Federal grants	954,668
Donated commodities	78,426
State on-behalf payments	139,039
State grants	13,661
Interest income	<u>449</u>
<b>Total Non-Operating Revenues (Expenses)</b>	1,186,243
Changes in net position	(81,020)
<b>Net Position, July 1, 2013</b>	<u>972,946</u>
<b>Net Position June 30, 2014</b>	<u><u>\$ 891,926</u></u>

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2014

	<u>Food Service Fund</u>
<b>Cash Flows from Operating Activities</b>	
Cash received from:	
Lunchroom sales	\$ 303,422
Other activities	43,434
Cash paid to/for:	
Employees	755,228
Supplies	519,014
Other activities	66,991
	<hr/>
<b>Net Cash Used by Operating Activities</b>	(994,377)
<b>Cash flows from Non-Capital Financing Activities</b>	
Federal grants	1,032,254
State grants	13,661
	<hr/>
<b>Net Cash Provided by Non-Capital Financing Activities</b>	1,045,915
<b>Cash Flows from Investing Activities</b>	
Receipt of interest income	449
	<hr/>
Net increase in cash and cash equivalents	51,987
<b>Balances, beginning of year</b>	<hr/> 93,667
<b>Balances, end of year</b>	<u>\$ 145,654</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,267,263)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	48,750
State on-behalf payments	139,039
Donated commodities	78,426
Change in assets and liabilities:	
Inventory	1,861
Accounts payable	(1,217)
Unearned revenue	6,027
	<hr/>
<b>Net cash used by operating activities</b>	<u>\$ (994,377)</u>
<b>Schedule of non-cash transactions:</b>	
Donated commodities received from federal government	<u>\$ 78,426</u>
State on-behalf payments	<u>\$ 139,039</u>

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 22,408	\$ 280,955
Receivables		85
<b>Total Assets</b>	<u>22,408</u>	<u>281,040</u>
<b>Liabilities</b>		
Accounts payable		9,321
Due to student groups		271,719
<b>Total Liabilities</b>	<u>-</u>	<u>281,040</u>
<b>Net Position Held in Trust</b>	<u>\$ 22,408</u>	<u>\$ -</u>

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

**HART COUNTY SCHOOL DISTRICT**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

Year Ended June 30, 2014

	Private Purpose Trust Funds
<b>Additions</b>	
Net interest and investment gains (losses)	\$ 98
	98
<b>Deductions</b>	
Scholarships paid	-
	98
Change in net position	98
<b>Net Position, July 1, 2013</b>	<u>22,310</u>
<b>Net Position, June 30, 2014</b>	<u>\$ 22,408</u>

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### A. REPORTING ENTITY

The Hart County Board of Education ("Board"), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Hart County School District. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies, which may influence operations and primary accountability for fiscal matters.

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

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

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

###### Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds.

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The government-wide statement of net position presents the financial condition of the governmental and business-type activities of the District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

#### Fund Financial Statements

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

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

#### Governmental Funds

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2013

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

#### Proprietary Funds

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

##### Fiduciary Funds

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

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

##### BASIS OF ACCOUNTING

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

##### Modified Accrual

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Accrual

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

##### Revenue Recognition

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

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

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

#### C. BUDGETARY POLICIES

##### Budgetary Process

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

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

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

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

#### D. ENCUMBRANCES

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

**HART COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**E. CASH AND CASH EQUIVALENTS**

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

**F. INVENTORIES**

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

**G. PREPAID ITEMS**

Payments made that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**H. CAPITAL ASSETS**

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

##### I. LONG-TERM DEBT

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

##### J. COMPENSATED ABSENCES

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

##### K. ACCOUNTING ESTIMATES

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

##### L. IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

###### Recently Issued And Adopted Accounting Principles

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

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

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

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

##### Recently Issued Accounting Pronouncements

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this statement on the District's financial statements and the District adopted GASB 65 in fiscal year 2014 which resulted in a restatement of beginning net position of \$124,946 for bond issuance costs previously being amortized.

In March 2012, the GASB issued Statement 66, *Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62*. GASB 66 was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is effective for periods beginning after December 15, 2012 and the District adopted GASB 66 in fiscal year 2014.

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 as amended by GASB 71 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

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

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

#### NOTE 2 – PROPERTY TAXES

##### Property Taxes

Property Tax Revenues – Property taxes are normally levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund. The usual collection date is the period from November 1 through December 31. Property tax bills paid prior to December 1 receive a two percent discount. Property taxes received after December 31, are considered to be delinquent and the County Attorney can file a lien against the property.

The property tax rates assessed for the year ended June 30, 2014, to finance operations were \$.505 per \$100 valuation for real property, \$.505 per \$100 valuation for business personal property and \$.551 per \$100 valuation for motor vehicles.

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

#### NOTE 3 – DEPOSITS

##### Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2014, \$1,986,420 of the District's bank balance of \$2,236,420 was exposed to custodial credit risk. The bank balance not covered by depository insurance was collateralized by securities held by the pledging financial institution.

#### NOTE 4 – INTERFUND ACTIVITIES

The following transfers were made during the year:

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Special Revenue	Technology Match	\$ 33,877
Nonmajor Governmental	Nonmajor Governmental	Debt Service	895,408

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

**NOTE 5 - CAPITAL ASSETS**

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

Governmental Activities	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
Assets Not Being Depreciated:				
Land	\$ 948,795	\$ -	\$ -	\$ 948,795
<b>Total Assets Not Being Depreciated</b>	<b>948,795</b>	<b>-</b>	<b>-</b>	<b>948,795</b>
Depreciable Assets:				
Buildings and improvements	37,766,404			37,766,404
Technology equipment	2,848,384		(125,156)	2,723,228
Vehicles	4,154,149	20,155	(613,538)	3,560,766
General equipment	1,084,227	12,482	(7,243)	1,089,466
<b>Total ssets being depreciated at historical cost</b>	<b>45,853,164</b>	<b>32,637</b>	<b>(745,937)</b>	<b>45,139,864</b>
Accumulated depreciation:				
Buildings and improvements	10,575,313	742,740		11,318,053
Technology equipment	2,269,302	257,131	(136,707)	2,389,726
Vehicles	3,194,455	219,377	(613,538)	2,800,294
General equipment	1,001,094	16,693	(7,243)	1,010,544
<b>Total accumulated depreciation</b>	<b>17,040,164</b>	<b>1,235,941</b>	<b>(757,488)</b>	<b>17,518,617</b>
<b>Total Other Capital Assets, net</b>	<b>28,813,000</b>	<b>(1,203,304)</b>	<b>11,551</b>	<b>27,621,247</b>
<b>Governmental Activities Capital Assets - Net</b>	<b>\$ 29,761,795</b>	<b>\$ (1,203,304)</b>	<b>\$ 11,551</b>	<b>\$ 28,570,042</b>
<b>Business-Type Activities</b>				
Depreciable Assets:				
Buildings and improvements	\$ 1,006,305	\$ -	\$ -	\$ 1,006,305
Technology equipment	14,793		(2,142)	12,651
Food service equipment	486,189		(3,400)	482,789
<b>Total ssets being depreciated at historical cost</b>	<b>1,507,287</b>	<b>-</b>	<b>(5,542)</b>	<b>1,501,745</b>
Accumulated depreciation:				
Buildings and improvements	418,787	20,126		438,913
Technology equipment	7,994	1,839	(2,142)	7,691
Food service equipment	323,582	26,785	(3,400)	346,967
<b>Total accumulated depreciation</b>	<b>750,363</b>	<b>48,750</b>	<b>(5,542)</b>	<b>793,571</b>
<b>Business-Type Activities Capital Assets - Net</b>	<b>\$ 756,924</b>	<b>\$ (48,750)</b>	<b>\$ -</b>	<b>\$ 708,174</b>

Depreciation was charged to governmental functions as follows:

Instruction	\$ 911,859
Student support	11,281
Instructional staff	32,856
District administration	6,754
School administration	8,585
Business support	30,932
Plant	7,652
Transportation	222,661
Community services	3,361
	<u>\$ 1,235,941</u>

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

**NOTE 6 – RISK MANAGEMENT**

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

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

**NOTE 7 – LONG-TERM LIABILITIES**

A summary of changes in long-term liabilities for the year ended June 30, 2014, is as follows:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
<b>Governmental Activities:</b>					
Bonds and Leases Payable:					
Revenue bonds	\$ 18,925,000	\$ -	\$ 1,200,000	\$ 17,725,000	\$ 1,205,000
Capital leases	378,907		207,525	171,382	21,440
	19,303,907	-	1,407,525	17,896,382	1,226,440
Less Discount	(120,714)		16,750	(103,964)	-
Total Bonds and Leases Payable	19,183,193	-	1,424,275	17,792,418	1,226,440
Other Liabilities:					
Compensated absences	847,977	307,729	21,958	1,133,748	117,524
Claims	490,976		130,332	360,644	360,644
Total Other Liabilities	1,338,953	307,729	152,290	1,494,392	478,168
Total Governmental Activities Long-Term Liabilities	<u>\$ 20,522,146</u>	<u>\$ 307,729</u>	<u>\$ 1,576,565</u>	<u>\$ 19,286,810</u>	<u>\$ 1,704,608</u>

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

#### NOTE 7 – LONG-TERM LIABILITIES – CONTINUED

##### Bond Liabilities

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

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

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

The District has “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

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

**HART COUNTY SCHOOL DISTRICT**

NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

**NOTE 7 – LONG-TERM LIABILITIES - CONTINUED**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2015	\$ 1,205,000	\$ 477,628	\$ 799,089	\$ 883,539
2016	1,255,000	438,786	801,252	892,534
2017	1,295,000	398,999	798,356	895,643
2018	1,325,000	355,839	795,767	885,072
2019	1,360,000	325,214	798,519	886,695
2020-2024	6,675,000	1,101,951	3,240,984	4,535,967
2025-2029	4,030,000	380,884	1,267,068	3,143,816
2029-2030	580,000	39,019		619,019
	<u>\$ 17,725,000</u>	<u>\$ 3,518,320</u>	<u>\$ 8,501,035</u>	<u>\$ 12,742,285</u>

Capital Lease Liabilities

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

Classes of Property

Buses and computers

Gross amount of assets \$ 922,660

These assets are included in depreciable capital assets and depreciated in the statement of activities.

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014:

2015	24,868
2016	21,298
2017	21,273
2018	21,242
2019	21,340
2020-2023	<u>78,185</u>
Total minimum lease payments	188,206
Less: Amount representing interest	<u>(16,824)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 171,382</u>

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

#### NOTE 8 – PENSION PLANS

##### Plan Descriptions

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

##### Funding Policy

KTRS plan members are required to contribute 11.355% of their covered salary. CERS plan members are required to contribute 5.0% (6.0% for new hires effective July 1, 2008) of their covered salary. The District is required to contribute to the CERS and the Commonwealth of Kentucky is required to contribute to the KTRS. The contribution rate is actuarially determined. The current rate for KTRS is 13.105% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008 of annual covered payroll. The rate for CERS fiscal year 2014, 2013 and 2012 was 18.89%, 19.55% and 18.96% of annual covered payroll. The contribution requirements of the plan members, the District and Commonwealth of Kentucky are established and may be amended by the Plans' Board of Trustees. The District's contributions to CERS for the years ended June 30, 2014, 2013 and 2012 were \$583,582, \$591,227 and \$664,598, respectively, equal to the required contributions for each year.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$1,291,492, \$1,295,654 and \$1,338,207 to KTRS for the benefit of the District's participating employees. The District's contributions to the KTRS for the years ended June 30, 2014, 2013 and 2012 were \$324,172, \$246,513 and \$211,087.

##### Medical Insurance Plan

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

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

## HART COUNTY SCHOOL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS – CONTINUED

June 30, 2014

#### NOTE 8 – PENSION PLANS – CONTINUED

##### Funding Policy

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Member contributions are 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, local school district employers pay 1.5% of members' salary for the 2014 fiscal year.

##### Deferred Compensation

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

#### NOTE 9 – FUND BALANCES

Nonspendable fund balances are those that cannot be spent on future obligations. At June 30, 2014, there were nonspendable fund balances for prepaid items of \$62,854 in the General Fund.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$10,553 restricted for grants in the special revenue fund and \$84,845 restricted for capital projects in the FSPK Fund.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had the following General Fund commitments at June 30, 2014: \$12,648 for site-based carryforward, \$182,750 for laptops and \$109,189 for KSBIT.

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrance of funds. The amounts assigned related to encumbrances at June 30, 2014, were \$18,865 recorded in the General Fund and \$59,771 recorded in the Special Revenue Fund. Assigned fund balance also includes (a) all remaining amounts (except for negative balances) that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

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

**HART COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014

**NOTE 9 – FUND BALANCES – CONTINUED**

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

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

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

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

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

On January 14, 2013 the District was notified that in order to settle outstanding claims and deficits of the Kentucky School Boards Insurance Trust (KSBIT), a non-profit self-insured pool, an assessment would be made to present and prior insurance trust members. On June 26, 2013, members were notified that the KSBIT board voted on June 24, 2013 to submit a plan for the assessment to the Kentucky Department of Insurance in favor of a novation option, under which a highly rated reinsurer would assume all of the liabilities of KSBIT and its members for claims for a set amount. The option resulted in an estimated liability for the District of \$490,976. In August 2014, the District received an invoice for \$360,644 which is the amount expected to satisfy the claim. This amount is recorded as a current liability in the Statement of Net Position as it is expected to be paid by June 30, 2014; however, it was not due at June 30, 2014, for the fund financial statements. The item is also an extraordinary item in the Statement of Activities because the item is unusual in nature and infrequent in occurrence.

During the fiscal year, the District signed a multi-year lease for laptops. The lease is not effective until fiscal year 2015.

**NOTE 11 – DEFICIT OPERATING BALANCES**

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

General Fund	\$ 173,610
Special Revenue Fund	28,289
Food Service Fund	81,020

**HART COUNTY SCHOOL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

June 30, 2014

**NOTE 12 – ON-BEHALF PAYMENTS**

The District receives on-behalf payments from the Commonwealth of Kentucky for items including pension, technology, health care costs, operating costs and debt service. The amount recognized for the year ended June 30, 2014 was \$4,702,392, recorded as follows \$3,766,264 in the General Fund, \$797,089 recorded in the Debt Service Fund and, \$139,039 in the Food Service Fund.

**NOTE 13 – SUBSEQUENT EVENTS**

In August 2014, the District participated in a bond issue to finance payment of its KSBIT assessment. The District's portion of the issue was \$360,644.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HART COUNTY SCHOOL DISTRICT**

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

**GENERAL FUND**

Year Ended June 30, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual</u>
<b>Revenues:</b>			
From local sources:			
Taxes:			
Property	\$ 2,606,562	\$ 2,617,000	\$ 2,567,350
Motor vehicle	390,000	392,000	410,373
Utilities	1,091,112	1,120,000	1,193,649
Revenue in lieu of taxes	120,000	115,000	103,866
Other taxes	13,000	12,000	12,796
Earnings on investments	10,000	12,000	10,410
Other local revenues	28,500	38,000	86,011
Intergovernmental - State	14,133,720	14,261,080	14,067,788
Intergovernmental - Indirect Federal	50,000	45,000	108,889
<b>Total Revenues</b>	<u>18,442,894</u>	<u>18,612,080</u>	<u>18,561,132</u>
<b>Expenditures:</b>			
Instruction	9,768,768	9,698,176	9,863,944
Support services:			
Student	1,297,230	1,308,957	1,243,855
Instruction staff	887,789	903,600	859,159
District administrative	909,075	959,026	815,708
School administrative	1,429,832	1,437,526	1,411,779
Business	824,779	899,461	846,355
Plant operation and maintenance	1,857,733	1,883,472	1,988,214
Student transportation	1,648,188	1,687,306	1,655,068
Community service activities			105
Other non-instruction	497,000	649,195	24,883
<b>Total Expenditures</b>	<u>19,120,394</u>	<u>19,426,719</u>	<u>18,709,070</u>
<b>Excess (Deficit) of Revenues over Expenditures</b>	(677,500)	(814,639)	(147,938)
<b>Other Financing Sources (Uses):</b>			
Proceeds from sale of capital assets	12,500	10,000	8,205
Transfers out	(35,000)		(33,877)
<b>Total Other Financing Sources (Uses)</b>	<u>(22,500)</u>	<u>10,000</u>	<u>(25,672)</u>
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	(700,000)	(804,639)	(173,610)
<b>Fund Balance, July 1, 2013</b>	<u>700,000</u>	<u>804,639</u>	<u>804,640</u>
<b>Fund Balance, June 30, 2014</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 631,030</u>

HART COUNTY SCHOOL DISTRICT

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

SPECIAL REVENUE FUND

Year Ended June 30, 2014

	Original	Final	Actual
<b>Revenues:</b>			
Other local revenues	\$ -	\$ 30,609	\$ 61,814
Intergovernmental - State	941,372	1,531,014	1,467,149
Intergovernmental - Indirect Federal	1,496,011	1,601,068	2,401,350
<b>Total Revenues</b>	<b>2,437,383</b>	<b>3,162,691</b>	<b>3,930,313</b>
<b>Expenditures:</b>			
Instruction	1,797,784	2,931,155	3,193,169
Support services:			
Student	19,514	32,771	12,495
Instruction staff	172,356	231,048	252,085
District administrative			1,161
School administrative			
Plant operation and maintenance	1,860	33,042	48,066
Student transportation	54,110	55,661	69,296
Community service activities	240,468	245,978	264,313
Other	157,452	171,871	151,894
<b>Total Expenditures</b>	<b>2,443,544</b>	<b>3,701,526</b>	<b>3,992,479</b>
<b>Excess (Deficit) of Revenues over Expenditures</b>	<b>(6,161)</b>	<b>(538,835)</b>	<b>(62,166)</b>
<b>Other Financing Sources (Uses):</b>			
Transfers in	35,000	33,877	33,877
<b>Total Other Financing Sources (Uses)</b>	<b>35,000</b>	<b>33,877</b>	<b>33,877</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	<b>28,839</b>	<b>(504,958)</b>	<b>(28,289)</b>
<b>Fund Balance, July 1, 2013</b>	<b>-</b>	<b>504,958</b>	<b>98,613</b>
<b>Fund Balance, June 30, 2014</b>	<b>\$ 28,839</b>	<b>\$ -</b>	<b>\$ 70,324</b>

**SUPPLEMENTARY INFORMATION**

HART COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2014

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ -	\$ 81,845	\$ -	\$ -	\$ 81,845
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 81,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,845</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>					
Restricted		81,845			81,845
<b>Total Fund Balances</b>	<u>-</u>	<u>81,845</u>	<u>-</u>	<u>-</u>	<u>81,845</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>\$ 81,845</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81,845</u>

**HART COUNTY SCHOOL DISTRICT**

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

Year Ended June 30, 2014

	SEEK Capital Outlay Fund	FSPK Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>					
From local sources:					
Property taxes	\$ -	\$ 325,621	\$ -	\$ -	\$ 325,621
Intergovernmental - State	211,728	439,903		797,089	1,448,720
<b>Total Revenues</b>	211,728	765,524	-	797,089	1,774,341
<b>Expenditures</b>					
Debt service:					
Principal				1,200,000	1,200,000
Interest				492,689	492,689
<b>Total Expenditures</b>	-	-	-	1,692,689	1,692,689
<b>Excess (Deficit) of Revenues over Expenditures</b>	211,728	765,524	-	(895,600)	81,652
Other Financing Sources (Uses)					
Transfers in				895,408	895,408
Transfers out	(211,728)	(683,680)			(895,408)
<b>Total Other Financing Sources (Uses)</b>	(211,728)	(683,680)	-	895,408	-
<b>Excess (Deficit) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>	-	81,844	-	(192)	81,652
<b>Fund balance, July 1, 2013</b>	-	1	-	192	193
<b>Fund balance, June 30, 2014</b>	\$ -	\$ 81,845	\$ -	\$ -	\$ 81,845

HART COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2014

	Bonnieville Elementary	Cub Run Elementary	Hart County High School	LeGrande Elementary	Memorial Elementary	Munfordville Elementary	Total Agency Fund
<b>Assets</b>							
Cash and cash equivalents	\$ 22,338	\$ 7,017	\$ 194,403	\$ 19,860	\$ 12,967	\$ 24,370	\$ 280,955
Accounts receivable		85					85
<b>Total Assets</b>	<u>\$ 22,338</u>	<u>\$ 7,102</u>	<u>\$ 194,403</u>	<u>\$ 19,860</u>	<u>\$ 12,967</u>	<u>\$ 24,370</u>	<u>\$ 281,040</u>
<b>Liabilities</b>							
Accounts payable	\$ 50	\$ -	\$ 9,221	\$ -	\$ 50	\$ -	\$ 9,321
Due to student groups	22,288	7,102	185,182	19,860	12,917	24,370	271,719
<b>Total Liabilities</b>	<u>\$ 22,338</u>	<u>\$ 7,102</u>	<u>\$ 194,403</u>	<u>\$ 19,860</u>	<u>\$ 12,967</u>	<u>\$ 24,370</u>	<u>\$ 281,040</u>

HART COUNTY SCHOOL DISTRICT  
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES  
AGENCY FUNDS  
YEAR ENDED JUNE 30, 2014

SCHOOL	CASH BALANCE July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCE June 30, 2014	RECEIVABLES June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
Bonnieville Elementary	\$ 20,955	\$ 16,693	\$ 15,310	\$ 22,338	\$ -	\$ 50	\$ 22,288
Cub Run Elementary	9,905	12,360	15,248	7,017	85		7,102
Hart County High School	181,506	214,092	201,195	194,403		9,221	185,182
LeGrande Elementary	19,043	39,946	39,129	19,860			19,860
Memorial Elementary	12,726	40,946	40,705	12,967		50	12,917
Munfordville Elementary	28,112	28,083	31,825	24,370			24,370
	<u>\$ 272,247</u>	<u>\$ 352,120</u>	<u>\$ 343,412</u>	<u>\$ 280,955</u>	<u>\$ 85</u>	<u>\$ 9,321</u>	<u>\$ 271,719</u>

HART COUNTY SCHOOL DISTRICT  
SCHEDULE OF ASSETS, CASH RECEIPTS AND DISBURSEMENTS, AND LIABILITIES  
HART COUNTY HIGH SCHOOL  
YEAR ENDED JUNE 30, 2014

NAME OF ACTIVITY	CASH BALANCES July 1, 2013	RECEIPTS	DISBURSE- MENTS	CASH BALANCES June 30, 2014	RECEIVABLE June 30, 2014	ACCOUNTS PAYABLE June 30, 2014	DUE TO STUDENT GROUPS June 30, 2014
2014 District Basketball	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2014 Regional Basketball	-	-	-	-	-	-	-
Academic Team	661	1,189	1,070	780	-	-	780
Activity Fund Donations	-	365	365	-	-	-	-
Agriculture	45,429	21,006	18,143	48,292	-	-	48,292
Art Club	355	3,978	2,954	1,379	-	443	936
Athletic	2,122	55,812	48,103	9,831	-	4,924	4,907
Attendance Increase	4,224	-	-	4,224	-	-	4,224
Beta Club	2,426	4,560	4,517	2,469	-	280	2,189
Broadcasting	4,515	-	-	4,515	-	-	4,515
CKMSAC	981	-	981	-	-	-	-
Class of 2017	-	1,260	-	1,260	-	-	1,260
Class of 2013	314	-	314	-	-	-	-
Class of 2014	7,404	3,908	9,171	2,141	-	1,234	904
Class of 2015	2,170	10,720	6,817	6,073	-	15	6,058
Class of 2016	1,102	1,155	-	2,257	-	-	2,257
Coke machines	5,339	3,692	5,339	3,692	-	-	3,692
Concessions	4,228	-	4,228	-	-	-	-
Faculty Commission	287	1,995	1,841	441	-	-	441
FBLA	726	13,954	13,485	1,195	-	735	460
FCCLA	-	-	-	-	-	-	-
FEA	103	-	103	-	-	-	-
FFA	3,046	24,147	26,162	1,031	-	180	851
Foreign Language	579	630	306	903	-	258	645
General Fund	22,779	14,031	18,717	18,093	-	936	17,157
Jr. Beta	-	5,646	4,325	1,321	-	-	1,321
Lou Walton- Grant	1,423	-	1,423	-	-	-	-
Ind. Arts	865	-	-	865	-	-	865
Laptop Annual Fee	45,999	22,963	11,474	57,488	-	-	57,488
Laptop - Standard Repair	370	-	-	370	-	-	370
Laptop AUP Related Repair	640	120	-	760	-	-	760
Library	240	37	-	277	-	-	277
Lockers	6,088	1,585	-	7,673	-	-	7,673
National Honor Society	1,404	1,671	1,967	1,108	-	123	985
Parking	2,707	266	2,440	533	-	-	533
Pep Club	356	1,844	1,764	436	-	-	436
Political Science	328	-	328	-	-	-	-
Reg/District Hospitality	-	-	-	-	-	-	-
Regional Softball Tourney	-	6,261	6,261	-	-	-	-
SADD HOPE	694	1,906	1,492	1,108	-	-	1,108
Science Club	289	-	12	277	-	-	277
Stand Club	326	740	561	505	-	-	505
STLP	85	-	-	85	-	-	85
Student Council	125	624	200	549	-	-	549
Y Club	78	4,779	4,316	541	-	90	451
Yearbook	10,699	13,781	12,549	11,931	-	-	11,931
TOTALS	181,506	224,625	211,728	194,403	-	9,221	185,182
Transfers	-	10,533	10,533	-	-	-	-
TOTALS	\$ 181,506	\$ 214,092	\$ 201,195	\$ 194,403	\$ -	\$ 9,221	\$ 185,182

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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>			
Child Nutrition Cluster -			
Passed Through State Department of Education:			
National School Lunch	10.555	7750002-13	\$ 152,083
		7750002-14	526,356
School Breakfast Program	10.553	7760005-13	60,023
		7760005-14	216,207
Non-Cash Assistance (Commodities)			
National School Lunch Program	10.555	057502-02	78,426
<b>TOTAL CHILD NUTRITION CLUSTER</b>			<u>1,033,095</u>
<b>TOTAL U.S. DEPT. OF AGRICULTURE</b>			<u>1,033,095</u>
 <u>APPALACHIAN REGIONAL COMMISSION</u>			
Passed Through State Department of Education			
Appalachian Research, Technical Assistance, and Demonstration Projects	23.011	6882	2,567
<b>TOTAL APPALACHIAN REGIONAL COMMISSION</b>			<u>2,567</u>
 <u>U.S. DEPARTMENT OF EDUCATION</u>			
Special Education Cluster -			
Passed Through State Department of Education:			
Special Education - Grants to States	84.027	3354	72,993
		3373	17,353
		3374	504,958
		3374A	6,361
		GRREC	(600)
			<u>601,065</u>
Special Education - Preschool Grants	84.173	3433	18,376
		3434	15,962
			<u>34,338</u>
<b>TOTAL SPECIAL EDUCATION CLUSTER</b>			<u>635,403</u>
 <u>OTHER U.S. DEPARTMENT OF EDUCATION PROGRAMS</u>			
Passed Through Kentucky Council on Postsecondary Education			
Adult Education - State Grant Program	84.002	3654	1,902
		3733	(29,708)
		3734	56,777
			<u>28,971</u>
Passed Through State Department of Education			
Title I Grants to Local Educational Agencies	84.010	3103	209,405
		3103M	2,902
		3104	968,252
		3104M	9,363
			<u>1,189,922</u>
Migrant Education - State Grant Program	84.011	3112S	16,112
		3113	865
		3113S	1,334
		3114	63,375
			<u>81,686</u>
Vocational Education - Basic Grants to States	84.048	3480A	(872)
		3483	2,312
		3483A	1,718
		3484	29,285
			<u>32,443</u>

The accompanying notes are an integral part of this schedule.

HART COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR / PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
Twenty-First Century Community Learning Centers	84.287	5502L	581
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	6973 6974	139 7,603
			<u>7,742</u>
Rural Education	84.358B	3503	<u>41,940</u>
Improving Teacher Quality - State Grants	84.367A	4013 4014	330 161,541
			<u>161,871</u>
Race to the Top	84.413A	4521	<u>(20,385)</u>
Passed Through Green River Regional Educational Cooperative TARRA - Race to the Top - District Grants, Recovery Act	84.416	4364	<u>239,189</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,399,363</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,435,025</u>

The accompanying notes are an integral part of this schedule.

## **HART COUNTY SCHOOL DISTRICT**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2014

#### **NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hart County School District under programs of the federal government for the year ended June 30, 2014. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Hart County School District, it is not intended to and does not present the financial position, changes in net position or cash flows of Hart County School District.

#### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **NOTE C – FOOD DISTRIBUTION**

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

#### **NOTE D – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**HART COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

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**Section I-Summary of Auditor's Results**

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**Financial Statements**

Type of auditor's report issued (unmodified):

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_X\_\_\_no
  
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_yes \_\_\_X\_\_\_none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_yes \_\_\_X\_\_\_no

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes \_\_\_X\_\_\_no
  
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_yes \_\_\_X\_\_\_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?

\_\_\_\_\_yes \_\_\_X\_\_\_no

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**Section I-Summary of Auditor's Results - Continued**

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Identification of major programs:

CFDA Number	Federal Program or Cluster
<b>DEPARTMENT OF EDUCATION</b>	
<b>Special Education Cluster</b>	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
<b>Other Programs</b>	
84.010	Title I Grants to Local Educational Agencies
84.416	ARRA - Race to the Top - District Grants, Recovery Act

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

Auditee qualified as low-risk auditee?                       yes     no

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**Section II – Financial Statement Findings**

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**No matters were reported.**

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**Section III – Federal Award Findings and Questioned Costs**

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**No matters were reported.**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

**HART COUNTY SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

June 30, 2014

There were no prior audit findings.

**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**

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



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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the requirements prescribed by the Kentucky State Committee for School District Audits the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hart County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Hart County School District's basic financial statements, and have issued our report thereon dated September 22, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hart County School District's internal control over financial reporting (internal control) to determine the audit 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.

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

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

## Compliance and Other Matters

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

We noted certain matters that we reported to management of Hart County School District in a separate letter dated September 22, 2014.

## Purpose of this Report

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



Certified Public Accountants  
Elizabethtown, Kentucky  
September 22, 2014

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

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SCOTT KISSELBAUGH, CPA  
BRIAN S. WOOSLEY, CPA



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### INDEPENDENT AUDITOR'S REPORT

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

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

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

#### **Management's Responsibility**

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

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

Our responsibility is to express an opinion on compliance for each of Hart County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hart County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## Opinion on Each Major Federal Program

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

## Report on Internal Control Over Compliance

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

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

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

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



Certified Public Accountants  
Elizabethtown, Kentucky  
September 22, 2014

**MANAGEMENT LETTER AND COMMENTS**

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



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

In planning and performing our audit of the basic financial statements of Hart County School District for the year ended June 30, 2014, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. Any uncorrected comments from the prior year have been included in the memorandum. A separate report dated September 22, 2014, contains our report on the District's internal control. This letter does not affect our report dated September 22, 2014, on the financial statements of the Hart County School District.

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

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

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

Certified Public Accountants  
Elizabethtown, Kentucky  
September 22, 2014

## **HART COUNTY SCHOOL DISTRICT**

### **COMMENTS**

June 30, 2014

### **UNCORRECTED PRIOR YEAR COMMENTS**

#### **BONNIEVILLE ELEMENTARY**

##### **PURCHASE ORDER**

We noted check 2997 dated 2/27/2014 in the amount of \$125.28 written to Cortland Enterprises for the purchase of Genre Study Books from the General Fund contained form F-SA-7, Purchase Order, however the purchase order was not dated.

##### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2014.

#### **CUB RUN ELEMENTARY**

##### **PURCHASE ORDER**

We noted check 270 dated 10/23/2013 in the amount of \$219 written to McGown TV Sales & Service for the purchase of a tv cable from the General fund, contained form F-SA-7, Purchase order dated 10/22/2013, after the invoice date of 10/21/2013.

We noted check 281 dated 11/21/2013 in the amount of \$175 written to Jeffery Martin for on site service and travel from the General fund, contained form F-SA-7, Purchase order dated 10/28/2013, after the invoice date of 10/17/2013 and the service call on 10/10/2013.

##### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2014.

#### **HART COUNTY HIGH**

##### **BOOSTERS/EXTERNAL SUPPORT ORGANIZATIONS**

We noted the following boosters submitted an AFR in an improper format: Cheerleading and Archery. Both submitted an AFR that listed deposits and expenses that were not by category.

##### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2014.

## **HART COUNTY SCHOOL DISTRICT**

### **COMMENTS - CONTINUED**

June 30, 2014

#### **MUNFORDVILLE ELEMENTARY**

##### **PURCHASE ORDER**

We noted check 2656, dated 10/22/2013, in the amount of \$234, from the General fund for Academic Team Shirts contained a Purchase Order without a sponsor's signature. The Redbook requires that to initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before payment is obligated.

We noted check 2687, dated 1/15/2014, in the amount of \$300.95, from the Teacher Vending fund for Christmas Gifts contained a purchase order without a sponsor's signature. The Redbook requires that to initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before payment is obligated.

We noted check 2687, dated 1/15/2014, in the amount of \$300.95, from the Teacher's Vending fund written to Positive Promotions for Christmas Gifts contained a purchase order that was dated 1/15/2014 with an invoice date of 12/19/2014.

We noted check 2704, dated 3/12/2014, in the amount of \$360.34, from the General fund for the Principal's List Lunches contained a purchase order without a sponsor's signature. The Redbook requires that to initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before payment is obligated.

We noted check 2721, dated 5/19/2014, in the amount of \$101.60, from the General fund for purchase of 100 pounds of clay contained a purchase order without a sponsor's signature. The Redbook requires that to initiate a purchase, a Purchase Order shall be prepared and approved by the sponsor and principal before payment is obligated. Also, the purchase order was dated 5/19/2014 with an invoice date of 5/6/2014.

##### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2014.

#### **CURRENT YEAR COMMENTS**

##### **BONNIEVILLE ELEMENTARY**

##### **MULTIPLE RECEIPT FORMS**

We noted a deposit dated 5/27/2014 in the amount of \$3,553.55 did not contain forms F-SA-6, Multiple Receipt Forms, for checks received through the mail.

We noted a deposit dated 10/21/2013 in the amount of \$195.55 did not contain forms F-SA-6, Multiple Receipt Form, for checks received in the mail.

##### **MANAGEMENT RESPONSE**

District personnel have discussed with school management to correct the item by October 31, 2014.

**HART COUNTY SCHOOL DISTRICT**

COMMENTS - CONTINUED

June 30, 2014

**HART COUNTY HIGH**

INVENTORY CONTROL

We noted form F-SA-5, Inventory Control Worksheet was incomplete for FFA's Greenhouse and Landscaping. The Inventory Control Worksheets for both the Greenhouse and Landscaping listed deliveries at cost and did not list each item/count/sales price for any of the categories.

MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2014.

**LEGRANDE ELEMENTARY**

FUNDRAISERS

We noted that F-SA-2B, Fundraiser Worksheet, for the Little Caesars Pizza Fundraiser for the General fund was not properly completed. Line 10, Actual Profit, had not been calculated.

MANAGEMENT RESPONSE

District personnel have discussed with school management to correct the item by October 31, 2014.